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DIME COMMUNITY

BANCSHARES, INC.

98

1998 ANNUAL REPORT

CORPORATE PROFILE

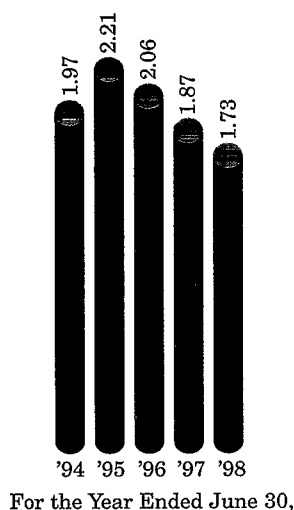
Dime Community Bancshares, Inc. (the "Company") is a Delaware corporation organized in December 1995 at the direction of the Board of Directors of The Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the conversion of the Bank from a federal mutual savings bank to a federal stock savings bank (the "Conversion"). In connection with the Conversion, the Company issued 14,547,500 shares (par value \$0.01 per share) of common stock at a price of \$10.00 per share. The Company had no operations prior to June 26, 1996.

On July 18, 1998, the Company entered into an Agreement and Plan of Merger with Financial Bancorp, Inc. ("Financial Bancorp") the parent holding company for Financial Federal Savings Bank ("Financial Federal"), pursuant to which Financial Bancorp will be merged with and into the Company, and Financial Federal will be merged with and into the Bank ("Financial Acquisition").

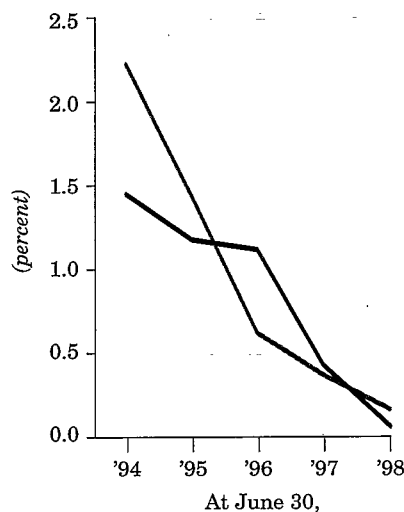
The Bank has been operating as a savings bank within the New York metropolitan area since 1864, and currently has fourteen branches located throughout Nassau County and the New York City boroughs of Brooklyn, Queens and The Bronx. The acquisition of Financial Bancorp will add four branches in Queens and one branch in Brooklyn.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing those deposits primarily in multi-family and one-to-four family residential mortgage loans, mortgage-backed securities, and obligations of the U.S. Government and Government Sponsored Entities ("GSEs"). The Bank's revenues are derived principally from interest on its loan and securities portfolios. The Bank's primary sources of funds are: deposits; loan amortization, prepayments and maturities; amortization, prepayments and maturities of mortgage-backed and investment securities; borrowed funds; and, to a lesser extent, the sale of fixed-rate mortgage loans to the secondary market.

**Core Operating Expenses
as a Percent
of Average Assets**
(percent)

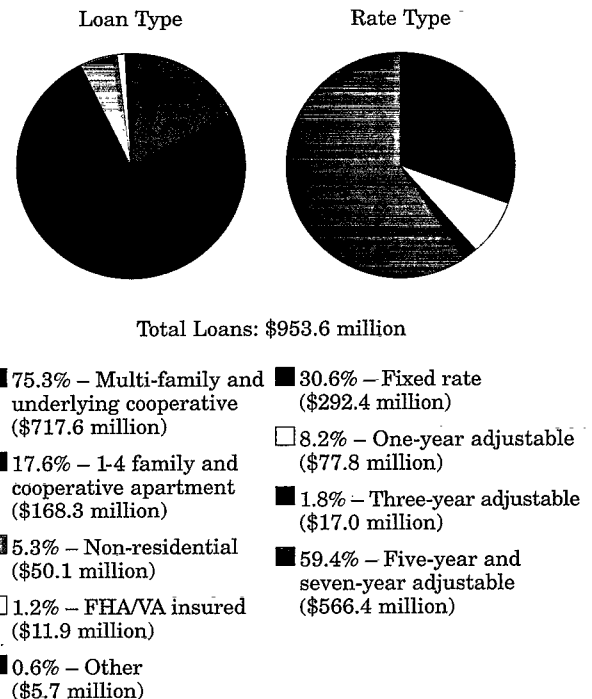


**Non-Performing Loans
and Assets**



■ Non-performing loans to total loans
■ Non-performing assets to total assets

Loan Portfolio Composition
(as of June 30, 1998)



CHAIRMAN'S MESSAGE

The fiscal year ended June 30, 1998 marked the second consecutive year of record earnings, fueled, once again, by record multi-family loan originations. The Company continued its uninterrupted record of declaring quarterly cash dividends, and furthermore, increased the cash dividend in each of the four consecutive quarters of the fiscal year just ended. We continued the prudent execution of the Company's Business Plan. This Plan focuses upon the following core activities in order to increase growth in per share earnings and related returns:

- Growth in interest-earning assets, particularly multi-family loans,
- Aggressive capital management through the payment of cash dividends and repurchase of the Company's stock, and
- Franchise expansion, primarily through acquisitions, where such expansion enhances shareholder value.

Hence, during the past fiscal year, the Company experienced growth of 24% and 27%, respectively, in interest-earning assets and real estate loans. The largest component of this growth was multi-family loan originations, totaling over \$293 million during the fiscal year ended June 30, 1998.

In addition, the Company aggressively managed its capital through stock repurchases and quarterly cash dividends. During the year ended June 30, 1998, a year in which the Company added \$19.1 million of cash earnings to stockholders' equity, total cash dividends of \$2.6 million were declared and paid, and 919,837 shares of Company stock (7.0% of the total shares outstanding at the beginning of the year) were repurchased at an aggregate cost of \$20.8 million.

The following table reflects the positive results derived from these activities.

Annualized Growth
During the
Fiscal Year Ended
June 30, 1998 (1)

Earnings per share (diluted)	15%
Cash earnings per share (diluted)	37%
Return on equity	38%
Cash return on tangible equity	45%

(1) Note: All amounts adjusted for non-recurring items.

I have also previously discussed the importance of cash earnings to the Company's overall performance. Cash earnings represent the actual addition of income

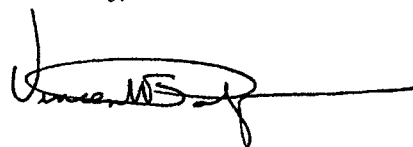
from operations to tangible equity. During the fiscal year ended June 30, 1998, the Company's cash earnings exceeded its reported earnings by 45% — a significant component of value for ownership of the Company. Growth in tangible equity, as measured by cash earnings, is necessary to provide for future stock repurchases and cash dividends. Including the dividend declared in July 1998, for the fourth fiscal quarter, the Company paid out 31% of 1998 reported earnings, and 19% of 1998 cash earnings, comparing favorably to industry peers. In addition, as discussed above, the Company continued its aggressive stock repurchase activities during the past fiscal year.

Finally, on July 18, 1998, Dime Community Bancshares, Inc. announced the signing of a definitive agreement to acquire Financial Bancorp, Inc. ("FIBC"). FIBC is the holding company for Financial Federal Savings Bank, which operates branches in Queens and Brooklyn. This acquisition, which is expected to close in the first quarter of 1999, will add five branches, total deposits of approximately \$230 million, and approximately 18,000 households to our franchise.

During the fiscal year ended June 30, 1998, total deposits grew by \$75 million, with much of the growth experienced at the former branches of Pioneer Savings Bank, which was acquired by the Company in June 1996. Also during the year, we consolidated the deposits of two of our existing North Shore, Long Island branches, resulting from the sale of the former headquarters building of Pioneer Savings Bank located in Roslyn, New York. The premises, which contained a small banking facility, were sold for an after-tax profit of \$1.1 million (\$0.09 per share), and brought a concurrent reduction in the Bank's operating expenses going forward. Reflecting the growth of deposits, the Company's average branch size now stands at \$74 million as of June 30, 1998, compared to \$64 million one year earlier.

Once again, I wish to thank our Directors, Officers and Staff for another year of record performance, as well as our shareholders, who continue to support the Company. I look forward to the challenges of the upcoming year.

Sincerely,



Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

The selected consolidated financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto appearing elsewhere herein.

At or for the fiscal years ended June 30,	1998	1997	1996 (1)	1995	1994
Selected Financial Condition Data:					
Total assets (2)	\$1,623,926	\$1,315,026	\$1,371,821	\$662,739	\$646,458
Loans, net (3)	938,046	739,858	575,874	424,680	427,960
Mortgage-backed securities (4)	410,589	308,525	209,941	91,548	94,356
Investment securities (2) (4)	174,551	168,596	392,450	101,695	86,686
Federal funds sold (2)	9,329	18,902	115,130	17,809	7,029
Goodwill	24,028	26,433	28,438	—	—
Deposits	1,038,342	963,395	950,114	554,841	546,761
Borrowings	360,106	139,543	27,708	17,820	17,871
Stockholders' equity (5)	186,349	190,889	213,071	77,067	67,919
Tangible stockholders' equity (5)	159,558	162,361	184,188	76,321	67,646
Selected Operating Data:					
Interest income	\$ 106,464	\$ 89,030	\$ 52,619	\$ 49,223	\$ 49,821
Interest expense on deposits and borrowings	56,935	41,564	23,516	18,946	17,594
Net interest income	49,529	47,466	29,103	30,277	32,227
Provision for losses	1,635	4,200	2,979	2,950	4,105
Net interest income after provision for loan losses	47,894	43,266	26,124	27,327	28,122
Non-interest income	7,007	4,133	1,375	1,773	2,267
Non-interest expense (6)	29,937	27,492	14,021	14,053	12,714
Income before income tax expense and cumulative effect of changes in accounting principle	24,964	19,907	13,478	15,047	17,675
Income tax expense (7)	11,866	7,591	6,181	6,621	8,211
Income before cumulative effect of changes in accounting principle	13,098	12,316	7,297	8,426	9,464
Cumulative effect on prior years of changing to a different method of accounting for:					
Income taxes (8)	—	—	—	—	(383)
Postretirement benefits other than pensions (9)	—	—	(1,032)	—	—
Net income (10)	\$ 13,098	\$ 12,316	\$ 6,265	\$ 8,426	\$ 9,081

- (1) Since the acquisition of Conestoga was completed on June 26, 1996, its contribution to the Company's earnings and the effect upon average balance computations for the fiscal year ended June 30, 1996 were not material.
- (2) At June 30, 1996, investment securities and federal funds sold include \$125.0 million and \$6.1 million, respectively, of excess proceeds resulting from the oversubscription to the Company's initial public offering. The excess proceeds were refunded on July 1, 1996.
- (3) Loans, net, represents gross loans less net deferred loan fees and allowance for loan losses.
- (4) Amount includes investment in Federal Home Loan Bank of New York ("FHLBNY") capital stock.
- (5) Stockholders' equity and tangible stockholders' equity increased from June 30, 1995 to June 30, 1996 primarily due to the Company's initial public offering.
- (6) Excluding a non-recurring charge of \$2.0 million related to the recapitalization of the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC"), non-interest expense was \$25.5 million during the year ended June 30, 1997.
- (7) Excluding non-recurring New York State and New York City income tax recoveries of \$1.9 million and \$1.0 million, respectively, income tax expense was \$10.5 million during the fiscal year ended June 30, 1997.
- (8) Pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ("SFAS 109"), on July 1, 1993, the Bank changed prospectively to the deferred method of accounting for income taxes. The effect of the adoption of this standard is reflected in the selected operating data as the cumulative effect of adopting a change in accounting principles.
- (9) The Bank adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106") effective July 1, 1995. The Bank elected to record the full accumulated postretirement benefit obligation upon adoption. This resulted in a cumulative effect adjustment of \$1,032,000 (after reduction for income taxes of \$879,000) to apply retroactively to previous years the new method of accounting, which is shown in the consolidated statement of income for the year ended June 30, 1996.
- (10) Excluding a non-recurring charge of \$2.0 million relating to recapitalization of the SAIF and the recovery of New York State and City deferred income taxes previously provided, net income would have been \$10.5 million, and the return on average assets, return on average stockholders' equity, return on average tangible stockholders' equity, non-interest expense to average assets, the efficiency ratio, and earnings per share would have been 0.86%, 5.08%, 5.85%, 2.07%, 50.30% and \$0.81, respectively, for the year ended June 30, 1997. Earnings per share information for the Company for the fiscal years ended prior to June 30, 1996 are not meaningful since the sale of the Company's common stock and the merger of Conestoga Bancorp, Inc. into the Bank occurred on June 26, 1996.
- (11) With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods. Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.
- (12) Income before cumulative effect of changes in accounting principles is used to calculate return on average assets and return on average equity ratios.

Notes continued on next page.

At or for the fiscal years ended June 30,	1998	1997	1996	1995	1994
SELECTED FINANCIAL RATIOS AND OTHER DATA (11):					
Financial and Performance Ratios:					
Return on average assets (10) (12)	0.90%	1.00%	1.07%	1.33%	1.46%
Return on average stockholders' equity (10) (12)	7.06	5.94	9.07	11.50	14.66
Return on average tangible stockholders' equity (10) (12)	8.24	6.84	11.84	11.53	14.66
Stockholders' equity to total assets at end of period	11.48	14.52	15.53	11.63	10.51
Tangible equity to tangible assets at end of period	9.99	12.62	13.72	11.53	10.47
Loans to deposits at end of period	91.50	77.91	61.43	77.47	78.94
Average interest rate spread (13)	2.97	3.38	3.85	4.51	4.80
Net interest margin (14)	3.56	4.07	4.41	4.91	5.12
Average interest-earning assets to average interest-bearing liabilities	114.38	119.33	115.68	113.15	111.50
Non-interest expense to average assets (10)	2.05	2.24	2.06	2.21	1.97
Core non-interest expense to average assets (16)	1.73	1.87	2.06	2.21	1.97
Efficiency ratio (10) (15)	56.09	54.32	45.98	44.11	37.63
Core efficiency ratio (15) (16)	47.39	45.55	45.98	44.11	37.63
Dividend payout ratio	21.10%	0.05%	—	N/A	N/A
Per Share Data:					
Diluted earnings per share (10)	\$ 1.09	\$ 0.95	N/A	N/A	N/A
Cash dividends per share	0.23	0.045	\$ —	N/A	N/A
Book value per share	15.30	14.58	14.65	N/A	N/A
Tangible book value per share	13.10	12.40	12.66	N/A	N/A
Cash Earnings Information:					
Cash return on average assets (12) (17)	1.31%	1.36%	1.07%	1.33%	1.46%
Cash return on average stockholders' equity (12) (17)	10.30	8.06	9.07	11.50	14.66
Cash return on average tangible stockholders' equity (12) (17)	12.01	9.27	9.07	11.50	14.66
Cash earnings per share (17)	\$ 1.74	\$ 1.29	N/A	N/A	N/A
Asset Quality Ratios and Other Data:					
Total non-performing loans (18)	\$ 884	\$3,190	\$6,551	\$5,073	\$6,248
Other real estate owned, net	825	1,697	1,946	4,466	8,200
Ratios:					
Non-performing loans to total loans (18)	0.09%	0.43%	1.12%	1.18%	1.45%
Non-performing loans and real estate owned to total assets (18)	0.11	0.37	0.62	1.44	2.23
Allowance for Loan Losses to:					
Non-performing loans (18)	1,365.95%	336.24%	119.25%	101.99%	58.15%
Total loans (19)	1.27	1.43	1.34	1.20	0.84
Regulatory Capital Ratios: (Bank only)					
Tangible capital	8.32%	9.86%	9.49%	11.53%	10.47%
Core capital	8.32	9.87	9.50	11.56	10.51
Risk-based capital	16.58	19.995	21.24	22.18	19.83
Full Service Branches	14	15	15	7	7

(13) Average interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(14) The net interest margin represents net interest income as a percentage of average interest-earning assets.

(15) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income, excluding any gains or losses on sales of assets.

(16) In calculating these ratios, amortization expense related to goodwill and the SAIF recapitalization charge are excluded from non-interest expense.

(17) In calculating these ratios, non-interest expense excludes expenses such as goodwill amortization and the after-tax effect of compensation expense related to the Company's stock benefit plans which are accretive to book value. Excluding the effects of the SAIF Special Assessment and the recovery of New York State and City deferred income taxes previously provided, cash return on average assets, cash return on average stockholders' equity, cash return on average tangible stockholders' equity, and cash earnings per share would have been 1.21%, 7.19%, 8.28% and \$1.15 for the year ended June 30, 1997.

(18) Non-performing loans consist of non-accrual loans. The Company did not have any loans that were 90 days or more past due and still accruing at any of the dates presented. Non-performing loans and non-performing assets do not include troubled-debt restructurings ("TDRs"). See "Asset Quality." Including TDR's, the ratio of non-performing loans to total loans would have been 0.51%, 1.05%, 1.92%, 2.96% and 3.17%, respectively, for the years ended June 30, 1998, 1997, 1996, 1995 and 1994, the ratio of non-performing assets to total assets would have been 0.35%, 0.73%, 0.96%, 2.59% and 3.38%, respectively, for the years ended June 30, 1998, 1997, 1996, 1995 and 1994, and the allowance for loan losses as a percentage of non-performing loans would have been 248.71%, 136.45%, 69.61%, 40.66% and 26.58%, respectively, for the years ended June 30, 1998, 1997, 1996, 1995 and 1994.

(19) Total loans represents loans, net, plus the allowance for loan losses.

CORPORATE HEADQUARTERS AND BRANCH LOCATIONS

Corporate Headquarters of the Company and Main Office of the Bank

209 Havemeyer Street, Brooklyn, NY 11211 (718) 782-6200

Dime Savings Bank of Williamsburgh Branch Locations Avenue M

1600 Avenue M at E. 16th St., Brooklyn, NY 11230 (718) 336-5600

Bayside

61-38 Springfield Blvd., Bayside, NY 11364 (718) 428-8300

Bellmore

2412 Jerusalem Ave., Bellmore, NY 11710 (516) 221-6000

Bensonhurst

1545 86th St., Brooklyn, NY 11228 (718) 331-6464

Bronx

1931 Turnbull Ave., Bronx, NY 10473 (718) 597-5300

Gates Avenue

1012 Gates Ave., Brooklyn, NY 11221 (718) 455-7700

Hillcrest

176-47 Union Tpk., Flushing, NY 11366 (718) 969-9000

Kings Highway

1902-1904 Kings Hwy., Brooklyn, NY 11229 (718) 336-7800

Marine Park

2172 Coyle St., Brooklyn, NY 11229 (718) 934-1300

Merrick

1775 Merrick Ave., Merrick, NY 11566 (516) 868-9200

Port Washington

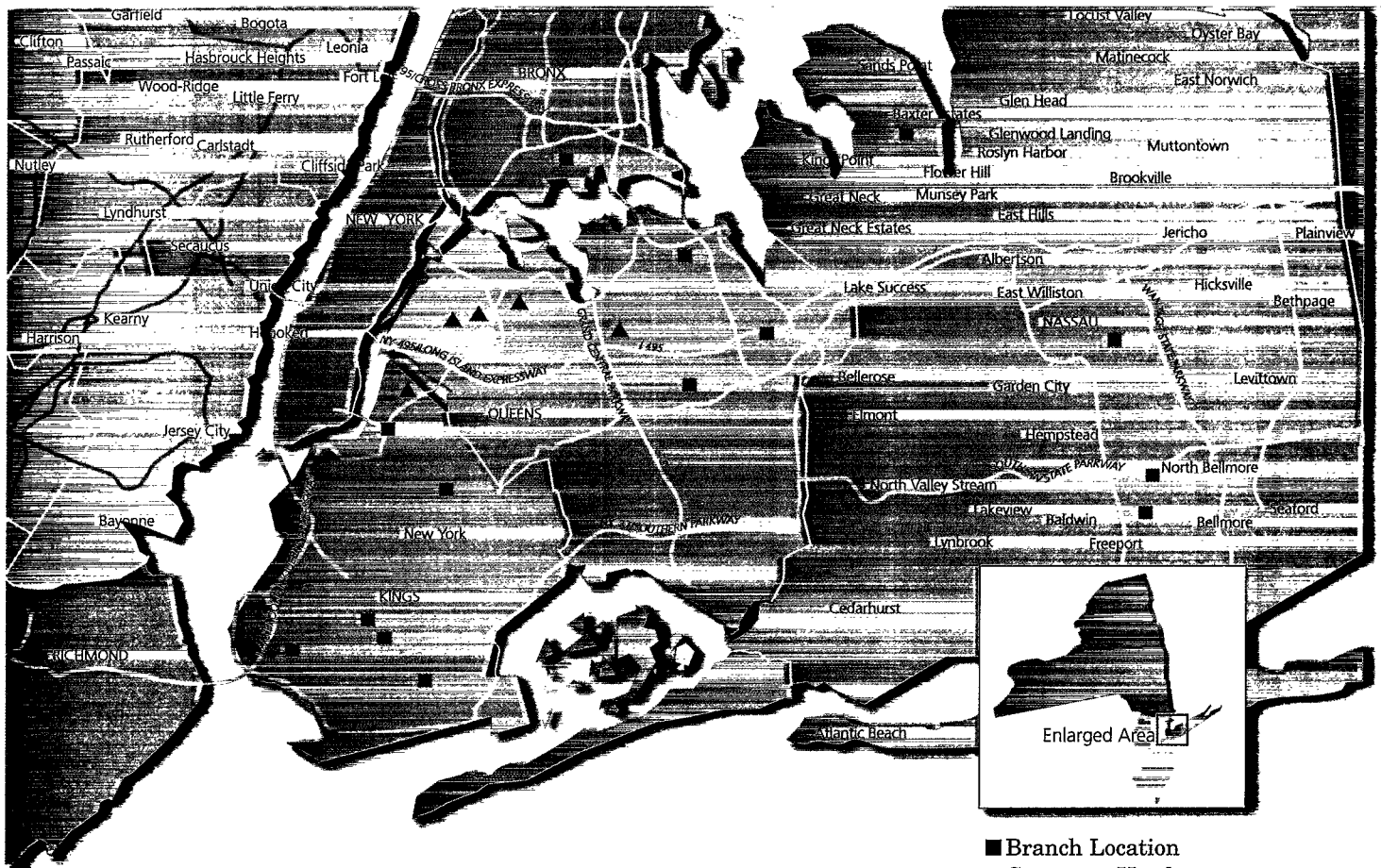
1000 Port Washington Blvd., Port Washington, NY 11050
(516) 883-8100

Westbury

622 Old Country Rd., Westbury, NY 11590 (516) 338-7900

Whitestone

24-44 Francis Lewis Blvd., Whitestone, NY 11357 (718) 746-6500



- Branch Location
- Corporate Headquarters
- ▲ Branch Location of
Financial Federal Savings Bank

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The primary business of the Company is the operation of its wholly owned subsidiary, the Bank. In addition to directing, planning and coordinating the business activities of the Bank, the Company retained proceeds in connection with the Conversion, which are invested primarily in federal funds and short-term, investment grade marketable securities.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing those deposits, primarily in multi-family and one-to-four family residential mortgage loans, mortgage-backed securities, and obligations of the U.S. Government and GSEs. The Bank's revenues are derived principally from interest on its loan and securities portfolios. The Bank's primary sources of funds are: deposits; loan amortization, prepayments and maturities; amortization, prepayments and maturities of mortgage-backed and investment securities; borrowed funds; and, to a lesser extent, the sale of fixed-rate mortgage loans to the secondary market.

The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and securities, and the interest expense paid on its interest-bearing liabilities, such as deposits. The Company also generates non-interest income such as service charges and other fees. The Company's non-interest expenses primarily consist of employee compensation and benefits, occupancy expenses, federal deposit insurance premiums, net costs of other real estate owned, data processing fees and other operating expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions (particularly changes in market interest rates), government policies, changes in accounting standards and were actions of regulatory agencies.

Proposed Acquisition of Financial Bancorp, Inc.

On July 18, 1998, the Company entered into the Merger Agreement with Financial Bancorp, pursuant to which Financial Bancorp will be merged into the Company. The Merger Agreement provides that each outstanding share of common stock, par value \$0.01 per share, of Financial Bancorp ("Financial Bancorp Common Stock") will be converted into the right to receive, at the election of the holder thereof, either shares of common stock, par value \$0.01 per share, of the Company ("Company Common Stock") or cash subject to the election, allocation and proration procedures set forth in the Merger Agreement. If the Company's average closing price for the ten-day period ending ten days prior to the anticipated closing of the Merger (the "Average Closing Price") is between \$22.95 and \$31.05, the value of the consideration per share to be received by Financial Bancorp shareholders, whether in the

form of stock or cash, will be \$40.50, and 50% of the total consideration to be paid to Financial Bancorp's shareholders shall consist of Company Common Stock and 50% shall consist of cash. If the Company's Average Closing Price is greater than \$31.05 or less than \$22.95, then the value of the consideration per share to be received by Financial Bancorp shareholders in the Merger will be adjusted, and the percentage of the total consideration consisting of the Company's Common Stock and cash will change, all as set forth in the Merger Agreement. If the Company Common Stock has a market value during the pricing period of less than or equal to \$20.25, Financial Bancorp has the right to terminate the Merger Agreement unless the Company agrees to increase the per share consideration to Financial Bancorp's shareholders to at least \$38.12.

The Financial Acquisition is subject to (i) approval by the shareholders of Financial Bancorp, (ii) approval of the OTS and (iii) satisfaction or waiver of certain other conditions. Financial Bancorp is a unitary savings bank holding company for its wholly owned subsidiary, Financial Federal, a federal savings bank.

Management Strategy

The Bank's primary management strategy is to increase the Bank's household and deposit market shares in the communities it serves, either through acquisitions or purchases of deposits, or by direct marketing, and to increase its origination of, and investment in, mortgage loans, with an emphasis on multi-family loans. Multi-family lending is a significant business of the Bank and reflects the fact that much of the housing in the Bank's primary lending area is multi-family housing. The Company also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities; seeks to maintain the Bank's asset quality for loans and other investments; and uses appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on the Bank's profitability and capital.

Franchise Expansion. On June 26, 1996, the Bank completed the acquisition of Conestoga Bancorp, Inc. ("Conestoga") resulting in the merger of Conestoga's wholly owned subsidiary, Pioneer Savings Bank, F.S.B. ("Pioneer") with and into the Bank, with the Bank as the resulting financial institution (the "Conestoga Acquisition"). The Conestoga Acquisition was accounted for in the Company's financial statements using the purchase method of accounting. Under the purchase method of accounting, the acquired assets and liabilities of Conestoga are recognized at their fair value as of the date of the Conestoga Acquisition. Shareholders of Conestoga were paid approximately \$101.3 million in cash, resulting in goodwill of \$28.4 million, which

is being amortized on a straight-line basis over a twelve-year period. Since the Conestoga Acquisition occurred on June 26, 1996, its impact upon the Company's consolidated results of operations for the fiscal year ended June 30, 1996 was minimal. The full effect of the Conestoga Acquisition is reflected in the Company's consolidated results of operations for the fiscal year ended June 30, 1997, as well as in the consolidated statements of financial condition as of June 30, 1997 and 1996.

On July 18, 1998, the Company entered into the Merger Agreement, which provides for the acquisition of Financial Bancorp and its wholly owned subsidiary, Financial Federal. The Financial Acquisition, which is expected to close during the first quarter of 1999, will add five retail branches to the Bank. As of June 30, 1998, these branches totaled \$229.0 million in deposits.

The Company continues to evaluate acquisition and other growth opportunities as they become available. Additionally, management plans to supplement this strategy with direct marketing efforts designed to increase customer household and/or deposit balances and the number of the Bank's services used per household among its existing customers.

Loan Originations with an Emphasis on Multi-family Lending. Management believes that multi-family loans provide advantages as portfolio investments. First, they provide a higher yield than single-family loans or investment securities of comparable maturities or terms to repricing. Second, the Company's market area generally has provided a stable flow of new and refinanced multi-family loan originations. In addition to its emphasis on multi-family lending, the Company will continue to market and originate residential first mortgage loans secured primarily by owner-occupied, one-to-four family residences, including condominiums and cooperative apartments. Third, origination and processing costs for the Company's multi-family loans are lower per thousand dollars of originations than comparable single-family costs. In addition, to address the higher credit risk associated with multi-family lending, management has developed what it believes are reliable underwriting standards for loan applications in order to maintain a consistent credit quality for new loans.

Capital Leverage Strategy. As a result of the Company's initial public offering in June 1996, the Bank's capital level significantly exceeded all regulatory requirements. A portion of the "excess" capital generated by the initial public offering has been deployed through the use of a capital leverage strategy whereby the Bank invests in high quality mortgage-backed securities ("leverage assets") funded by short-term borrowings from various third party lenders. The capital leverage strategy generates additional earnings for the Company by virtue of a positive interest rate spread between the yield on the leverage assets and the cost of the borrowings. Since the average term to maturity of the leverage assets exceeds

that of the borrowings used to fund their purchase, the net interest income earned on the leverage strategy would be expected to decline in a rising interest rate environment. See "Discussion of Market Risk." To date, the capital leverage strategy has been undertaken in accordance with limits established by the Board of Directors, aimed at enhancing profitability under moderate levels of interest rate exposure. Assets at June 30, 1997 include \$96.3 million related to the capital leverage program, which increased to \$266.4 million as of June 30, 1998.

In addition to the capital leverage strategy, the Bank undertook an additional \$40.3 million in medium-term borrowings from the FHLBNY during the year ended June 30, 1998 in order to fund multi-family and underlying cooperative loan originations. The Company earns a net interest rate spread between the yield on the multi-family and underlying cooperative loans and the cost of the borrowings.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, proceeds from principal and interest payments on loans, mortgage-backed securities and investments, borrowings, and, to a lesser extent, proceeds from the sale of fixed-rate mortgage loans to the secondary mortgage market. While maturities and scheduled amortization of loans and investments are a predictable source of funds, deposit flows, mortgage prepayments and mortgage loan sales are influenced by interest rates, economic conditions and competition.

The primary investing activities of the Company are the origination of multi-family and one-to-four family mortgage loans, and the purchase of mortgage-backed and other securities. During the year ended June 30, 1998, the Bank's loan originations totaled \$326.3 million compared to \$264.8 million for the year ended June 30, 1997. Purchases of mortgage-backed and other securities totaled \$432.6 million for the year ended June 30, 1998 compared to \$362.9 million for the year ended June 30, 1997. These activities were funded primarily by principal repayments on loans and mortgage-backed securities, maturities of investment securities, and borrowings by means of repurchase agreements and FHLB Advances. Principal repayments on loans and mortgage-backed securities totaled \$210.9 million during the year ended June 30, 1998, compared to \$132.4 million for the year ended June 30, 1997. Maturities of investment securities totaled \$73.4 million and \$378.8 million, respectively, during the fiscal years ended June 30, 1998 and 1997. Loan and security sales, which totaled \$116.9 million and \$47.2 million, respectively, during the fiscal years ended June 30, 1998 and 1997, provided some additional cash flows.

Deposits increased \$74.9 million and \$13.3 million during the fiscal year ended June 30, 1998 and 1997, respectively. Deposit flows are affected by the level of interest rates, the interest rates and products offered

by local competitors, and other factors. Certificates of deposit which are scheduled to mature in one year or less from June 30, 1998 totaled \$406.4 million. Based upon the Company's current pricing strategy and deposit retention experience, management believes that a significant portion of such deposits will remain with the Company. Net borrowings increased \$220.6 million during the fiscal year ended June 30, 1998, with the majority of this growth experienced in securities sold under agreement to repurchase ("Repo") transactions, consistent with the Company's capital leverage strategy.

Stockholders' equity declined \$4.5 million during the year ended June 30, 1998. During the fiscal year ended June 30, 1998, the Company repurchased 919,837 shares of its common stock into treasury (the "Treasury Repurchases"). The aggregate cost of the Treasury Repurchases was \$20.8 million, at an average price of \$22.58 per share. Offsetting the impact of the Treasury Repurchases was net income of \$13.1 million and amortization of the Company's Employee Stock Ownership Plan ("ESOP") and Recognition and Retention Plan ("RRP") of \$5.4 million during the fiscal year ended June 30, 1998.

In June 1997, the Company commenced payment of regular quarterly cash dividends, the per share amount of which has been increased for each successive dividend to date. During the year ended June 30, 1998, the Company declared and paid three cash dividends totaling \$2.6 million, or \$0.23 per outstanding common share, on the respective dates of record. On July 16, 1998, the Company declared a cash dividend of \$0.10 per common share to all shareholders of record on July 31, 1998. This dividend was paid on August 13, 1998.

The Bank is required to maintain a minimum average daily balance of liquid assets as defined by Office of Thrift Supervision regulations. The minimum required liquidity ratio is currently 4.0%. At March 31, 1998, the Bank's liquidity ratio was 14.2%. The levels of the Bank's short-term liquid assets are dependent on the Bank's operating, financing and investing activities during any given period.

The Bank monitors its liquidity position on a daily basis. Excess short-term liquidity is invested in overnight federal funds sales and various money market investments. In the event that the Bank should require funds beyond its ability to generate them internally, additional sources of funds are available through the use of the Bank's \$215.1 million borrowing limit at the FHLBNY. At June 30, 1998, the Bank had \$215.1 million in short- and medium-term borrowings outstanding at the FHLBNY, comprised of outstanding Advances of \$103.5 million and securities sold under agreements to repurchase of \$111.6 million.

At June 30, 1998, the Bank was in compliance with all applicable regulatory capital requirements. Tangible capital totaled \$131.2 million, or 8.32% of total tangible assets, exceeded a 1.50% regulatory requirement; core capital, at 8.32% of adjusted assets, exceeded the required 3.0% regulatory minimum; and

total risk-based capital, at 16.58% of risk-weighted assets, exceeded the 8.0% regulatory minimum. In addition, at June 30, 1998, the Bank was considered "well-capitalized" for all regulatory purposes.

Discussion of Market Risk

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets, other than those which possess a short term to maturity. During the year ended June 30, 1998, the Company operated under a "flat yield curve" interest rate environment, which features little discrepancy in rates offered on short-term and long-term investments. Under a flat yield curve environment, financial institutions often experience both increased interest rate competition related to loan originations, and above-average prepayment activities related to mortgage-backed investments, both of which adversely impact long-term profitability. The flat yield curve environment experienced during the 1998 fiscal year was a primary factor in the reduction of the Company's interest rate spread compared to the prior fiscal year. Recent troubled economic conditions in several nations throughout Europe, Asia, and South and Central America have created interest rate volatility for U.S. government and agency obligations. As a result of this interest rate volatility, the U.S. stock market, especially amongst financial institutions, has experienced even greater volatility subsequent to June 30, 1998. It is unclear at this time what, if any, effect these conditions will have on the local and regional economy, and real estate market.

Since all of the Company's interest-bearing liabilities and virtually all of the Company's interest-earning assets are located at the Bank, virtually all of the Company's interest rate risk exposure lies at the Bank level. As a result, all significant interest rate risk management procedures are performed at the Bank level. Based upon the Bank's nature of operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank's real estate loan portfolio, concentrated primarily within New York City, is subject to risks associated with the local economy. The Company does not own any trading assets. See "Asset Quality." The Company did not engage in any hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) during the fiscal year ended June 30, 1998, and did not have any such hedging transactions in place at June 30, 1998. In the future, the Company may, with Board approval, engage in hedging transactions utilizing derivative instruments.

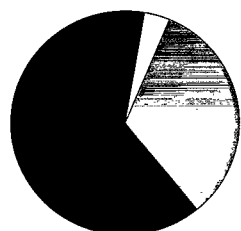
The Company's interest rate management strategy is designed to stabilize net interest income and preserve capital over a broad range of interest rate movements and has three primary components:

Assets. The Company's largest single asset type is the multi-family real estate loan. Multi-family loans typically carry a shorter average term to maturity than one-to-four family residential loans, thus significantly reducing the overall level of interest rate risk. In addition, in order to manage interest rate risk, management emphasizes origination of adjustable rate multi-family loans. Due to the flat yield curve environment, as evidenced by a relatively low level of medium- and long-term interest rates, the Company faced increased consumer demand for fixed rate multi-family loan originations. However, while down from the prior year level of 75%, approximately 60% of multi-family loans originated during the year ended June 30, 1998, were adjustable rate, with repricing typically occurring after five years. In addition, management has sought to include various types of adjustable-rate single-family (including cooperative apartment) whole loans and adjustable and floating-rate investment securities in its portfolio, which generally have repricing terms of three years or less. At June 30, 1998, adjustable-rate whole loans totaled \$617.2 million, or 38.0% of total assets, and adjustable-rate investment securities (CMO's, REMIC's and mortgage-backed securities issued by GSEs) totaled \$301.3 million, or 18.6% of total assets.

Deposit Liabilities. The Bank, a traditional community-based savings bank, is largely dependent upon its base of competitively priced core deposits (consisting of all deposits except certificates of deposit) to provide stability on the liability side of the balance sheet. The Bank has retained many loyal customers over the years through a combination of quality service, convenience, and a stable and experienced staff. Core deposits, at June 30, 1998, were \$426.0 million, or 41.03% of total deposits. The balance of certificates of deposit as of June 30, 1998 was \$612.3 million, or 58.97% of total deposits, of which \$206.0 million, or 33.6% of total certificates of deposits, mature after one year. Depending on market conditions, management prices its certificates of deposit in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year. Over the twelve-month period ending June 30, 1998, the Bank experienced a strong retention rate on maturing certificates of deposit.

Deposit Distribution

(as of June 30, 1998)



Total Deposits: \$1.038 billion

Wholesale Funds. The Bank does not accept brokered deposits as a source of funds and has no plans to do so in the future. However, the Bank is a member of the FHLBNY which provides it with a borrowing line equal to \$215.1 million. From time to time, the Bank will borrow from the FHLBNY for various purposes. At June 30, 1998, the Bank had outstanding borrowings of \$215.1 million with the FHLBNY.

The Bank actively manages interest rate risk through the use of a simulation model which measures the sensitivity of future net interest income and the net portfolio value to changes in interest rates. In addition, the Bank regularly monitors interest rate sensitivity through GAP Analysis, which measures the terms to maturity or next repricing date of interest-earning assets and interest-bearing liabilities.

GAP Analysis

The following table sets forth the amounts of the Company's consolidated interest-earning assets and interest-bearing liabilities, outstanding at June 30, 1998, which are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined based on the earlier of term to repricing or the term to repayment of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at June 30, 1998 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For purposes of presentation in the following table, the Company utilized the national deposit decay rate assumptions published by the OTS as of December 31, 1992 (the latest available), which for savings accounts, NOW and Super NOW accounts and money market accounts in the one year or less category, were 14%, 37% and 79%, respectively. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated early payoffs of adjustable- and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. The amounts attributable to mortgage-backed securities reflect principal balances expected to be redeployed and/or repriced as a result of anticipated principal repayments, and as a result of contractual rate adjustments on adjustable-rate mortgage-backed securities.

At June 30, 1998	3 Months or Less	More than 3 Months to 6 Months	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Non- interest- bearing	Total
(Dollars in thousands)								
Interest-earning assets (1)								
Mortgages and other loans	\$ 65,221	\$ 60,744	\$ 56,574	\$ 223,924	\$ 246,014	\$ 297,644	\$ —	\$ 950,121
Investment securities	26,168	250	5,485	52,270	72,699	6,925	—	163,797
Mortgage-backed securities (2)	91,073	70,872	55,153	108,077	43,486	41,928	—	410,589
Federal funds sold	9,329	—	—	—	—	—	—	9,329
FHLB capital stock	10,754	—	—	—	—	—	—	10,754
Total interest-earning assets	202,545	131,866	117,212	384,271	362,199	346,497	—	1,544,590
Less:								
Allowance for loan losses	—	—	—	—	—	—	(12,075)	(12,075)
Net interest-earning assets	202,545	131,866	117,212	384,271	362,199	346,497	(12,075)	1,532,515
Non-interest-earning assets	18,008	—	—	—	—	—	73,403	91,411
Total assets	\$ 220,553	\$ 131,866	\$ 117,212	\$ 384,271	\$ 362,199	\$ 346,497	\$ 61,328	\$ 1,623,926
Interest-bearing liabilities:								
Savings accounts	\$ 11,917	\$ 11,917	\$ 23,834	\$ 76,249	\$ 56,394	\$ 160,170	\$ —	\$ 340,481
NOW and Super NOW accounts	1,658	1,658	3,316	6,072	1,625	3,598	—	17,927
Money market accounts	6,037	6,037	12,074	3,363	1,601	1,455	—	30,567
Certificates of deposit	139,108	103,472	163,791	188,800	16,928	229	—	612,328
Borrowed funds	144,455	23,598	—	44,450	69,000	78,603	—	360,106
Interest-bearing escrow	—	—	—	—	—	4,294	—	4,294
Total interest-bearing liabilities	303,175	146,682	203,015	318,934	145,548	248,349	—	1,365,703
Checking accounts	—	—	—	—	—	—	37,039	37,039
Other non-interest- bearing liabilities	12,062	—	—	—	—	—	22,773	34,835
Stockholders' equity	—	—	—	—	—	—	186,349	186,349
Total liabilities and stockholders' equity	\$ 315,237	\$ 146,682	\$ 203,015	\$ 318,934	\$ 145,548	\$ 248,349	\$ 246,161	\$ 1,623,926
Interest sensitivity gap per period	\$(100,630)	\$ (14,816)	\$ (85,803)	\$ 65,337	\$ 216,651	\$ 98,148	—	—
Cumulative interest sensitivity gap	\$(100,630)	\$(115,446)	\$(201,249)	\$(135,912)	\$ 80,739	\$ 178,887	—	—
Cumulative interest sensitivity gap as a percent of total assets	(6.20)%	(7.11)%	(12.39)%	(8.37)%	4.97%	11.02%	—	—
Cumulative total interest- earning assets as a percent of cumulative total interest- bearing liabilities	66.81%	74.34%	69.17%	86.01%	107.23%	113.10%	—	—

(1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.

(2) Based upon historical repayment experience.

The Company's balance sheet is primarily comprised of assets which mature or reprice within five years, with a significant portion maturing or repricing within one year. In addition, the Company's deposit base is comprised primarily of savings accounts, and certificates of deposit with maturities of three years or less, representing 11.9% and 57.3%, respectively, of total deposits at June 30, 1998. As a result, at June 30, 1998, the Company's interest-bearing liabilities maturing or repricing within one year totaled \$652.9 million, while interest-earning assets maturing or repricing within one year totaled \$451.6 million, resulting in a negative one-year interest sensitivity gap of \$201.2 million, or 12.4% of total assets. In comparison, at June 30, 1997, the Company had a negative one-year interest sensitivity gap of \$98.5 million, or 7.5% of total assets. The Company's estimate of repricing liabilities for selected deposit types which do not carry contractual maturities, such as savings accounts, is based upon the decay rate tables published by the OTS.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may not react

correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features, like annual and lifetime rate caps, which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in the table. Finally, the ability of certain borrowers to make scheduled payments on their adjustable-rate loans may decrease in the event of an interest rate increase.

Under interest rate scenarios other than that which existed on June 30, 1998, the gap ratio for the Company's assets and liabilities could differ substantially based upon different assumptions about how core deposit decay rates and loan prepayments would change. For example, the Company's interest rate risk management model assumes that in a rising rate scenario, by paying competitive rates on non-core deposits, a large share of core deposits will transfer to certificates of deposit and be

retained, although at higher cost to the Company. Also, loan and mortgage-backed security prepayment rates would be expected to slow, as borrowers postpone property sales or loan refinancings until rates again decline.

Interest Rate Risk Exposure Compliance

Increases in the level of interest rates also may adversely affect the fair value of the Company's securities and other earning assets. Generally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Company's interest-earning assets, which could adversely affect the Company's results of operations if sold, or, in the case of interest-earning assets classified as available for sale, the Company's stockholders' equity, if retained. Under Generally Accepted Accounting Principles ("GAAP"), changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale will be reflected in the Company's stockholders' equity. As of June 30, 1998, the Company's securities portfolio included \$449.6 million in securities

classified as available for sale. Due to the magnitude of the Company's holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in the stockholders' equity of the Company. The Company does not own any trading assets.

On a quarterly basis, an interest rate risk exposure compliance report is prepared and presented to the Company's Board of Directors. This report, prepared in accordance with Thrift Bulletin #13 issued by the OTS, presents an analysis of the change in net interest income and net portfolio value resulting from an increase or decrease in the level of interest rates. All changes are measured as percentage changes from the values of projected net interest income and net projected portfolio value in the flat rate scenario. The calculated estimates of change in net interest income and net portfolio value are compared to current limits established by management and approved by the Board of Directors. The following is a summary of the Company's interest rate exposure report as of June 30, 1998:

Change in Interest Rate	Percentage Change In			
	Net Interest Income		Net Portfolio Value	
	Limit	Projected Change	Limit	Projected Change
-400 Basis Points	-50.00%	-5.43%	-50.00%	17.36%
-300 Basis Points	-37.50	1.89	-37.50	16.72
-200 Basis Points	-25.00	6.11	-25.00	13.72
-100 Basis Points	-12.50	6.87	-12.50	6.99
Flat Rate (1)	—	—	—	—
+100 Basis Points	-12.50	-9.37	-12.50	-7.61
+200 Basis Points	-25.00	-19.04	-25.00	-18.40
+300 Basis Points	-37.50	-29.80	-37.50	-30.38
+400 Basis Points	-50.00%	-41.01%	-50.00%	-42.29%

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flows from principal repayments on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change.

Asset Quality

The Company's real estate loan servicing policies and procedures require that the Company initiate contact with a delinquent borrower as soon as possible after the payment is late ten days. Generally, the policy calls for a late notice to be sent ten days after the due date of the payment. If payment has not been received within 30 days of the due date, a letter is sent to the borrower. Thereafter, periodic letters and phone calls are placed to the borrower until payment is received. In addition, Company policy calls for the cessation of interest accruals on loans delinquent 90 days or more. When contact is made with the borrower at any time prior to foreclosure, the Company will attempt to obtain the full payment due, or work out a repayment schedule with the borrower to avoid foreclosure. Generally, foreclosure proceedings are initiated by the Company when a loan is 90 days past due. As soon as practicable after initiating foreclosure proceedings on a

loan, the Company prepares an estimate of the fair value of the underlying collateral. It is the Company's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and as prudently as possible in consideration of market conditions, the physical condition of the property and other mitigating conditions. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is generally either sold at foreclosure or sold subsequently by the Company as soon thereafter as practicable.

Management reviews delinquent loans on a periodic basis and reports monthly to the Board of Directors regarding the status of all delinquent and non-accrual loans in the Company's portfolio. The Company retains outside counsel experienced in foreclosure and bankruptcy procedures to institute foreclosure and other actions on the Company's delinquent loans. It is the policy of the Company to initiate foreclosure proceedings after a loan becomes 90 days past due. As soon as practicable after initiating foreclosure proceedings on a loan, the Company prepares an estimate of the fair value of the underlying collateral. It is the Company's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and as prudently as possible in consideration of market conditions, the physical condition of the property, and any other mitigating conditions.

The continued adherence to these procedures, as well as a strong local real estate market, resulted in a significant drop in problem loans in the Company's portfolio,

particularly multi-family and underlying cooperative loans, during the fiscal year ended June 30, 1998. Primarily, these declines reflect satisfaction of loans out of successful foreclosure proceedings, as well as the movement of loans to other real estate followed by the successful disposition of the underlying properties. Evidence of this is reflected in declines in both non-performing loans and loans delinquent 60-89 days. Non-performing loans totaled \$884,000 at June 30, 1998, as compared to \$3.2 million at June 30, 1997. The Company had 35 loans totaling \$328,000 delinquent 60-89 days at June 30, 1998, as compared to 33 such delinquent loans totaling \$603,000 at June 30, 1997. The Company has experienced a shift in the composition of its 60-89 day delinquencies from its conventional mortgage portfolio, which loans typically carry larger average balances, to smaller balance FHA/VA insured and consumer loans. As a result, the number of delinquent loans has not declined despite the decline in overall dollar level.

Under GAAP, the Company is required to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a debt constitutes a troubled-debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. Debt restructurings or loan modifications for a borrower do not necessarily always constitute troubled-debt restructurings, however, and troubled-debt restructurings do not necessarily result in non-accrual loans. The Company had three loans classified as troubled-debt restructurings at June 30, 1998, totaling \$3.9 million, and all are currently performing according to their restructured terms. The largest restructured debt, a \$2.7 million loan secured by a mortgage on an underlying cooperative apartment building located in Forest Hills, New York, was originated in 1987. The loan was first restructured in 1988, and again in 1994. The current regulations of the OTS require that troubled-debt restructurings remain classified as such until either the loan is repaid or returns to its original terms. The Company did not have any new loan restructurings during the fiscal year ended June 30,

1998. All three troubled-debt restructurings as of June 30, 1998 are on accrual status as they have been performing in accordance with the restructuring terms for over one year.

Pursuant to Company guidelines for determining and measuring impairment in loans within the meaning of SFAS 114, in the event the carrying balance of the loan, including all accrued interest, exceeds the estimate of fair value, the loan is considered to be impaired and a reserve is established. The recorded investment in loans deemed impaired was approximately \$3.1 million as of June 30, 1998, compared to \$4.3 million at June 30, 1997, and the average balance of impaired loans was \$3.8 million for the year ended June 30, 1998 compared to \$4.7 million for the year ended June 30, 1997. The impaired portion of these loans is represented by specific reserves totaling \$23,000 allocated within the allowance for loan losses at June 30, 1998. At June 30, 1998, one loan totaling \$2.7 million, was deemed impaired for which no reserves have been provided. This loan, which is included in troubled-debt restructurings at June 30, 1998, has performed in accordance with the provisions of the restructuring agreement signed in October 1995. The loan has been retained on accrual status at June 30, 1998. Generally, the Company considers non-performing loans to be impaired loans. However, at June 30, 1998, approximately \$428,000 of one-to-four family, cooperative apartment and consumer loans on nonaccrual status are not deemed impaired. All of these loans have outstanding balances less than \$227,000, and are considered a homogeneous loan pool which are not required to be evaluated for impairment. See "Notes to Consolidated Financial Statements" for a further discussion of impaired loans.

The balance of other real estate owned ("OREO") was \$825,000, consisting of 14 properties, at June 30, 1998 compared to \$1.7 million, consisting of 22 properties, at June 30, 1997. During the year ended June 30, 1998, \$779,000 in loans were transferred into OREO. Offsetting this addition were OREO sales and charge-offs of \$1.7 million during the year ended June 30, 1998. All charge-offs were recorded against the allowance for losses on real estate owned, which was \$164,000 as of June 30, 1998.

The following table sets forth information regarding the Company's non-performing loans, non-performing assets, impaired loans and troubled-debt restructurings at the dates indicated.

At Year Ended June 30,	1998	1997	1996	1995	1994
Non-performing loans					
One-to-four family	\$ 471	\$1,123	\$ 1,149	\$ 572	\$ 1,276
Multi-family and underlying cooperative	236	1,613	4,734	3,978	4,363
Non-residential	—	—	—	—	—
Cooperative apartment	133	415	668	523	609
Other	44	39	—	—	—
Total non-performing loans	884	3,190	6,551	5,073	6,248
Other Real Estate Owned	825	1,697	1,946	4,466	8,200
Total non-performing assets	\$1,709	\$4,887	\$ 8,497	\$ 9,539	\$14,448
Troubled-debt restructurings	\$3,971	\$4,671	\$ 4,671	\$ 7,651	\$ 7,421
Total non-performing assets and troubled-debt restructurings	\$5,680	\$9,558	\$13,168	\$17,190	\$21,869
Impaired loans (1)	\$3,136	\$4,294	\$ 7,419	N/A	N/A
Ratios:					
Total non-performing loans to total loans	0.09%	0.43%	1.12%	1.18%	1.45%
Total non-performing assets to total assets	0.11	0.37	0.62	1.44	2.23
Total non-performing assets and troubled-debt restructurings to total assets	0.35	0.73	0.96	2.59	3.38

(1) The Bank adopted SFAS 114 effective July 1, 1995. Impaired loans were not measured prior to adoption.

Analysis of Net Interest Income

The Company's profitability, like that of most financial institutions, is dependent to a large extent upon its net interest income, which is the difference between its interest income on interest-earning assets, such as loans and securities, and its interest expense on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them.

The following table sets forth certain information relating to the Company's consolidated statements of operations for the years ended June 30, 1998, 1997 and 1996, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields.

For the Years Ended June 30,	1998			1997			1996		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
(Dollars in thousands)									
Assets:									
Interest-earning assets:									
Real estate loans (1)	\$ 837,755	\$ 69,824	8.33%	\$ 642,913	\$54,965	8.55%	\$435,948	\$39,314	9.02%
Other loans	5,393	487	9.03	5,444	460	8.45	3,497	340	9.72
Investment securities (2) (3)	164,265	10,798	6.57	215,809	13,654	6.33	107,206	5,738	5.35
Mortgage-backed securities (2)	349,910	23,463	6.71	261,275	17,704	6.78	89,001	5,927	6.66
Federal funds sold	35,540	1,892	5.32	40,349	2,247	5.57	23,904	1,300	5.44
Total interest-earning assets	<u>1,392,863</u>	<u>\$106,464</u>	<u>7.64%</u>	<u>1,165,790</u>	<u>\$89,030</u>	<u>7.64%</u>	<u>659,556</u>	<u>\$52,619</u>	<u>7.98%</u>
Non-interest-earning assets	66,008			64,148			20,424		
Total assets	<u>\$1,458,871</u>			<u>\$1,229,938</u>			<u>\$679,980</u>		
Liabilities and stockholders' equity:									
Interest-bearing liabilities:									
NOW, Super NOW and Money market accounts	\$ 48,556	\$ 1,131	2.33%	\$ 55,327	\$ 1,404	2.54%	\$ 30,759	\$ 634	2.06%
Savings accounts	338,062	7,628	2.26	349,821	8,192	2.34	232,631	5,789	2.49
Certificates of deposit	594,098	34,174	5.75	515,542	28,869	5.60	285,524	16,013	5.61
Mortgagors' escrow	4,700	94	2.00	3,792	79	2.08	3,371	72	2.14
Borrowed funds	232,385	13,908	5.98	52,495	3,020	5.75	17,854	1,008	5.65
Total interest-bearing liabilities	<u>1,217,801</u>	<u>\$ 56,935</u>	<u>4.68%</u>	<u>976,977</u>	<u>\$41,564</u>	<u>4.26%</u>	<u>570,139</u>	<u>\$23,516</u>	<u>4.13%</u>
Checking accounts	31,457			27,653			11,646		
Other non-interest-bearing liabilities	24,097			18,131			17,718		
Total liabilities	<u>1,273,355</u>			<u>1,022,761</u>			<u>599,503</u>		
Stockholders' equity	<u>185,516</u>			<u>207,177</u>			<u>80,477</u>		
Total liabilities and stockholders' equity	<u>\$1,458,871</u>			<u>\$1,229,938</u>			<u>\$679,980</u>		
Net interest income/ interest rate spread (4)		<u>\$ 49,529</u>	<u>2.97%</u>		<u>\$47,466</u>	<u>3.38%</u>		<u>\$29,103</u>	<u>3.85%</u>
Net interest-earning assets/ net interest margin (5)	<u>\$ 175,062</u>		<u>3.56%</u>	<u>\$ 188,813</u>		<u>4.07%</u>	<u>\$ 89,417</u>		<u>4.41%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>114.38%</u>			<u>119.33%</u>			<u>115.68%</u>

(1) In computing the average balance of loans, non-accrual loans have been included. Interest income includes loan servicing fees as defined under SFAS 91.

(2) Includes securities classified "available for sale."

(3) Includes interest-bearing deposits in other banks and FHLB stock.

(4) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

Net interest income can also be analyzed in terms of the impact of changing interest rates on interest-earning assets and interest-bearing liabilities and changing the volume or amount of these assets and liabilities. The following table represents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest

	Year Ended June 30, 1998 Compared to Year Ended June 30, 1997 Increase/(Decrease) Due to		
	Volume	Rate	Net
Interest-earning assets:			
Real estate loans	\$16,466	\$(1,607)	\$14,859
Other loans	(5)	32	27
Investment securities	(3,317)	462	(2,855)
Mortgage-backed securities	5,973	(215)	5,758
Federal funds sold	(261)	(94)	(355)
Total	\$18,856	\$(1,422)	\$17,434
Interest-bearing liabilities:			
NOW, Super NOW and			
Money market accounts	\$ (164)	\$ (109)	\$ (273)
Savings accounts	(280)	(284)	(564)
Certificates of deposit	4,465	840	5,305
Mortgagors' escrow	19	(4)	15
Borrowed funds	10,558	330	10,888
Total	14,598	773	15,371
Net change in interest income	\$ 4,258	\$(2,195)	\$ 2,063

Comparison of Financial Condition at June 30, 1998 and June 30, 1997

Assets. The Company's assets totaled \$1.62 billion at June 30, 1998, an increase of \$308.9 million from total assets of \$1.32 billion at June 30, 1997. The growth in assets was experienced primarily in real estate loans and mortgage-backed securities available for sale, which increased \$199.9 million and \$133.7 million, respectively.

The increase in real estate loans resulted primarily from originations of \$321.2 million during the fiscal year ended June 30, 1998, of which \$308.4 million were multi-family and underlying cooperative and non-residential loans. The increased loan originations resulted from both an active local real estate market and a decline throughout the year of medium- and long-term market interest rates. The increase in mortgage-backed securities available for sale resulted from purchases of \$290.6 million during the year ended June 30, 1998, primarily attributable to the capital leverage program. See "Management Strategy." These purchases were partially offset by sales and calls of \$92.8 million and principal repayments of \$64.5 million on these securities. Mortgage-backed

expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (change in volume multiplied by prior rate), (ii) changes attributable to rate (changes in rate multiplied by prior volume), and (iii) the net change. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to the volume and the changes due to rate.

	Year Ended June 30, 1997 Compared to Year Ended June 30, 1996 Increase/(Decrease) Due to				Year Ended June 30, 1996 Compared to Year Ended June 30, 1995 Increase/(Decrease) Due to		
	Volume	Rate	Net		Volume	Rate	Net
(Dollars in thousands)							
Real estate loans	\$18,182	\$(2,531)	\$15,651	\$ 802	\$ 137	\$ 939	
Other loans	177	(57)	120	(28)	61	33	
Investment securities	6,339	1,577	7,916	1,431	(95)	1,336	
Mortgage-backed securities	11,571	206	11,777	(24)	487	463	
Federal funds sold	905	42	947	1,036	(411)	625	
Total	\$37,174	\$ (763)	\$36,411	\$3,217	\$ 179	\$ 3,396	
NOW, Super NOW and							
Money market accounts	\$ 565	\$ 205	\$ 770	\$ (76)	\$ (6)	\$ (82)	
Savings accounts	2,834	(431)	2,403	(976)	190	(786)	
Certificates of deposit	12,893	(37)	12,856	3,846	1,596	5,442	
Mortgagors' escrow	9	(2)	7	8	(7)	1	
Borrowed funds	1,975	37	2,012	(6)	1	(5)	
Total	18,276	(228)	18,048	2,796	1,774	4,570	
Net change in interest income	\$18,898	\$ (535)	\$18,363	\$ 421	\$(1,595)	\$(1,174)	

securities held-to-maturity declined \$31.7 million, as proceeds from sales and principal repayments on these securities were utilized to fund loan originations and purchases of mortgage-backed securities available for sale.

Liabilities. Funding for the growth in real estate loans was obtained primarily from increased deposits of \$74.9 million, primarily reflecting an increase in certificates of deposit with maturities of one year or less and increased FHLBNY advances of \$40.3 million during the past fiscal year. Funding for the increase in mortgage-backed securities available for sale was obtained primarily from increased securities sold under agreement to repurchase transactions of \$180.3 million, consistent with the capital leverage program.

As of June 30, 1998, assets were increased by \$18.0 million due to unsettled sales of mortgage-backed securities, and liabilities were increased by \$12.1 million, respectively, due to purchases of investment and mortgage-backed securities for which settlement had not occurred.

Stockholders' Equity. Stockholders' equity declined \$4.6 million to \$186.3 million at June 30, 1998, from \$190.9 million at June 30, 1997. During the fiscal year ended June 30, 1998, the Company repurchased 919,837 shares of its common stock into treasury at an aggregate cost of \$20.8 million. Offsetting the share repurchases was retained net income of \$13.1 million, amortization of the Company's ESOP and RRP of \$5.4 million, and an increase of \$732,000 of the unrealized gain on investment and mortgage-backed securities available for sale. Also contributing to the decline on stockholders' equity during the year ended June 30, 1998 were cash dividends declared and paid totaling \$2.6 million.

Comparison of Financial Condition at June 30, 1997 and June 30, 1996

The Company's assets totaled \$1.32 billion at June 30, 1997, a decrease of \$56.8 million from total assets of \$1.37 billion at June 30, 1996. This decline resulted primarily from the refund, on July 1, 1996, of \$131.1 million in excess proceeds related to the oversubscription to the Company's initial public offering (the "Oversubscription Refund"), which were included in Escrow and other deposits at June 30, 1996. The oversubscription refund was paid from the proceeds of matured investment securities of \$125.0 million, and from a reduction of \$6.1 million in federal funds sold. Removing the effects of the Oversubscription Refund, total assets increased \$74.3 million, Reflecting the Company's capital leverage strategy.

Real estate loans and loans held for sale increased \$166.4 million, resulting primarily from originations of \$262.2 million during the year ended June 30, 1997, of which \$256.2 million were multi-family and underlying cooperative and non-residential loans. Mortgage-backed securities increased \$98.6 million and investment securities held-to-maturity increased \$58.0 million, respectively, during the fiscal year ended June 30, 1997. Much of the growth in these assets was realized from the movement of earning assets from lower-yielding investment securities available for sale and federal funds sold into these higher-yielding assets. In addition, in order to fund the growth in these assets, borrowings increased \$111.8 million and deposits increased \$13.3 million. At June 30, 1996, the Company had an unsettled security purchase totaling \$34.0 million, which was funded in July 1996. No such unsettled trades existed as of June 30, 1997.

Stockholders' equity totaled \$190.9 million at June 30, 1997, a decrease of \$22.2 million from June 30, 1996. The decrease resulted primarily from the \$27.7 million repurchase of the Company's common stock into treasury, and the \$10.8 million open market purchase of the Company's common stock by the RRP during the year ended June 30, 1997. Offsetting these items was net income of \$12.3 million, an increase of \$1.7 million in the equity component of the unrealized gain on available for sale securities and a direct contribution to stockholders' equity of \$3.1 million related to the benefit expense associated with the Company's ESOP and RRP Plans.

Comparison of Operating Results for the Fiscal Years Ended June 30, 1998 and 1997

General. Net income for the fiscal year ended June 30, 1998 totaled \$13.1 million compared to \$12.3 million during the fiscal year ended June 30, 1997. Net income for the fiscal year ended June 30, 1997 was affected by the New York State and New York City income tax recoveries of \$1.9 million and \$1.0 million, respectively, and the one-time special assessment of \$1.1 million, after taxes, for the recapitalization of the SAIF recorded during the quarter ended September 30, 1996. Net income for the fiscal year ended June 30, 1997, excluding these non-recurring items, was \$10.5 million. Net income for the year ended June 30, 1998, includes an after-tax gain of \$1.1 million related to the sale of the Roslyn branch premise, and an after-tax charge of \$1.2 million related to an early retirement program offered during the year.

Net interest income. Net interest income totaled \$49.5 million during the year ended June 30, 1998, compared to \$47.5 million in the previous year. This increase was attributable primarily to an increase of \$227.1 million in average balance of interest-earning assets, offset by a decline in the net interest rate spread of 41 basis points, reflecting the flat yield curve interest rate environment experienced during the 1998 fiscal year. See "Discussion of Market Risk." The net interest margin declined 51 basis points from 4.07% for the year ended June 30, 1997 to 3.56% for the year ended June 30, 1998.

Interest Income. Interest income for the year ended June 30, 1998 was \$106.5 million, an increase of \$17.5 million from \$89.0 million during the year ended June 30, 1997. The largest components contributing to this increase were interest income on real estate loans and mortgage-backed securities, which increased by \$14.9 million and \$5.8 million, respectively. The increase in interest income on real estate loans was attributable primarily to an increase of \$194.8 million in the average balance of real estate loans, resulting from new loan originations of \$321.2 million during the fiscal year ended June 30, 1998. The increases in interest income on mortgage-backed securities was also attributable primarily to increases in the average balances of \$88.6 million, resulting from \$169.1 million in net purchases of mortgage-backed securities as part of the Company's capital leverage program. Partially offsetting these increases to interest income was a decrease in interest income on investment securities of \$2.9 million, primarily resulting from a decline in average balance of investment securities of \$51.5 million. The decline in the average balance resulted from the Company utilizing funds from matured investment securities to fund loan originations. Overall, the yield on interest-earning assets remained constant at 7.64%, as the impact from the movement of funds from investment securities to higher-yielding real estate loans, was offset by a decline in average yield on real estate loans of 22 basis points due to the decline in

medium- and long-term interest rates and increased interest rate competition throughout the 1998 fiscal year. See "Discussion of Market Risk." In addition, the yield on mortgage-backed securities declined 7 basis points due to both prepayments on higher-yielding securities and the interest rate environment experienced during the year.

Interest Expense. Interest expense increased \$15.3 million, to \$56.9 million during the fiscal year ended June 30, 1998, from \$41.6 million during the fiscal year ended June 30, 1997. This increase resulted primarily from increases of \$5.3 million and \$10.9 million in interest expense on certificate of deposit accounts and borrowed funds, respectively, which resulted primarily from increased average balances of \$78.6 million and \$179.9 million, respectively, during the fiscal year ended June 30, 1998, compared to the fiscal year ended June 30, 1997. The increase in the average balance on certificates of deposit resulted primarily from increased deposit flows due to competitive rates offered on selected certificate accounts for the past twelve months. The increase in average balance of borrowed funds resulted primarily from approximately \$180.3 million of borrowed funds added for the period July 1, 1997 to June 30, 1998, under the capital leverage program. In addition to the growth in average balances, the average cost of interest-bearing liabilities increased 42 basis points to 4.68% for the fiscal year ended June 30, 1998, from 4.26% in the previous year. The increase in average cost resulted from an increase of \$78.6 million in the average balance of certificate of deposit accounts, which generally have a higher average cost than other deposits, the increase of 15 basis points in the average cost on certificate of deposit accounts resulting from a rate promotion instituted for the past twelve months, and an increase of 42 basis points in the average cost on borrowed funds resulting from an increase in the average balance of higher-rate, longer-term borrowings undertaken during the recent fiscal year in order to fund loan originations and the capital leverage program.

Provision for Loan Losses. The provision for loan losses decreased \$2.6 million to \$1.6 million for the fiscal year ended June 30, 1998 from \$4.2 million for the fiscal year ended June 30, 1997. The Allowance for Loan Losses increased by \$1.3 million during the fiscal year ended June 30, 1998, as the loan loss provision of \$1.6 million was partially offset by net charge-offs of \$286,000. While the allowance for loan losses increased, non-performing loans declined from \$3.2 million at June 30, 1997, to \$884,000 at June 30, 1998. The Allowance for Loan Losses as a percentage of non-performing loans and total loans was 1,365.95% and 1.27%, respectively, at June 30, 1998, compared to 336.24% and 1.43%, respectively, at June 30, 1997. The reduction in the provision reflects the significant decline experienced in non-performing loans during the past year. However, in management's judgment, it was prudent to continue the loan loss

provision, and thereby increase the loan loss allowance, based upon the Company's growing volume of multi-family loan originations, the composition of its loan portfolio and the Company's historical charge-off experience. See "Asset Quality."

Non-Interest Income. Non-interest income increased \$2.9 million to \$7.0 million during the fiscal year ended June 30, 1998 compared to \$4.1 million during the fiscal year ended June 30, 1997. This increase was attributable primarily to a gain of \$1.9 million from the sale of the Bank's Roslyn branch premise in May 1998. In addition, service charges and other fees increased \$418,000 due to various increases in loan and deposit fees, and other income increased \$459,000 due primarily to increased income on FHLBNY capital stock and a reimbursement of \$182,000 of legal expenses previously provided, which was recorded in other income. See "Non-Interest Expense."

Non-Interest Expense. Non-interest expense increased \$2.4 million to \$29.9 million during the fiscal year ended June 30, 1998 from \$27.5 million during the fiscal year ended June 30, 1997. This increase resulted primarily from increases of \$3.0 million and \$2.3 million in salary and employee benefits and ESOP and RRP compensation expense, respectively, offset by declines of \$2.1 million, \$336,000 and \$484,000, respectively, in federal deposit insurance premiums, provision for losses on OREO, and other expenses. The increase in salaries and employee benefits was attributable primarily to a one-time charge of \$1.6 million related to benefit costs, other than RRP related costs, associated with an early retirement program offered during the fiscal year ended June 30, 1998. The remainder of the increase resulted from general salary and staff increases. The increase in ESOP and RRP compensation expense was attributable primarily to several factors. First, the RRP expense increased \$1.5 million as a full twelve months of expense was recorded during the fiscal year ended June 30, 1998, compared to five months of expense recorded during the fiscal year ended June 30, 1997. The RRP was approved in December 1996, and expense recognition began in February 1997. In addition, a one-time charge of \$598,000 was recorded during the fiscal year ended June 30, 1998, related to vested shares of retirees who accepted the early retirement program. Finally, the ESOP compensation expense increased \$787,000 due to the 50% appreciation in the average price of the Company's common stock during the fiscal year ended June 30, 1998, as the periodic ESOP compensation expense, under GAAP, is recorded based upon the average market value of the Company's common stock.

The increase in data processing costs resulted from both increased loan and deposit system utilization charges and expenses recorded related to the Year 2000 computer compliance. See "The Year 2000 Problem." The decline in federal deposit insurance expense resulted primarily from the non-recurring SAIF special assessment of \$2.1 million which was recorded during the fiscal year

ended June 30, 1997. The reduction in provision for losses on OREO resulted primarily from a decline of 49% in the average balance of OREO during the most recent fiscal year. The reduction in other expenses was attributable primarily to reduced legal expenses due to the settlement of a lawsuit during the past fiscal year, which had caused an increase in legal expenses in prior years. The settlement of such lawsuit resulted in a reimbursement of certain of such expenses. The Company anticipates that its sale of the Roslyn branch premise will result in cost efficiencies for future periods related to occupancy and equipment and other operating expenses.

Income Tax Expense. Income tax expense totaled \$11.9 million for the fiscal year ended June 30, 1998, compared to \$7.6 million for the fiscal year ended June 30, 1997. Income tax expense was reduced by \$2.9 million during the fiscal year ended June 30, 1997, due to New York State and New York City recoveries of \$1.9 million and \$1.0 million, respectively, related to the Bank's deferred tax liability. Income tax expense, exclusive of these recoveries, totaled \$10.5 million during the fiscal year ended June 30, 1997. The increase of \$1.4 million in income taxes, excluding the non-recurring recoveries, was primarily attributable to an increase of \$5.1 million in pre-tax income, offset by a reduction in the effective tax rate. During the year ended June 30, 1998, the Company's effective tax rate was 47.53% compared to 52.61% in the prior year (excluding the non-recurring income tax recoveries). The decline in the effective tax rate was primarily attributable to certain tax benefits associated with the formation and funding of subsidiaries of the Bank during the fiscal year ended June 30, 1998.

Comparison of Operating Results for the Fiscal Years Ended June 30, 1997 and 1996

General. Net income for the fiscal year ended June 30, 1997 totaled \$12.3 million compared to \$6.3 million during the fiscal year ended June 30, 1996. Net income for the fiscal year ended June 30, 1997 was affected by the New York State and New York City income tax recoveries of \$1.9 million and \$1.0 million, respectively, and the one-time special assessment of \$1.1 million, after taxes, for the recapitalization of the SAIF recorded during the quarter ended September 30, 1996. Net income for the fiscal year ended June 30, 1997, excluding these non-recurring items, was \$10.5 million.

Also affecting the comparison of the fiscal years ended June 30, 1997 and 1996 was the Company's adoption, on July 1, 1995, of Statement of Financial Accounting Standards No. 106, "Accounting for Postretirement Benefits Other than Pensions," whereby the Company elected to record the full accumulated postretirement medical benefit obligation upon adoption. Adoption of this standard resulted in a cumulative effect reduction of net income of approximately \$1.0 million for the fiscal year ended June 30, 1996. Income before cumulative effect of change in accounting principles for the fiscal year ended June 30, 1996 was \$7.3 million.

Net Interest Income. Net interest income totaled \$47.5 million during the year ended June 30, 1997 compared to \$29.1 million. This increase was attributable primarily to an increase of \$506.2 million in average balance of interest-earning assets, offset by a decline in the net interest rate spread of 47 basis points. The net interest margin declined 34 basis points from 4.41% for the year ended June 30, 1996 to 4.07% for the year ended June 30, 1997.

Interest Income. Interest income for the year ended June 30, 1997 was \$89.0 million, an increase of \$36.4 million from \$52.6 million during the year ended June 30, 1996. The largest components contributing to this increase were interest income on real estate loans, investment securities and mortgage-backed securities, which increased by \$15.7 million, \$7.9 million and \$11.8 million, respectively. The increase in interest income on real estate loans was attributable primarily to an increase of \$207.0 million in the average balance of real estate loans, resulting from both the acquisition of \$113.1 million of loans from Conestoga on June 26, 1996, and new loan originations of \$262.2 million during the fiscal year ended June 30, 1997, offset by a 47 basis point decrease in the average yield as compared to the prior year. The increases in interest income on investment securities and mortgage-backed securities were also attributable primarily to increases in average balances of \$108.6 million and \$172.3 million, respectively, during the fiscal year ended June 30, 1997 compared to the fiscal year ended June 30, 1996. The acquisition of \$170.8 million and \$124.4 million of investment securities and mortgage-backed securities, respectively, from Conestoga, contributed significantly to these average balance increases. In addition, the average yield on investment securities and mortgage-backed securities increased by 98 basis points and 12 basis points, respectively, during the fiscal year ended June 30, 1997, compared to the fiscal year ended June 30, 1996, contributing significantly to the increase in interest income. This increase in yields resulted primarily from both higher yields on securities acquired or repricing during the fiscal year ended June 30, 1997, as well as the acquisition of higher-yielding investment and mortgage-backed securities from Conestoga.

Interest Expense. Interest expense increased \$18.1 million, to \$41.6 million during the fiscal year ended June 30, 1997, from \$23.5 million during the fiscal year ended June 30, 1996. This increase resulted primarily from increases of \$12.9 million, \$2.4 million and \$2.0 million in interest expense on certificate of deposit accounts, savings accounts and borrowed funds, respectively, which resulted from increased average balances of \$230.0 million, \$117.2 million and \$34.6 million, respectively, during the fiscal year ended June 30, 1997, compared to the fiscal year ended June 30, 1996. The acquisition of \$216.3 million and \$129.2 million of certificate of deposit accounts and savings accounts, respectively, from Conestoga contributed significantly to these average balance increases. The increase in borrowing resulted from the

capital leverage strategy instituted during the current fiscal year. See "Management Strategy." Overall, the average cost of interest-bearing liabilities increased 13 basis points from 4.12% during the fiscal year ended June 30, 1996, to 4.25% during the fiscal year ended June 30, 1997, due primarily to an increase of 48 basis points in the average cost on NOW, Super NOW and money market accounts, which resulted from increased rates offered on these deposits under management's deposit pricing strategy, and an increase of 10 basis points on the cost of borrowed funds resulting from the current year borrowing activity.

Provision for Loan Losses. The provision for loan losses increased \$1.2 million to \$4.2 million for the fiscal year ended June 30, 1997 from \$3.0 million for the fiscal year ended June 30, 1996. The allowance for loan losses increased by \$2.9 million during the fiscal year ended June 30, 1997, as the loan loss provision of \$4.2 million was partially offset by net charge-offs of \$1.3 million. While the allowance for loan losses increased, non-performing loans declined from \$6.6 million at June 30, 1996, to \$3.2 million at June 30, 1997. The allowance for loan losses as a percentage of non-performing loans and total loans was 336.24% and 1.43%, respectively, at June 30, 1997, compared to 119.25% and 1.34%, respectively, at June 30, 1996. In management's judgment, it was prudent to continue the loan loss provision in order to supplement the loan loss allowance, based upon the Company's growing volume of multi-family loan originations, the composition of its loan portfolio and the Company's historical charge-off experience. See "Asset Quality."

Non-Interest Income. Non-interest income increased \$2.7 million to \$4.1 million during the fiscal year ended June 30, 1997 compared to \$1.4 million during the fiscal year ended June 30, 1996. This increase was attributable primarily to increases of \$1.0 million and \$733,000 in service charges and other fees, and other income, respectively. Contributing to the increase in service charges and other fees were increased income of \$465,000 related to deposit accounts attributable to the growth in deposits from the acquisition of Conestoga, and increases of \$272,000 and \$162,000, respectively, related to safe deposit boxes and the Company's funding of official checks. The increase in other income was attributable primarily to increased rental income of \$241,000 received from retail and other commercial premises acquired from Conestoga. Also contributing to the increase in other income were increases of \$170,000 and \$120,000 on FHLBNY capital stock dividend income and loan prepayment penalty income, respectively. In addition, net gains on sale of assets totaled \$984,000 during the year ended June 30, 1997 compared to a net loss of \$18,000 during the year ended June 30, 1996. Sales of assets occur periodically in response to management's review of portfolio assets in light of current market conditions.

Non-Interest Expense. Non-interest expense increased \$13.5 million to \$27.5 million during the fiscal year ended June 30, 1997 from \$14.0 million during the fiscal year ended June 30, 1996. Several factors contributed to this increase, including an increase of \$2.3 million in federal deposit insurance premium expense. As a result of the Conestoga Acquisition, the Company acquired \$394.3 million in deposits which were insured by the SAIF. The Company paid higher assessment rates on these deposits during the three months ended September 30, 1996. In addition, the Company was required to pay \$2.0 million, before taxes, related to the SAIF special assessment paid during the three months ended September 30, 1996 on all of its SAIF deposits, which were primarily comprised of the deposits obtained from Conestoga. As a result of the recapitalization of SAIF, the Company which currently has a Bank Insurance Fund ("BIF")/SAIF deposit ratio of 54/46, has experienced a reduction in FDIC insurance expense during all fiscal quarters subsequent to September 30, 1996. See "Impact of Recent Legislation." Should the Company maintain its status as a well-capitalized institution, given the current FDIC assessment rates, this reduction in quarterly FDIC insurance expense is expected to continue. During the fiscal year ended June 30, 1996, the Company received a refund from the FDIC of \$319,000 related to the Company's insurance expense, which reduced its federal deposit insurance premium expense for the period to \$109,000. During the fiscal year ended June 30, 1996, virtually all of the Company's deposits were insured by the BIF. See "Impact of Recent Legislation."

Salary and employee benefits, occupancy and equipment, data processing, and other operating expenses increased \$2.4 million, \$1.3 million, \$443,000 and \$1.8 million, respectively, resulting from both the acquisition of Conestoga and increased costs associated with activities as a public company. In addition, during the fiscal year ended June 30, 1997, the Company incurred increased expenses of \$2.9 million related ESOP and RRP benefits, and \$2.4 million related to goodwill amortization resulting from its acquisition of Conestoga. Only minor expenses were recorded during the fiscal year ended June 30, 1996 related to these items, as the Company completed its initial public offering (from which the ESOP and RRP were generated) and its acquisition of Conestoga (from which goodwill was generated) on June 26, 1996. Partially offsetting these increased expenses was a decrease of \$136,000 related to losses on other real estate owned, resulting from management's periodic review of reserves established for losses on other real estate owned. Overall, non-interest expense was 2.24% of average assets for the fiscal year ended June 30, 1997. Excluding the effects of the non-recurring SAIF charge, non-interest expense was 2.07% of average assets during the fiscal year ended June 30, 1997 compared to 2.06% for the fiscal year ended June 30, 1996.

Income Tax Expense. Income tax expense totaled \$7.6 million. Income tax expense was reduced by \$2.9 million during the fiscal year ended June 30, 1997, due to New York State and New York City recoveries of \$1.9 million and \$1.0 million, respectively, related to the Company's deferred tax liability. Both of these recoveries resulted from recent tax legislation passed by both New York State and New York City. See "Impact of Recent Legislation." Income tax expense, exclusive of these recoveries, totaled \$10.5 million during the fiscal year ended June 30, 1997, compared to \$6.2 million during the fiscal year ended June 30, 1996, an increase of \$4.3 million. This increase was attributable to both an increase of \$6.4 million in pre-tax income and an increase in the effective tax rate from 45.9% for the fiscal year ended June 30, 1996, to 52.6% for the fiscal year ended June 30, 1997. The increased effective tax rate during the fiscal year ended June 30, 1997, (before recoveries) resulted primarily from the acquisition of Conestoga being accounted for as a tax-free transaction, resulting in the Company receiving no tax benefit for goodwill expense. In addition, the Company received no tax deduction for \$666,000 of ESOP compensation expense related to the excess of the average fair market value of the Company's stock during the fiscal year ended June 30, 1997, over the original purchase price of the stock by the ESOP. Excluding the effects of these items, the effective tax rate for the fiscal year ended June 30, 1997 was 45.6%.

Impact of Inflation and Changing Prices

The Financial Statements and Notes thereto presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Impact of Recent Legislation

Deposit Insurance — SAIF Recapitalization. In response to the disparity in deposit insurance assessment rates that existed between banks insured by the BIF and thrifts insured by the SAIF, the Deposit Funds Insurance Act of 1996 (the "Funds Act") was enacted on September 30, 1996. The Funds Act authorized the FDIC to impose a special assessment on all institutions with SAIF-assessable deposits in the amount necessary to recapitalize the SAIF. The special SAIF assessment for the Company of \$2.0 million, or \$1.1 million net of taxes, was charged against income in the quarter ended September 30, 1996 and paid in November 1996.

As a result of the recapitalization of the SAIF in 1996 after the enactment of the Funds Act, the FDIC reduced the assessment rates for deposit insurance for SAIF-assessable deposits for 1997 to a range of 0 to 27 basis

points. The Company's SAIF-assessable deposits are also subject to assessments for payments on the bonds issued in the late 1980's by the Financial Corporation (the "FICO" bonds) to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. The Company's total expenses for the fiscal year ended June 30, 1998, for the assessments for deposit insurance and the FICO payments was \$350,000 which was a reduction from the total amount of \$423,000 paid during the fiscal year ended June 30, 1997.

Recapture of Bad Debt Reserves. The Company, as a "large bank" (one with assets having an adjusted basis of more than \$500 million), is unable to make additions to its tax bad debt reserve, is permitted to deduct bad debts only as they occur and is required to recapture (*i.e.*, take into income) over a multi-year period, a portion of the balance of its bad debt reserves as of June 30, 1997. Since the Company has already provided a deferred income tax liability for this tax for financial reporting purposes, there was no adverse impact to the Company's financial condition or results of operations from the enactment of federal legislation that imposed such recapture.

New York State (the "State") has enacted legislation, that has enabled the Company to avoid recapture into income the State tax bad debt reserves that otherwise would have occurred as a result of changes in the federal law. New York City has enacted legislation similar to the State legislation.

The Year 2000 Problem

The Year 2000 Problem centers upon the inability of computer systems to recognize the year 2000. Many existing computer programs and systems were originally programmed with six digit dates that provided only two digits to identify the calendar year in the date field, without considering the upcoming change in the century. With the impending millennium, these programs and computers will recognize "00" as the year 1900 rather than the year 2000. Like most financial providers, the Company and its operations may be significantly affected by the Year 2000 Problem due to the nature of financial information. Software, hardware and equipment both within and outside the Company's direct control and with whom the Company electronically or operationally interfaces (*e.g.*, third party vendors providing data processing, information system management, maintenance of computer systems, and credit bureau information) are likely to be affected. Furthermore, if computer systems are not adequately changed to identify the Year 2000, many computer applications could fail or create erroneous results. As a result, many calculations which rely upon the date field information, such as interest, payment or due dates and other operating functions, will generate results which could be significantly misstated, and the Company could experience a temporary inability to process transactions, send invoices or engage in similar normal business activities. In addition, under certain circumstances, failure to adequately address the Year 2000 Problem could adversely affect the viability of the Company's suppliers and creditors and the creditworthiness of its borrowers. Thus, if not adequately addressed, the Year 2000 Problem could result in a significant

adverse impact upon the Company's products, services and competitive condition.

The Company has fully completed its assessment of the Year 2000 Problem. The Company has already replaced and/or upgraded several internal systems in order to ensure Year 2000 compliance and has entered the compliance testing phase on its loan and deposit systems. All testing is expected to be completed prior to December 31, 1998. The Company utilizes outside vendors for software related to its major application systems. As a part of its assessment procedures, the Company assessed the action plans regarding the Year 2000 Problem for each outside vendor. The Company presently believes that, with continued modifications to existing software and conversions to new software, the Year 2000 Problem will be mitigated without causing a material adverse effect upon the operations of the Company. At this time, management of the Company believes that all critical modifications and conversions will be completed in a timely manner. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Problem could have a material adverse impact upon the Company's operations.

In the event that system failures occur related to the Year 2000 Problem, the Company has developed contingency plans, which involve, among other actions, utilization of an alternate service provider or alternate products available through the current vendor.

Monitoring and managing the Year 2000 project will result in additional direct and indirect costs to the Company. Direct costs include potential charges by third party software vendors for product enhancements, costs involved in testing software products for Year 2000 compliance, and any resulting costs for developing and implementing contingency plans for critical software products which are not enhanced. Indirect costs will principally consist of the time devoted by existing employees in monitoring software vendor progress, testing enhanced software products and implementing any necessary contingency plans. The Company estimates that total costs related to the Year 2000 Problem will not exceed \$100,000. Both direct and indirect costs of addressing the Year 2000 Problem will be charged to earnings as incurred. To date, over one-half of the total estimated costs associated with the Year 2000 Problem have already been expensed.

Impact of Recent Accounting Standards

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 requires that financial statements report and display comprehensive income in the same prominence as net income, but permits the statement of comprehensive income to be presented either together with or apart from the income statement. Comprehensive income, as defined by SFAS 130, includes revenues, expenses, and gains and losses which, under current GAAP, bypass net income and

are typically reported as a component of stockholders' equity. SFAS 130 is applicable for all entities which present a full set of financial statements and is effective for fiscal years beginning after December 15, 1997, with early adoption permitted. Management is currently evaluating SFAS 130.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 introduces a new method for segment reporting referred to as the "management approach," which focuses upon the manner in which the chief operating decision makers organize segments within a company for making operating decisions and assessing performance. Under the management approach, reportable segments can be based upon, but are not limited to, products and services, geography and legal or management structure. SFAS 131 requires full financial disclosure for each segment, but only requires limited quarterly segment disclosure. SFAS 131 is applicable for all public, for-profit companies, and is effective for fiscal years beginning after December 15, 1997, with early application encouraged. Management is currently evaluating SFAS 131.

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Disclosures About Pensions and Other Postretirement Benefits" ("SFAS 132"). SFAS 132 amends disclosure requirements related to pension and other postretirement benefits previously required under Statements of Financial Accounts Standards Nos. 87, 88 and 106. SFAS 132 does not change the measurement or recognition of these plans. Adoption of SFAS 132 is required for all fiscal years beginning after December 15, 1997.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133 an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. Adoption of SFAS 133 is required for all fiscal quarters or fiscal years beginning after June 15, 1999.

MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Dime Community Bancshares, Inc. Common Stock is traded on the Nasdaq National Market and quoted under the symbol "DCOM." Prior to June 15, 1998, the Company's common stock was quoted under the symbol "DIME."

The following table shows the high and low sales price for the Company's common stock and dividends declared by the Company during the period indicated. The Company's common stock began trading on June 26, 1996, the date of the initial public offering.

Quarter Ended	Fiscal Year End June 30, 1998			Fiscal Year End June 30, 1997		
	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
September 30th	\$ —	\$20 ¹ / ₂	\$18 ³ / ₈	—	\$14	\$11 ³ / ₄
December 31st	0.06	25 ³ / ₄	18 ³ / ₈	—	15 ¹ / ₈	13 ¹ / ₄
March 31st	0.08	25 ¹ / ₄	18 ³ / ₄	—	19 ⁵ / ₈	14 ¹ / ₂
June 30th	\$0.09	\$29 ¹ / ₂	\$24 ³ / ₈	\$0.045	\$20	\$16 ⁵ / ₈

On June 30, 1998, the last trading date in the fiscal year, the Company's stock closed at \$27³/₄. At September 25, 1998, the Company had approximately 1,029 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. There were 12,176,513 shares of common stock outstanding at June 30, 1998.

As the principal asset of the Company, from time-to-time the Bank may be the principal source of funds for payment of dividends by the Company. The Bank will not be permitted to pay dividends on its capital stock if its stockholders' equity would be reduced below applicable regulatory requirements or the amount required for the liquidation account established during the Bank's conversion. See Note 2 to the Consolidated Financial Statements of the Company for a further discussion of the liquidation account. The OTS capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements, generally limit dividend payments in any year to the greater of (i) 100% of year-to-date net income plus an amount that would reduce

surplus capital by one-half or (ii) 75% of net income for the most recent four quarters. Surplus capital is the excess of actual capital at the beginning of the year over the institution's minimum regulatory capital requirement. In addition, capital distributions from the Bank to the Company, if in excess of established limits, could result in recapture of the Bank's New York State and City bad debt reserves. See Note 14 to the Consolidated Financial Statements of the Company for a further discussion of this tax matter.

Unlike the Bank, the Company is not subject to OTS regulatory restrictions on the payment of dividends to its shareholders, although the source of such dividends will be dependent on the net proceeds retained by the Company and earnings thereon and may be dependent, in part, upon dividends from the Bank. The Company is subject, however, to the requirements of Delaware law, which generally limits dividends to an amount equal to the excess of the net assets of the Company (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors of the Dime Community Bancshares, Inc. and Subsidiary

We have audited the accompanying consolidated statements of condition of Dime Community Bancshares, Inc. (formerly Dime Community Bancorp, Inc.) and Subsidiary (the "Company") as of June 30, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 financial position of Dime Community Bancshares, Inc. and Subsidiary as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998 in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 15, effective July 1, 1995, the Company changed its method of accounting for postretirement benefits other than pensions to comply with Statement of Financial Accounting Standards No. 106.

Deloitte & Touche LLP

New York, New York
August 14, 1998

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except share amounts)

June 30,	1998	1997
ASSETS:		
Cash and due from banks	\$ 16,266	\$ 19,198
Investment securities held-to-maturity (estimated market value of \$78,593 and \$102,024 at June 30, 1998 and 1997, respectively) (Note 4)	78,091	101,587
Investment securities available for sale (Note 4):		
Bonds and notes (amortized cost of \$72,715 and \$52,426 at June 30, 1998 and 1997, respectively)	73,031	52,798
Marketable equity securities (historical cost of \$10,425 and \$4,912 at June 30, 1998 and 1997, respectively)	12,675	5,889
Mortgage-backed securities held-to-maturity (estimated market value of \$47,443 and \$79,075 at June 30, 1998 and 1997, respectively) (Note 5)	46,714	78,388
Mortgage-backed securities available for sale (amortized cost of \$361,372 and \$227,776 at June 30, 1998 and 1997, respectively) (Note 5)	363,875	230,137
Federal funds sold	9,329	18,902
Loans (Note 6):		
Real estate	943,864	744,246
Other loans	5,716	6,076
Less allowance for loan losses (Note 7)	(12,075)	(10,726)
Total loans, net	937,505	739,596
Loans held for sale	541	262
Premises and fixed assets (Note 9)	10,742	13,995
Federal Home Loan Bank of New York capital stock (Note 10)	10,754	8,322
Other real estate owned, net (Note 7)	825	1,697
Goodwill (Note 3)	24,028	26,433
Receivable for securities sold	18,008	—
Other assets (Notes 14 and 15)	21,542	17,822
Total Assets	\$1,623,926	\$1,315,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors (Note 11)	\$1,038,342	\$ 963,395
Escrow and other deposits	15,395	14,974
Securities sold under agreements to repurchase (Note 12)	256,601	76,333
Federal Home Loan Bank of New York advances (Note 13)	103,505	63,210
Payable for securities purchased	12,062	—
Accrued postretirement benefit obligation (Note 15)	2,721	2,546
Other liabilities (Note 15)	8,951	3,679
Total Liabilities	1,437,577	1,124,137
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at June 30, 1998 and June 30, 1997)	—	—
Common stock (\$0.01 par, 45,000,000 shares authorized, 14,551,100 shares and 14,547,500 shares issued at June 30, 1998 and 1997, respectively, and 12,176,513 and 13,092,750 shares outstanding at June 30, 1998 and 1997, respectively)	145	145
Additional paid-in capital	143,322	141,716
Unallocated common stock of Employee Stock Ownership Plan (Note 15)	(9,175)	(10,324)
Unearned common stock of Recognition and Retention Plan (Note 15)	(6,963)	(9,671)
Common stock held by Benefit Maintenance Plan (Note 15)	(431)	—
Treasury stock, at cost (2,374,587 shares and 1,454,750 shares at June 30, 1998 and 1997, respectively) (Note 18)	(48,470)	(27,703)
Retained earnings (Note 2)	105,158	94,695
Unrealized gain on securities available for sale, net of deferred taxes	2,763	2,031
Total Stockholders' Equity	186,349	190,889
Total Liabilities And Stockholders' Equity	\$1,623,926	\$1,315,026

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share amounts)

For the Years Ended June 30,	1998	1997	1996
Interest income:			
Loans secured by real estate	\$ 69,824	\$54,965	\$39,314
Other loans	487	460	340
Investment securities	10,798	13,654	5,738
Mortgage-backed securities	23,463	17,704	5,927
Federal funds sold	1,892	2,247	1,300
Total interest income	106,464	89,030	52,619
Interest expense:			
Deposits and escrow	43,027	38,544	22,508
Borrowed funds	13,908	3,020	1,008
Total interest expense	56,935	41,564	23,516
Net interest income	49,529	47,466	29,103
Provision for loan losses	1,635	4,200	2,979
Net interest income after provision for loan losses	47,894	43,266	26,124
Non-interest income:			
Service charges and other fees	2,352	1,934	911
Net gain on sales and redemptions of securities and other assets	2,873	859	(30)
Net gain on sales of loans	108	125	12
Other	1,674	1,215	482
Total non-interest income	7,007	4,133	1,375
Non-interest expense:			
Salaries and employee benefits	12,748	9,794	7,359
ESOP and RRP compensation expense	5,378	3,058	114
Occupancy and equipment	3,011	3,084	1,775
SAIF special assessment	—	2,032	—
Federal deposit insurance premiums	350	423	109
Data processing costs	1,169	1,000	557
Provision for losses on other real estate owned	114	450	586
Goodwill amortization	2,405	2,405	25
Other	4,762	5,246	3,496
Total non-interest expense	29,937	27,492	14,021
Income before income taxes and cumulative effect of change in accounting principle	24,964	19,907	13,478
Income tax expense	11,866	7,591	6,181
Income before cumulative effect of change in accounting principle	13,098	12,316	7,297
Cumulative effect on prior years of changing to a different method of accounting for:			
Postretirement benefits other than pensions	—	—	(1,032)
Net income	\$ 13,098	\$12,316	\$ 6,265
Earnings per Share:			
Basic	\$1.19	\$0.95	N/A
Diluted	\$1.09	\$0.95	N/A

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share amounts)

For the Years Ended June 30,	1998	1997	1996
Common Stock (Par Value \$0.01):			
Balance at beginning of period	\$ 145	\$ 145	\$ —
Issuance of common stock in initial public offering	—	—	145
Balance at end of period	145	145	145
Additional Paid-in Capital:			
Balance at beginning of period	141,716	141,240	—
Issuance of common stock in initial public offering	—	—	145,330
Cost of issuance of common stock	—	(190)	(4,107)
Stock options exercised	52	—	—
Tax benefit of RRP shares	33	—	—
Amortization of excess fair value over cost — ESOP stock	1,521	666	17
Balance at end of period	143,322	141,716	141,240
Employee Stock Ownership Plan:			
Balance at beginning of period	(10,324)	(11,541)	—
Common stock acquired by ESOP	—	—	(11,638)
Amortization of earned portion of ESOP stock	1,149	1,217	97
Balance at end of period	(9,175)	(10,324)	(11,541)
Recognition and Retention Plan:			
Balance at beginning of period	(9,671)	—	—
Common stock acquired by RRP	—	(10,846)	—
Amortization of earned portion of RRP stock	2,708	1,175	—
Balance at end of period	(6,963)	(9,671)	—
Treasury Stock:			
Balance at beginning of period	(27,703)	—	—
Purchase of treasury shares, at cost	(20,767)	(27,703)	—
Balance at end of period	(48,470)	(27,703)	—
Common Stock Held by Benefit Maintenance Plan:			
Balance at beginning of period	—	—	—
Common stock acquired	(431)	—	—
Balance at end of period	(431)	—	—
Retained earnings:			
Balance at beginning of period	94,695	82,916	76,651
Net income for the period	13,098	12,316	6,265
Cash dividends declared and paid	(2,635)	(537)	—
Balance at end of period	105,158	94,695	82,916
Unrealized gain on securities available for sale, net:			
Balance at beginning of period	2,031	311	416
Change in unrealized gain on securities available for sale during the period, net of deferred taxes	732	1,720	(105)
Balance at end of period	\$ 2,763	\$ 2,031	\$ 311

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

For the Years Ended June 30,	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 13,098	\$ 12,316	\$ 6,265
Adjustments to reconcile net income to net cash provided by operating activities:			
Net gain on investment and mortgage-backed securities called	(9)	—	(79)
Net (gain) loss on investment and mortgage-backed securities sold	(1,123)	(768)	164
Net gain on sale of loans held for sale	(108)	(125)	(12)
Net gain on sale of other assets	(1,973)	(19)	—
Net depreciation and amortization (accretion)	847	(958)	102
ESOP and RRP compensation expense	5,378	3,058	114
Provision for loan losses	1,635	4,200	2,979
Goodwill amortization	2,405	2,405	25
(Increase) decrease in loans held for sale	(171)	322	(310)
(Increase) decrease in other assets and other real estate owned	(3,476)	(2,401)	3,040
Increase in accrued postretirement benefit obligation	175	165	2,115
Increase in receivable for securities purchased	(18,008)	—	—
Increase (decrease) in payable for securities purchased	12,062	(33,994)	33,994
Increase in other liabilities	5,272	858	1,677
Net cash provided by (used in) Operating Activities	16,004	(14,941)	50,074
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) in federal funds sold	9,573	96,228	(52,253)
Proceeds from maturities of investment securities held-to-maturity	10,250	19,075	13,065
Proceeds from maturities of investment securities available for sale	63,145	359,710	399,135
Proceeds from calls of investment securities held-to-maturity	42,500	5,000	11,056
Proceeds from calls of investment securities available for sale	11,500	26,011	11,323
Proceeds from sales of investment securities available for sale	13,437	27,253	501
Proceeds from sales of mortgage-backed securities held-to-maturity	5,317	—	2,555
Proceeds from sales and calls of mortgage-backed securities available for sale	92,776	16,713	—
Purchases of investment securities held-to-maturity	(29,082)	(82,010)	(9,292)
Purchases of investment securities available for sale	(112,930)	(126,741)	(541,951)
Purchases of mortgage-backed securities held-to-maturity	—	(38,842)	(11,714)
Purchases of mortgage-backed securities available for sale	(290,576)	(115,265)	(11,554)
Principal collected on mortgage-backed securities held-to-maturity	26,216	12,820	9,995
Principal collected on mortgage-backed securities available for sale	64,470	28,201	15,877
Net increase in loans	(199,545)	(168,381)	(41,856)
Cash disbursed in acquisition of Conestoga Bancshares, net of cash acquired	—	(400)	(93,074)
Sales (Purchases) of fixed assets, net	4,262	(652)	(779)
Purchase of Federal Home Loan Bank stock	(2,432)	(718)	(123)
Net cash (used in) provided by Investing Activities	(291,119)	58,002	(299,089)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in due to depositors	74,947	13,281	1,019
Net increase (decrease) in escrow and other deposits	421	(126,758)	128,625
Proceeds from Federal Home Loan Bank of New York Advances	40,295	47,500	—
Increase (decrease) in securities sold under agreements to repurchase	180,268	64,335	(111)
Proceeds from issuance of common stock, net of ESOP stock purchase	—	—	133,837
Common stock issued for exercise of Stock Options and tax benefits of RRP	85	—	—
Cash disbursed for expenses related to issuance of common stock	—	(190)	(4,107)
Purchase of common stock by the Recognition and Retention Plan	—	(10,846)	—
Purchase of common stock by Benefit Maintenance Plan	(431)	—	—
Cash dividends paid to stockholders	(2,635)	(537)	—
Purchase of treasury stock	(20,767)	(27,703)	—
Net cash (used in) provided by Financing Activities	272,183	(40,918)	259,263
(DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(2,932)	2,143	10,248
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	19,198	17,055	6,807
CASH AND DUE FROM BANKS, END OF PERIOD	\$ 16,266	\$ 19,198	\$ 17,055
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for income taxes	\$ 10,984	\$ 8,486	\$ 6,993
Cash paid for interest	\$ 54,941	\$ 41,270	\$ 23,744
Transfer of loans to other real estate owned	\$ 779	\$ 1,407	\$ 1,069
Transfer of investment and mortgage-backed securities held-to-maturity to available for sale	\$ —	\$ —	\$ 3,300
Change in unrealized gain on available for sale securities, net of deferred taxes	\$ 732	\$ 1,720	\$ (105)

On June 26, 1996, the Bank acquired all of the outstanding common stock of Conestoga Bancshares, Inc. for cash. In connection with this acquisition, the following assets were acquired and liabilities assumed:

Fair Value of Investments, Loans and Other Assets Acquired, net	\$ 507,023
Cash paid for Common Stock	(101,272)
Deposits and Other Liabilities Assumed	\$ 405,751

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations — Dime Community Bancshares, Inc. (formerly Dime Community Bancorp, Inc.) (the "Company"), is a Delaware corporation organized by the Bank for the purpose of acquiring all of the capital stock of The Dime Savings Bank of Williamsburgh (the "Bank") issued in the Conversion on June 26, 1996. Presently, the significant assets of the Company are the capital stock of the Bank, the Company's loan to the Bank's ESOP, and investments of the net conversion proceeds retained by the Company. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended.

The Bank was originally founded in 1864 as a New York State-chartered mutual savings bank. On November 1, 1995, the Bank converted to a federal mutual savings bank. The Bank has been, and intends to continue to be, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburgh section of the borough of Brooklyn. Thirteen additional offices are located in the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County.

Since the sale of the Company's stock and the merger of Conestoga Bancorp, Inc. into the Bank occurred on June 26, 1996, the Company's results of operations for the year ended June 30, 1996 are comprised of the results of operations of the Bank. Earnings per share information for the Company for the year ended June 30, 1996 is not meaningful.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform to generally accepted accounting principles. The following is a description of the significant policies:

Principles of Consolidation — The accompanying 1998, 1997 and 1996 consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, the Bank. All financial statements presented include the accounts of the Bank's five wholly owned subsidiaries, Havemeyer Equities Corp. ("HEC"), Boulevard Funding Corp. ("BFC"), Havemeyer Brokerage Corp. ("HBC"), Havemeyer Investments Inc. ("HII") and DSBW Residential Preferred Funding Corp. ("DRPFC"). HBC's primary function is the management of an investment securities portfolio. HII was established during the fiscal year ended June 30, 1998, and its primary function is the sale of insurance and annuity products. DRPFC, established in March 1998, is intended to qualify as real estate investment trust for federal tax purposes. BFC was established in order to invest in real estate joint ventures and other real estate assets. BFC has no investments in real estate at June 30, 1998, and is currently inactive. HEC was also originally established in order to invest in real estate joint ventures and other real estate assets.

In June 1998, HEC assumed direct ownership of DSBW Preferred Funding Corp. ("DPFC"). DPFC, established as a direct subsidiary of the Bank in March 1998, is intended to qualify as real estate investment trust for federal tax purposes. HEC has no other investments as of June 30, 1998. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investment Securities and Mortgage-backed Securities — Purchases and sales of investments and mortgage-backed securities are recorded on trade date. Gains and losses on sales of investment and mortgage-backed securities are recorded on the specific identification basis.

SFAS No. 115, "Accounting for Investments in Debt and Equity Securities" ("SFAS 115") requires that debt and equity securities that have readily determinable fair values be carried at fair value unless they are held-to-maturity. Debt securities are classified as held-to-maturity and carried at amortized cost only if the reporting entity has a positive intent and ability to hold these securities to maturity. If not classified as held-to-maturity, such securities are classified as securities available for sale or as trading securities. Unrealized holding gains or losses on securities available for sale are excluded from earnings and reported net of income taxes as a separate component of stockholders' equity. At June 30, 1998 and 1997, all equity securities are classified as available for sale.

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.

Allowance for Loan Losses — It is the policy of the Bank to provide a valuation allowance for estimated losses on loans based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations which may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. The allowance is increased by provisions for loan losses charged to operations and is reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based on changes in economic conditions beyond management's control. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management. Management believes, based upon all relevant and available information, that the

allowance for loan losses is adequate to absorb losses inherent in the portfolio.

SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS 114") requires all creditors to account for impaired loans, except those loans that are accounted for at fair value or at the lower of cost or fair value, at the present value of expected future cash flows discounted at the loan's effective interest rate. As an expedient, creditors may account for impaired loans at the fair value of the collateral or at the observable market price of the loan if one exists.

Loan Income Recognition — Interest income on loans is recorded under the level yield method. Under this method, discount accretion and premium amortization are included in interest income.

Accrual of interest is discontinued when its receipt is in doubt, generally, when a loan becomes ninety days past due as to principal or interest. When interest accruals are discontinued, any interest credited to income in the current year is reversed. Payments on nonaccrual loans are applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of collateral is sufficient to cover the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions.

Loan Fees — Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms.

Other Real Estate Owned, net — Properties acquired as a result of foreclosure on a mortgage loan are classified as other real estate owned and are recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses. Subsequent write downs are charged to the valuation allowance for possible losses on other real estate owned.

Premises and Fixed Assets — Land is stated at original cost. Buildings and furniture and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the properties as follows:

Buildings	2.22% to 2.50% per year
Furniture and equipment	10% per year

Leasehold improvements are amortized over the remaining non-cancelable terms of the related leases.

Earnings Per Share ("EPS") — In December 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 establishes new standards for computing and presenting earnings per share. SFAS 128, which replaced APB Opinion No. 15 (issued by the American Institute

of Certified Public Accountants in 1971) as the authoritative guidance for calculation and disclosure of earnings per share. SFAS 128 requires disclosure of basic earnings per share and diluted earnings per share, for entities with complex capital structures, on the face of the income statement, along with a reconciliation of the numerator and denominator of basic and diluted earnings per share. Earnings per share amounts for the year ended June 30, 1997 have been restated to reflect the adoption of SFAS 128.

The following is a reconciliation of the numerator and denominator of basic earnings per share for the years ended June 30, 1998 and 1997.

Fiscal Year Ended June 30,	1998	1997
Numerator:		
Net Income	\$13,098	\$12,316
Denominator:		
Average shares outstanding utilized in the calculation of basic earnings per share	11,000,744	12,897,686
Unvested shares of Recognition and Retention Plan	516,777	35,932
Common stock equivalents due to the dilutive effect of stock options	523,207	46,572
Average shares outstanding utilized in the calculation of diluted earnings per share	12,040,728	12,980,190

Common stock equivalents due to the dilutive effect of stock options are calculated based upon the average market value of the Company's common stock during the fiscal years ended June 30, 1998 and 1997.

Goodwill — Goodwill generated from the Bank's acquisition of Conestoga Bancorp, Inc. on June 26, 1996 is recorded on a straight-line basis over a twelve year period. In March 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment and reported at the lower of carrying amount or fair value, less cost to sell, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Since June 26, 1996, no such event or change in circumstance has occurred which has caused the Company to review the recorded level of goodwill associated with assets acquired from Conestoga.

Income Taxes — Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), which requires that deferred taxes be provided for temporary differences between the book and tax bases of assets and liabilities.

Cash Flows — For purposes of the Consolidated Statement of Cash Flows, the Bank considers cash and due from banks to be cash equivalents.

Employee Benefits — The Company maintains a Retirement Plan and 401(k) Plan for substantially all of its employees, both of which are tax qualified under the Employee Retirement Income Security Act of 1974 (ERISA).

The Company provides additional postretirement benefits to employees, which are recorded in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). This Statement requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The Company adopted SFAS 106 on July 1, 1995. As permitted by SFAS 106, the Bank elected to record the full cumulative liability at the time of adoption, which resulted in a cumulative effect adjustment of \$1,032, after reduction for income taxes of \$879, which was charged to operations during the fiscal year ended June 30, 1996.

The Company maintains an Employee Stock Ownership Plan for employees ("ESOP"). Compensation expense related to the ESOP is recorded in accordance with SOP 93-6, which requires the compensation expense to be recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the fair market value of the stock during the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital.

In December 1996, the Company adopted a Recognition and Retention Plan for employees and outside directors ("RRP") and Stock Option Plan for Employees and Outside Directors (the "Stock Option Plan"), which are subject to the accounting requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB 25"). Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. To date, no compensation expense has been recorded for stock options, since, for all granted options, the market price on the date of grant equals the amount employees must pay to acquire the stock. In accordance with APB 25, compensation expense related to the RRP is recorded for all shares earned by participants during the period at \$18.64 per share, the average historical cost of the shares of all RRP shares acquired.

Financial Instruments — Statement of Financial Accounting Standards No. 119, "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments," requires disclosures about financial instruments, which are defined as futures,

forwards, swap and option contracts and other financial instruments with similar characteristics. On balance sheet receivables and payables are excluded from this definition. The Company did not hold any derivative financial instruments as defined by SFAS 119 at June 30, 1998, 1997 or 1996.

Recently Issued Accounting Standards — In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are borrowings. SFAS 125 also requires that liabilities and derivatives incurred or obtained as part of a transfer be measured initially at fair value. This statement also provides guidance on measurement of servicing rights on assets transferred and derecognition of liabilities transferred. SFAS 125 is effective for all transfers, servicing, or extinguishments occurring after December 31, 1996, except for certain provisions relating to the accounting for secured borrowings and collateral and the accounting for transfers and servicing of repurchase agreements, dollar rolls, securities lending and similar transactions, for which the effective date was deferred until January 1, 1998, in accordance with Statement of Financial Accounting Standards No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" ("SFAS 127"). The Company adopted these standards effective January 1, 1997 and January 1, 1998. The adoption of these standards did not have a material impact on the financial condition or results of operations of the Bank.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 requires that financial statements report and display comprehensive income in the same prominence as net income, but permits the statement of comprehensive income to be presented either together with or apart from the income statement. Comprehensive income, as defined by SFAS 130 includes revenues, expenses, and gains and losses which, under current GAAP, bypass net income and are typically reported as a component of stockholders' equity. SFAS 130 is applicable for all entities which present a full set of financial statements and is effective for fiscal years beginning after December 15, 1997, with early adoption permitted. Management is currently evaluating SFAS 130.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 introduces a new method for segment reporting referred to as the "management approach," which focuses upon the manner in which the chief operating decision makers organize segments within a company for making operating decisions and assessing performance.

Under the management approach, reportable segments can be based upon, but are not limited to, products and services, geography and legal or management structure. SFAS 131 requires full financial disclosure for each segment, but only requires limited quarterly segment disclosure. SFAS 131 is applicable for all public, for-profit companies, and is effective for fiscal years beginning after December 15, 1997, with early application encouraged. Management of the Company is currently evaluating SFAS 131.

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Disclosures About Pensions and Other Postretirement Benefits" ("SFAS 132"). SFAS 132 amends disclosure requirements related to pension and other postretirement benefits previously required under Statements of Financial Accounting Standards Nos. 87, 88 and 106. SFAS 132 does not change the measurement or recognition of these plans. Adoption of SFAS 132 is required for all fiscal years beginning after December 15, 1997.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133 an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. Adoption of SFAS 133 is required for all fiscal quarters or fiscal years beginning after June 15, 1999. Adoption of SFAS 133 is not expected to have an impact upon the Company's consolidated financial condition or results of operations.

Use of Estimates in the Preparation of Financial Statements — The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in the accompanying financial statements where estimates are significant include the allowance for loans losses, the carrying value of other real estate, purchase accounting adjustments related to the acquisition of Conestoga and the fair value of financial instruments.

Reclassification — Certain June 30, 1997 and 1996 amounts have been reclassified to conform to the June 30, 1998 presentation.

2. CONVERSION TO STOCK FORM OF OWNERSHIP

On November 2, 1995, the Board of Directors of the Bank adopted a Plan of Conversion to convert from mutual to stock form. As part of the conversion, the Company was incorporated under Delaware law for the purpose of acquiring and holding all of the outstanding stock of the Bank. On June 26, 1996, the Company completed its initial public offering and issued 14,547,500 shares of common stock (par value \$0.01 per share) at a price of \$10.00 per share, resulting in net proceeds of approximately \$141,368 prior to the acquisition of stock by the Employee Stock Ownership Plan. The Company retained approximately \$53,397 of the net proceeds and used the remaining net proceeds to purchase all of the outstanding stock of the Bank. Costs related to the conversion were charged against the Company's proceeds from the sale of the stock.

At the time of conversion, the Bank established a liquidation account in an amount equal to the retained earnings of the Bank as of the date of the most recent financial statements contained in the final conversion prospectus. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

As discussed in Note 3, the Company acquired Conestoga Bancorp, Inc. on June 26, 1996. The liquidation account previously established by Conestoga's subsidiary, Pioneer Savings Bank, F.S.A. during its initial public offering in March 1993, was assumed by the Company in the acquisition.

The Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements, the amount required for the liquidation account, or if such declaration and payment would otherwise violate regulatory requirements.

3. ACQUISITION OF CONESTOGA BANCORP, INC.

On June 26, 1996, the Bank completed the acquisition of Conestoga Bancorp, Inc., the holding company for Pioneer Savings Bank, F.S.B. The Bank received approximately \$170,836, \$124,411 and \$111,991 of investment securities, mortgage-backed securities and loans, respectively, at fair value and assumed approximately \$394,250 of customer deposit liabilities. Approximately \$10,000 of investment securities acquired were classified as held-to-maturity at June 30, 1996. All other securities acquired were classified as available for sale. Total cash paid

for the acquisition was \$101,272. The goodwill generated in the transaction of \$28,438 is being amortized on a straight-line basis over 12 years for financial reporting purposes.

This acquisition was recorded using the purchase method of accounting; accordingly, the purchase price is allocated to the respective assets acquired and liabilities assumed based on their estimated fair values.

All operations of Conestoga acquired by the Bank are reflected in the consolidated statement of operations of the Company for the years ended June 30, 1998 and 1997. The consolidated statements of financial condition as of June 30, 1998 and 1997 include the assets acquired from Conestoga. The information below presents, on an unaudited pro forma basis, the consolidated statement of operations for the Company for the year ended June 30, 1996. All information below is adjusted for the acquisition of Conestoga, as if the transaction had been consummated on July 1, 1995.

Pro Forma for Year Ended June 30,	1996
Net interest income	\$43,129
Provision for possible loan losses	3,083
Non-interest income	3,965
Non-interest expense:	
Goodwill amortization	2,350
Other non-interest expense	20,540
Total non-interest expense	22,890
Income before income taxes	\$21,121

4. INVESTMENT SECURITIES HELD-TO-MATURITY AND AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated market value of investment securities held-to-maturity at June 30, 1998 were as follows:

Investment Securities Held-to-Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt Securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$64,448	\$412	\$(49)	\$64,811
Obligations of state and political subdivisions	1,899	43	—	1,942
Corporate securities	11,494	96	—	11,590
Public utilities	250	—	—	250
	\$78,091	\$551	\$(49)	\$78,593

The amortized cost and estimated market value of investment securities held-to-maturity at June 30, 1998, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in one year or less	\$ 9,224	\$ 9,233
Due after one year through five years	65,568	66,034
Due after five years through ten years	3,299	3,326
	\$78,091	\$78,593

During the year ended June 30, 1998, proceeds from the calls of investment securities held-to-maturity totaled \$42,500. A gain of \$9 resulted on these calls. There were no sales of investment securities held-to-maturity during the year ended June 30, 1998.

The amortized/historical cost, gross unrealized gains and losses and estimated market value of investment securities available for sale at June 30, 1998 were as follows:

Investment Securities Available for Sale				
	Amortized/Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$28,377	\$ 133	\$(19)	\$28,491
Corporate securities	37,494	295	(43)	37,746
Public utilities	6,844	14	(64)	6,794
	72,715	442	(126)	73,031
Equity securities:	10,425	2,317	(67)	12,675
	\$83,140	\$2,759	\$(193)	\$85,706

The amortized cost and estimated market value of investment securities available for sale at June 30, 1998, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in one year or less	\$10,008	\$10,005
Due after one year through five years	59,066	59,401
Due after five years through ten years	3,641	3,625
	\$72,715	\$73,031

During the year ended June 30, 1998, proceeds from the sales and calls of investment securities available for sale totaled \$13,437 and \$11,500, respectively. A gain of \$520 resulted from the sales. No gain or loss resulted from the calls.

The amortized cost, gross unrealized gains and losses and estimated market value of investment securities held-to-maturity at June 30, 1997 were as follows:

Investment Securities Held-to-Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 86,036	\$498	\$(116)	\$ 86,418
Obligations of state and political subdivisions	1,974	43	—	2,017
Corporate securities	13,327	28	(14)	13,341
Public utilities	250	—	(2)	248
	\$101,587	\$569	\$(132)	\$102,024

During the year ended June 30, 1997, proceeds from the calls of investment securities held-to-maturity totaled \$5,000. No gain or loss was recognized on these calls. There were no sales of investment securities held-to-maturity during the year ended June 30, 1997.

The amortized/historical cost, gross unrealized gains and losses and estimated market value of investment securities available for sale at June 30, 1997 were as follows:

Investment Securities Available for Sale				
	Amortized/ Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$33,706	\$ 130	\$(28)	\$33,808
Corporate securities	17,471	277	(5)	17,743
Public utilities	1,249	12	(14)	1,247
	52,426	419	(47)	52,798
Equity securities:	4,912	980	(3)	5,889
	\$57,338	\$1,399	\$(50)	\$58,687

During the year ended June 30, 1997, proceeds from the sales and calls of investment securities available for sale totaled \$27,253 and \$26,011, respectively. A loss of \$273 and gain of \$11 were recognized from the sales and calls, respectively.

5. MORTGAGE-BACKED SECURITIES HELD-TO-MATURITY AND AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities held-to-maturity at June 30, 1998 were as follows:

Mortgage-Backed Securities Held-to-Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
GNMA pass-through certificates	\$ 7,364	\$344	\$ —	\$ 7,708
FHLMC pass-through certificates	23,086	229	(11)	23,304
FNMA pass-through certificates	16,264	173	(6)	16,431
	\$46,714	\$746	\$(17)	\$47,443

Proceeds from the sales of mortgage-backed securities held-to-maturity were \$5,317 during the fiscal year ended June 30, 1998. A gain of \$175 was recognized from these sales. The unpaid principal of the securities at the dates of sale was less than 15% of their acquired par value, and thus are permissible sales under SFAS 115.

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities available for sale at June 30, 1998 were as follows:

Mortgage-Backed Securities Available for Sale				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Collateralized mortgage obligations	\$255,334	\$1,072	\$(230)	\$256,176
GNMA pass-through certificates	80,525	1,473	—	81,998
FHLMC pass-through certificates	8,692	34	(14)	8,712
FNMA pass-through certificates	16,821	208	(40)	16,989
	\$361,372	\$2,787	\$(284)	\$363,875

Proceeds from the calls and sales of mortgage-backed securities available for sale were \$92,776 during the year ended June 30, 1998. A gain of \$428 was recognized on these sales.

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities held-to-maturity at June 30, 1997 were as follows:

Mortgage-Backed Securities Held-to-Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
GNMA pass-through certificates	\$15,100	\$562	\$ (2)	\$15,660
FHLMC pass-through certificates	40,528	127	(56)	40,599
FNMA pass-through certificates	22,760	120	(64)	22,816
	\$78,388	\$809	\$(122)	\$79,075

There were no sales of mortgage-backed securities held-to-maturity during the fiscal year ended June 30, 1997.

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities available for sale at June 30, 1997 were as follows:

Mortgage-Backed Securities Available for Sale				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Collateralized mortgage obligations	\$ 72,343	\$ 333	\$(176)	\$ 72,500
GNMA pass-through certificates	88,874	1,903	(6)	90,771
FHLMC pass-through certificates	17,698	293	(54)	17,937
FNMA pass-through certificates	48,861	416	(348)	48,929
	\$227,776	\$2,945	\$(584)	\$230,137

Proceeds from the sale of mortgage-backed securities available for sale were \$16,713 during the year ended June 30, 1997. A gain of \$495 was recognized on these sales.

6. LOANS

The Company's real estate loans are comprised of the following:

At June 30,	1998	1997
One-to-four family	\$125,163	\$140,536
Multi-family and underlying cooperative	717,638	498,536
Nonresidential	50,062	43,180
F.H.A. and V. A. insured mortgage loans	11,934	14,153
Co-op loans	42,553	50,931
	947,350	747,336
Net unearned fees	(3,486)	(3,090)
	\$943,864	\$744,246

The Bank originates both adjustable and fixed interest rate real estate loans. At June 30, 1998, the approximate composition of these loans was as follows:

Fixed Rate		Variable Rate	
Period to Maturity or Next Repricing	Book Value	Period to Maturity or Next Repricing	Book Value
1 month-1 year	\$ 16,520	1 month-1 year	\$127,240
1 year-3 years	22,939	1 year-3 years	118,181
3 years-5 years	7,317	3 years-5 years	241,405
5 years-10 years	209,855	5 years-10 years	130,415
Over 10 years	73,478	Over 10 years	—
	\$330,109		\$617,241

The adjustable rate loans have interest rate adjustment limitations and are generally indexed to the Federal Home Loan Bank of New York ("FHLBNY") five-year borrowing funds rate, the one-year constant maturity Treasury index, or the Federal Home Loan Bank national mortgage contract rate.

A concentration of credit risk exists within the Bank's loan portfolio, as the majority of real estate loans are collateralized by properties located in New York City and Long Island.

The Company's other loans are comprised of the following:

At June 30,	1998	1997
Student loans	\$ 677	\$1,005
Passbook loans (secured by savings and time deposits)	2,367	2,801
Home improvement loans	1,753	1,243
Consumer installment and other loans	919	1,027
	5,716	6,076
Unearned discount	—	—
	\$5,716	\$6,076

Loans on which the accrual of interest has been discontinued were \$884 and \$3,190 at June 30, 1998 and 1997, respectively. If interest on those loans had been accrued, interest income would have been increased by approximately \$51 and \$247 for the years ended June 30, 1998 and 1997, respectively.

The Bank had outstanding loans considered troubled-debt restructurings of \$3,971 and \$4,671 at June 30, 1998 and 1997, respectively. Income recognized on these loans was approximately \$306 and \$357 for the years ended June 30, 1998 and 1997, respectively, compared to interest income of \$415 and \$471 calculated under the original terms of the loans, for the years ended June 30, 1998 and 1997, respectively.

The recorded investment in loans for which impairment has been recognized under the guidance of SFAS 114 was approximately \$3,136 and \$4,294 at June 30, 1998 and 1997, respectively. The average balance of impaired loans was approximately \$3,838 and \$4,736 for the years ended June 30, 1998 and 1997, respectively. Write-downs of \$45 and \$985 were taken on impaired loans during the years ended June 30, 1998 and 1997, respectively. At June 30, 1998 and 1997, specific

reserves totaling \$23 and \$122 were allocated within the allowance for loan losses for impaired loans. Net principal received and interest income recognized on impaired loans during the years ended June 30, 1998 and 1997 were not material. At June 30, 1998 and 1997, one loan totaling \$2,681, was deemed impaired for which no reserves have been provided. This loan, which is included in troubled-debt restructurings at June 30, 1998 and 1997, has performed in accordance with the provisions of the restructuring agreement signed in October 1995. The loan was on accrual status at both June 30, 1998 and 1997. All other loans deemed impaired, which total three and six loans as of June 30, 1998 and 1997, respectively, have reserves allocated towards their outstanding balance.

The following assumptions were utilized in evaluating the loan portfolio pursuant to the provisions of SFAS 114:

Homogenous Loans — One-to-four family residential mortgage loans and loans on cooperative apartments having a balance of less than \$227 and consumer loans are considered to be small balance homogenous loan pools and, accordingly, are not covered by SFAS 114.

Loans Evaluated for Impairment — All non-homogeneous loans greater than \$1,000 are individually evaluated for potential impairment. Additionally, residential mortgage loans exceeding \$227 and delinquent in excess of 60 days are evaluated for impairment. A loan is considered impaired when it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. A loan is not deemed to be impaired if a delay in receipt of payment is expected to be less than 30 days or if, during a longer period of delay, the Bank expects to collect all amounts due, including interest accrued at the contractual rate during the period of the delay. Factors considered by management include the property location, economic conditions, and any unique circumstances affecting the loan. Except as noted above, at June 30, 1998 and 1997, all impaired loans were on nonaccrual status. In addition, at June 30, 1998 and 1997, respectively, approximately \$428 and \$1,577 of one-to-four family residential mortgage loans, loans on cooperative apartments and consumer loans with a balance of less than \$227 were on nonaccrual status. These loans are considered as a homogeneous loan pool not covered by SFAS 114.

Reserves and Charge-Offs — The Bank allocates a portion of its total allowance for loan losses to loans deemed impaired under SFAS 114. All charge-offs on impaired loans are recorded as a reduction in both loan principal and the allowance for loan losses. Management evaluates the adequacy of its allowance for loan losses on a regular basis. At June 30, 1998, management believes that its allowance is adequate to provide for losses inherent in the total loan portfolio, including impaired loans.

Measurement of Impairment — Since all impaired loans are collateralized by real estate properties, the fair value of the collateral is utilized to measure impairment.

Income Recognition — Accrual of interest is discontinued on loans identified as impaired and past due ninety days. Subsequent cash receipts are applied initially to the outstanding loan principal balance. Additional receipts beyond the recorded outstanding balance at the time interest is discontinued are recorded as recoveries in the Bank's allowance for loan losses.

7. ALLOWANCE FOR LOAN LOSSES AND POSSIBLE LOSSES ON OTHER REAL ESTATE OWNED

Changes in the allowance for loan losses were as follows:

For the Year Ended June 30,	1998	1997	1996
Balance at beginning of period	\$10,726	\$ 7,812	\$ 5,174
Provision charged to operations	1,635	4,200	2,979
Loans charged off	(328)	(1,388)	(1,023)
Recoveries	42	102	14
Reserve acquired in purchase of Conestoga	—	—	668
	\$12,075	\$10,726	\$ 7,812

Changes in the allowance for possible losses on real estate owned were as follows:

For the Year Ended June 30,	1998	1997	1996
Balance at beginning of period	\$ 187	\$ 114	\$ —
Provision charged to operations	114	450	586
Charge-offs, net of recoveries	(137)	(377)	(472)
	\$ 164	\$ 187	\$ 114

Prior to July 1, 1995, no valuation allowance for possible losses on Other real estate owned was maintained by the Bank.

8. MORTGAGE SERVICING ACTIVITIES

At June 30, 1998 and 1997, the Bank was servicing loans for others having principal amounts outstanding of approximately \$58,619 and \$69,648, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. In connection with these loans serviced for others, the Bank held borrowers' escrow balances of approximately \$569, \$652 and \$1,055 at June 30, 1998, 1997 and 1996, respectively.

9. PREMISES AND FIXED ASSETS

The following is a summary of premises and fixed assets:

At June 30,	1998	1997
Land	\$ 2,164	\$ 3,964
Buildings	11,753	12,778
Leasehold improvements	1,282	1,190
Furniture and equipment	6,503	7,105
	21,702	25,037
Less: accumulated appreciation and amortization	(10,960)	(11,042)
	\$ 10,742	\$ 13,995

Depreciation and amortization expense amounted to approximately \$964, \$1,076 and \$501 for the years ended June 30, 1998, 1997 and 1996, respectively.

10. FEDERAL HOME LOAN BANK OF NEW YORK CAPITAL STOCK

The Bank is a Savings Bank Member of the FHLBNY. Membership requires the purchase of shares of FHLBNY capital stock at \$100 per share. The Bank owned 107,535 and 83,215 shares at June 30, 1998 and 1997, respectively. The FHLBNY paid dividends on the capital stock of 7.2%, 6.4% and 6.9% during the years ended June 30, 1998, 1997 and 1996, respectively.

11. DUE TO DEPOSITORS

The deposit accounts of each deposit household are insured up to \$100 by either the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC").

Deposits are summarized as follows:

June 30,	1998		1997	
	Effective Cost	Liability	Effective Cost	Liability
Savings accounts	2.27%	\$ 340,481	2.27%	\$344,377
Certificates of deposit	5.84	612,328	5.61	541,773
Money market accounts	3.09	30,567	2.96	33,530
NOW and Super NOW accounts	1.24	17,927	1.24	16,324
Non-interest-bearing checking accounts	—	37,039	—	27,391
	4.30%	\$1,038,342	4.09%	\$963,395

The distribution of certificates of deposits by remaining maturity was as follows:

At June 30,	1998	1997
Maturity in three months or less	\$139,108	\$116,828
Over 3 through 6 months	103,472	88,912
Over 6 through 12 months	163,791	107,714
Over 12 months	205,957	228,319
Total certificates of deposit	\$612,328	\$541,773

The aggregate amount of Certificates of deposits with a minimum denomination of \$100 was approximately \$60,259 and \$46,806 at June 30, 1998 and 1997, respectively.

12. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Presented below is information concerning securities sold with agreement to repurchase:

At or for the Year Ended June 30,	1998	1997
Balance outstanding at end of period	\$256,601	\$76,333
Average interest cost at end of period	5.74%	5.69%
Average balance outstanding	\$145,676	\$32,374
Average interest cost during the year	5.95%	5.73%
Carrying value of underlying collateral	\$267,469	\$83,778
Estimated market value of underlying collateral	\$268,991	\$84,172
Maximum balance outstanding at month end during period	\$256,601	\$76,333

13. FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

The Bank had borrowings ("Advances") from the FHLBNY totaling \$103,505 and \$63,210 at June 30, 1998 and 1997, respectively. The average cost of FHLB advances was 6.04% and 5.79%, respectively, during the years ended June 30, 1998 and 1997, and the average interest rate on outstanding FHLB advances was 6.05% and 6.18%, respectively, at June 30, 1998 and 1997. At June 30, 1998, in accordance with the Advances, Collateral Pledge and Security Agreement, the Bank maintained in excess of \$113,856 of qualifying collateral (principally bonds and mortgage-backed securities), as defined, to secure such advances.

14. INCOME TAXES

The Company's Federal, State and City income tax provisions were comprised of the following:

Year Ended June 30,	1998			1997			1996		
	Federal	State and City	Total	Federal	State and City	Total	Federal	State and City	Total
Current	\$8,687	\$2,698	\$11,385	\$6,047	\$4,541	\$10,588	\$4,218	\$2,563	\$6,781
Deferred	776	(295)	481	2,153	(5,150)	(2,997)	(332)	(268)	(600)
	\$9,463	\$2,403	\$11,866	\$8,200	\$ (609)	\$ 7,591	\$3,886	\$2,295	\$6,181

In accordance with SFAS 109, deferred tax assets and liabilities are recorded for temporary differences between the book and tax bases of assets and liabilities.

The components of Federal and net State and City deferred income tax assets and liabilities were as follows:

At June 30,	1998		1997	
	Federal	State and City	Federal	State and City
Deferred tax assets:				
Excess book bad debt over tax bad debt reserve	\$2,990	\$2,188	\$2,417	\$1,880
Net operating loss carryforward	—	—	305	—
Employee benefit plans	2,858	1,682	735	448
Tax effect of purchase accounting fair value adjustments	366	216	1,173	715
Other	—	—	147	119
Total deferred tax assets	6,214	4,086	4,777	3,162
Less: Valuation allowance on deferred tax assets	—	—	—	—
Deferred tax assets after valuation allowance	\$6,214	\$4,086	\$4,777	\$3,162
Deferred tax liabilities:				
Undistributed earnings of subsidiary	\$1,677	\$ 358	\$ —	\$ —
Difference in book and tax carrying value of fixed assets	412	245	265	164
Tax effect of unrealized gain on securities available for sale	1,436	871	1,057	623
Other	122	7	—	—
Total deferred tax liabilities	\$3,647	\$1,481	\$1,322	\$ 787
Net deferred tax asset (liability)	\$2,567	\$2,605	\$3,455	\$2,375

During the year ended June 30, 1998, deferred tax liabilities include an increase of \$627 resulting from adjustments pursuant to SFAS 115.

The provision for income taxes differed from that computed at the Federal statutory rate as follows:

Year Ended June 30,	1998	1997	1996
Tax at Federal statutory rate	\$ 8,737	\$6,967	\$4,717
State and local taxes, net of Federal income tax benefit	1,562	(396)	1,492
Goodwill amortization	843	843	—
Amortization of excess fair value over cost - ESOP stock	532	233	—
Reserve for losses on sale of loans	—	—	—
Utilization of capital loss on sale of securities	—	—	—
Other, net	193	(56)	(28)
	\$11,867	\$7,591	\$6,181
Effective tax rate	47.53%	38.13%	45.9%

Savings banks that meet certain definitions, tests, and other conditions prescribed by the Internal Revenue Code are allowed to deduct, with limitations, a bad debt deduction. Prior to August 1996, this deduction could be computed as a percentage of taxable income before such deduction ("PTI Method") or based upon actual loss experience for Federal, New York State and New York City income taxes.

Pursuant to SFAS 109, the Bank is not required to provide deferred taxes on its tax loan loss reserve as of December 31, 1987 ("base year reserve"). The amount of this reserve on which no deferred taxes have been provided is approximately \$12,153. This reserve could be recognized as taxable income and create a current tax liability using the income tax rates then in effect if one of the following occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends or distributions in liquidation; 2) the Bank fails to qualify as a Bank as provided by the Internal Revenue Code; or 3) there is a change in federal tax law.

On August 20, 1996, Federal legislation was signed into law which repealed the reserve method of accounting for bad debts, including the percentage of taxable income method used by the Bank. This repeal is effective for the Bank's taxable year beginning January 1, 1996. In addition, the legislation requires the Bank to include in taxable income its bad debt reserves in excess of its base year reserve over a 6 to 8 year period depending upon the maintenance of certain loan origination levels. Since the percentage of taxable income method tax bad debt deduction and the corresponding increase in the tax bad debt reserve in excess of the base year have been treated as temporary differences pursuant to SFAS 109, this change in tax law will have no effect on the Company's future consolidated statement of operations. Since the Bank's bad debt reserve exceeds its base year reserve by \$3,100, approximately \$176 will be currently payable as a result of the legislation.

In anticipation of the Federal legislation, on July 30, 1996, New York State (the "State") enacted legislation, effective January 1, 1996, which generally retains the percentage of taxable income method for computing allowable bad debt deductions and does not require the Bank to recapture into income State tax bad debt reserves unless one of the following events occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends in excess of the Bank's earnings and profits or distributions in liquidation or in redemption of stock; 2) the Bank fails to qualify as a thrift as provided by the State tax law; or 3) there is a change in State tax law. The Bank had a deferred tax liability of approximately \$1.9 million recorded for the excess of State tax bad debt reserves over its reserve at December 31, 1987 in accordance with SFAS 109. In December 1996, after evaluating the State tax legislation, as well as relevant accounting literature and industry practices, management of the Bank concluded that this liability was no longer required to be recorded, and recovered the full deferred tax liability. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

On March 11, 1997, New York City enacted legislation, effective January 1, 1996, which conformed its tax law regarding bad debt deductions to New York State's tax law. As a result of this legislation, the Bank, in March 1997, recovered a deferred tax liability of approximately \$1.0 million previously recorded for the excess of New York City tax bad debt reserves over its reserve at December 31, 1987. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

15. EMPLOYEE BENEFIT PLANS

Employee Retirement Plan — The Bank is a participant in a noncontributory defined benefit retirement plan with the RSI Retirement Trust. Substantially all full-time employees are eligible for participation after one year of service. In addition, a participant must be at least 21 years of age at the date of enrollment. During the year ended June 30, 1998, the Bank offered an early retirement program to all Plan participants who met certain eligibility criterion. As a result of the early retirement program, a non-recurring charge of \$1,611 was recorded.

The retirement cost for the pension plan includes the following components (including, for 1998, a non-recurring charge of \$1,611 related to an early retirement program):

For the Year Ended June 30,	1998	1997	1996
Service cost	\$ 332	\$ 400	\$ 206
Interest cost	781	727	488
Actual return on plan assets	(2,931)	(838)	(546)
Net amortization and deferral	1,843	(224)	(82)
Expense associated with early retirement program	1,611	—	—
Net periodic cost	\$ 1,636	\$ 65	\$ 66

The funded status of the plan was as follows:

At June 30,	1998	1997
Accumulated benefit obligation, including vested benefits of \$11,428 and \$8,976, respectively	\$11,490	\$ 9,031
Projected benefit obligation	\$12,675	\$10,015
Plan assets at fair value (investments in trust funds managed by RSI and commingled New York State Retirement Fund)	13,599	11,121
Excess of plan assets over projected benefit obligation	924	1,106
Additional employer contribution	—	126
Unrecognized loss from experience different from that assumed	560	380
Unrecognized transition asset	—	(72)
Unrecognized net past service liability	(207)	(239)
Accrued liability related to early retirement program	(1,611)	—
(Accrued) Prepaid retirement expense included in Other (liabilities) assets	\$ (334)	\$ 1,301

Major assumptions utilized were as follows:

At June 30,	1998	1997
Discount rate	6.75%	8.00%
Rate of increase in compensation levels	4.50	6.00
Expected long-term return on plan assets	9.00	9.00

Benefit Maintenance Plan and Directors' Retirement Plan — During the fiscal year ended June 30, 1994, the Bank established a Supplemental Executive Retirement Plan ("SERP") for its executive officers. The SERP was established to compensate the executive officers for any curtailments in benefits due to the statutory limitations on benefit plans. The SERP exists as a nonqualified plan which supplements the existing qualified plans. Defined benefit and defined contribution costs are incurred annually related to the SERP. During the year ended June 30, 1997, the SERP was renamed the Benefit Maintenance Plan ("BMP"), and sponsorship was transferred to the Company. As of June 30, 1998, the Benefit Maintenance Plan has an investment in the Company's common stock of \$431.

Effective July 1, 1996, the Company established a non-qualified Retirement Plan for all of its outside directors, which will provide benefits to each eligible outside director commencing upon his termination of Board service or at age 65. Each outside director who serves or has agreed to serve as an outside director will automatically become a participant in the Plan.

The retirement cost for the defined benefit portion of the BMP and Directors' Retirement plan include the following components:

For the Year Ended June 30,	1998	1997	1996
Service cost	\$104	\$203	\$ 56
Interest cost	248	211	88
Net amortization and deferral	170	178	49
	\$522	\$592	\$193

The defined contribution costs incurred by the Bank related to the BMP/SERP for the years ended June 30, 1998, 1997 and 1996 were \$522, \$305 and \$25, respectively. During the fiscal year ended June 30, 1997, benefits related to the Employee Stock Ownership Plan were added to the defined contribution cost of the BMP.

The funded status of the defined benefit portion of the plans was as follows:

At June 30,	1998	1997
Accumulated benefit obligation, including vested benefits of \$1,999 and \$1,530, respectively	\$ 2,278	\$ 1,808
Projected benefit obligation	\$ 3,562	\$ 3,276
Plan assets at fair value	—	—
Deficiency of plan assets over projected benefit obligation	(3,562)	(3,276)
Unrecognized loss from experience different from that assumed	1,443	834
Unrecognized net past service liability	535	1,350
Accrued expense prior to additional minimum liability included in other liabilities	(1,584)	(1,092)
Additional minimum liability	(860)	(931)
Accrued expense after minimum liability	\$(2,444)	\$(2,023)

Major assumptions utilized were as follows:

At June 30,	1998		1997	
	BMP	Directors' Retirement Plan	BMP	Directors' Retirement Plan
Discount rate	6.75%	6.50%	7.50%	7.25%
Rate of increase in compensation levels	4.50	4.00	5.50	4.00

401(k) Plan — The Bank also has a 401(k) plan which covers substantially all employees. Prior to May 31, 1996, under such plan the Bank matched 50% of each participant's contribution up to 6% of the participant's annual compensation for the first four years of participation and thereafter 100% of the participant's contribution up to a maximum of 6%. Effective May 31, 1996, the plan was amended whereby the Bank ceased all contributions to the plan. Participation in the 401(k) plan is voluntary. A salaried employee becomes eligible for the plan after completion of one year of service. The Bank contributed approximately \$181 to the plan for the year ended June 30, 1996. The 401(k) plan owns participant investments in the Company's common stock which totaled \$6,630, \$4,758 and \$2,092 at June 30, 1998, 1997 and 1996, respectively.

Postretirement Benefits other than Pensions — The Bank offers additional postretirement benefits to its retired employees who have provided at least five (5) consecutive years of credited service and were active employees prior to April 1, 1991, as follows:

- (1) Employees who retired prior to April 1, 1991 receive full medical coverage in effect until their death at no cost to such retirees;

- (2) Eligible employees retiring after April 1, 1991 will be eligible for continuation of their medical coverage in effect at the time of such employees' retirement until their death. Throughout an employee's retirement, the Bank will continue to pay the premiums for this coverage up to the premium amount paid for the first year of retirement coverage. Should the premiums increase, the employee will have to pay the differential to maintain full medical coverage.

Postretirement medical benefits are only available to those full-time employees who, upon termination of service, start collecting retirement benefits immediately from the Bank. The Bank reserves the right at any time, and to the extent permitted by law, to change, terminate or discontinue any of the group benefits, and can exercise the maximum discretion permitted by law, in administering, interpreting, modifying or taking any other action with respect to the plan or benefits.

The Bank accrues the cost of such benefits during the years an employee renders the necessary service. The Bank adopted SFAS 106 effective July 1, 1995. The Bank elected to record the full accumulated postretirement benefit obligation upon adoption. This resulted in a cumulative effect adjustment of \$1,032 (after reduction for income taxes of \$879), which is shown in the consolidated statement of income for the year ended June 30, 1996.

The postretirement cost includes the following components:

For the Year Ended June 30,	1998	1997
Service cost	\$ 37	\$ 75
Interest cost	178	192
Unrecognized past service liability	(29)	—
	\$186	\$267

The funded status of the postretirement benefit plan was as follows:

At June 30,	1998	1997
Accumulated benefit obligation:		
Retirees	\$1,503	\$1,229
Fully eligible active participants	514	163
Other active participants	697	963
Total	2,714	2,355
Plan assets at fair value	—	—
Deficiency of plan assets over accumulated benefit obligation	2,714	2,355
Unrecognized loss (gain) from experience different from that assumed	(7)	191
Accrued postretirement benefit obligation	\$2,721	\$2,546

The assumed medical cost trend rates used in computing the accumulated postretirement benefit obligation was 7.0% in 1998 and was assumed to decrease gradually to 5.0% in 2003 and to remain at that level thereafter. Increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by approximately \$137.

The assumed discount rate and rate of compensation increase used to measure the accumulated postretirement benefit obligation at June 30, 1998 were 6.75% and 4.5%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated postretirement benefit obligation at June 30, 1997 were 8.0% and 6.0%, respectively.

Employee Stock Ownership Plan — In connection with the conversion, the Board of Directors of the Company adopted the Dime Community Bancshares Employee Stock Ownership Plan (the "ESOP"). The ESOP borrowed \$11,638 from the Company and used the funds to purchase 1,163,800 shares of the Company's common stock. The loan will be repaid principally from the Bank's discretionary contributions to the ESOP over a period of time not to exceed 10 years. The Bank's obligation to make such contributions is reduced by any investment earnings realized on such contributions or any dividends paid by the Company on stock held in the unallocated account. The loan had an outstanding balance of \$9,175 and \$10,324, respectively, at June 30, 1998 and 1997, and a fixed rate of 8.0%.

Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants on the basis of compensation, as described in the plan, in the year of allocation. The ESOP vests at a rate of 25% per year of service beginning after two years with full vesting after five years, or upon attainment of age 65, death, disability, retirement or in the event of a "change of control" of the Company as defined in the ESOP. Shares of common stock allocated to participating employees totaled 116,380 and 121,702 during the years ended June 30, 1998 and 1997. The ESOP benefit expense recorded in accordance with SOP 93-6 for allocated shares totaled \$2,670 and \$1,883, respectively, for the years ended June 30, 1998 and 1997.

Stock Benefit Plans

Recognition and Retention Plan ("RRP") — In December 1996, the shareholders approved the RRP, which is designed to encourage key officers and directors of the Company and Bank to remain with the Company, as well as to provide these persons with a proprietary interest in the Company. During the year ended June 30, 1997, the Bank contributed \$10.8 million to the RRP, which purchased 581,900 shares of the Company's common stock in open market transactions. As of June 30, 1998, all of the shares under the RRP have been awarded to officers or directors of the Company or Bank. The RRP shares vest on February 1st of each year over a total period of five years. Shares become 100% vested in the event of death or disability of the participant, or in the event of a "change of control" of the Company as defined by the RRP. As of June 30, 1998 and 1997,

164,876 shares and 15,870 shares have vested under the RRP, respectively. The Company recognized compensation expense of \$2,708 and \$1,175 during the years ended June 30, 1998 and 1997, which related to the earned portion of vested shares.

The Company continues to account for compensation expense under the RRP under APB 25, measuring compensation cost based upon the average acquisition value of the RRP shares. Had the Company recorded compensation expense under the fair value methodology encouraged under SFAS 123, compensation expense would have decreased by \$601 and \$315, respectively, for the years ended June 30, 1998 and 1997, net income would have increased \$325 and \$173 for the years ended June 30, 1998 and 1997, respectively, and basic and diluted earnings per share would have increased by \$0.03 and \$0.02, respectively, for the year ended June 30, 1998, and \$0.01 and \$0.01, respectively, for the year ended June 30, 1997. The effects of applying SFAS 123 for disclosing compensation cost may not be representative of the effect on reported net income for future years.

Stock Option Plan — In November 1996, the Company adopted the Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (the "1996 Stock Option Plan"), which permits the Company to grant up to 1,454,750 incentive or non-qualified stock options to outside directors, officers and other employees of the Company or the Bank. The Compensation Committee of the Board of Directors administers the Stock Option Plan and authorizes all option grants.

On December 26, 1996, 1,393,425 stock options were granted to outside directors, officers and certain employees. All stock options granted under the 1996 Stock Option Plan expire on December 26, 2006. One-fifth of the shares granted to participants under the 1996 Stock Option Plan become exercisable by participants on December 26, 1997, 1998, 1999, 2000 and 2001, respectively. Activity related to the Stock Option Plan for the fiscal years ended June 30, 1998 and 1997 is as follows:

Fiscal Year Ended June 30,	1998	1997
Options outstanding — beginning of year	1,393,425	—
Options granted	—	1,393,425
Options exercised	3,600	—
Options forfeited	1,600	—
Options outstanding — end of year	1,388,225	1,393,425
Remaining options available for grant under the plan	62,925	61,325

The exercise price on all stock options granted under the Plan was \$14.50, which, under the terms of the Stock Option Plan, was equivalent to the fair market value of the Company's stock as of the close of business on the grant date. At June 30, 1998 and 1997, respectively, 305,225 and 39,675 options are exercisable.

The weighted average fair value per option at the date of grant for stock options granted was estimated to be \$5.72 using the Binomial Option Pricing model with the following assumptions:

Fiscal Year Ended June 30, 1998

Expected life (in years)	10
Interest rate	5.79%
Volatility	22.89
Dividend yield	1.40

The Company continues to account for Stock Options under APB 25, accordingly no compensation cost has been recognized. Had the Company recorded compensation expense under the fair value methodology encouraged under SFAS 123, compensation expense would have increased by \$1,063 and \$532, respectively, for the years ended June 30, 1998 and 1997, net income would have decreased by \$574 and \$287, respectively, for the years ended June 30, 1998 and 1997, both basic and diluted earnings per share would have decreased by \$0.05 for the year ended June 30, 1998, and both basic and diluted earnings would have decreased by \$0.02 during the year ended June 30, 1997. The effects of applying SFAS 123 for disclosing compensation cost may not be representative of the effect on reported net income for future years.

16. COMMITMENTS AND CONTINGENCIES

Mortgage Loan Commitments and Lines of Credit — At June 30, 1998 and 1997, the Bank had outstanding commitments to make mortgage loans aggregating approximately \$158,042 and \$115,076, respectively.

At June 30, 1998, commitments to originate fixed rate and adjustable rate mortgage loans were \$62,904 and \$95,138, respectively. Interest rates on fixed rate commitments ranged between 6.38% to 10.25%. Substantially all of the Bank's commitments will expire within two months. A concentration risk exists with these commitments as virtually all of the outstanding mortgage loan commitments involve properties located within New York City.

The Bank had available at June 30, 1998 unused lines of credit with the Federal Home Loan Bank of New York totaling \$100,000, expiring on September 11, 1998.

Lease Commitments — At June 30, 1998, aggregate net minimum annual rental commitments on leases are as follows:

Year Ended June 30,	Amount
1999	\$ 428
2000	449
2001	451
2002	399
2003	415
Thereafter	1,511

Net rental expense for the years ended June 30, 1998, 1997 and 1996 approximated \$183, \$197 and \$278, respectively.

Litigation — The Company and its subsidiary are subject to certain pending and threatened legal actions which arise out of the normal course of business. Management

believes that the resolution of any pending or threatened litigation will not have a material adverse effect on the financial condition or results of operations.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Standards No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. However, considerable judgment is 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 Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Due from Banks — The fair value is assumed to be equal to their carrying value as these amounts are due upon demand.

Investment Securities and Mortgage-Backed Securities — The fair value of these securities is based on quoted market prices obtained from an independent pricing service.

Federal Funds Sold — The fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due to their short maturity.

Federal Home Loan Bank of New York (FHLB NY) Stock — The fair value of FHLB NY stock is assumed to be equal to the carrying value as the stock is carried at par value and redeemable at par value by the FHLB NY.

Loans and Loans Held for Sale — The fair value of loans receivable is determined by utilizing either secondary market prices, or, to a greater extent, by discounting the future cash flows, net of prepayments of the loans using a rate for which similar loans would be originated to new borrowers with similar terms. This methodology is applied to all loans, inclusive of impaired and non-accrual loans.

Deposits — The fair value of savings, money market, NOW, Super NOW and checking accounts is assumed to be their carrying amount. The fair value of certificates of deposit is based upon the discounted value of contractual cash flows using current rates for instruments of the same remaining maturity.

Escrow, Other Deposits and Borrowed Funds — The estimated fair value of escrow, other deposits and borrowed funds is assumed to be the amount payable at the reporting date.

Other Liabilities — The estimated fair value of other liabilities, which primarily include trade accounts payable, is assumed to be their carrying amount.

Commitments to Extend Credit — The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The estimated fair values of the Bank's financial instruments at June 30, 1998 and 1997 were as follows:

June 30, 1998	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$ 16,266	\$ 16,266
Investment securities held-to-maturity	78,091	78,593
Investment securities available for sale	85,706	85,706
Mortgage-backed securities held-to-maturity	46,714	47,443
Mortgage-backed securities available for sale	363,875	363,875
Loans and loans held for sale	938,046	942,341
Federal funds sold	9,329	9,329
FHLB stock	\$ 10,754	\$ 10,754
Liabilities:		
Savings, money market, NOW, Super NOW and checking accounts	\$426,014	\$426,014
Certificates of deposit	612,328	610,296
Escrow, other deposits and borrowed funds	375,501	375,501
Other liabilities	23,734	23,734
Off-balance sheet liability—commitments to extend credit	\$ —	\$ (1,431)

June 30, 1997	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$ 19,198	\$ 19,198
Investment securities held-to-maturity	101,587	102,024
Investment securities available for sale	58,687	58,687
Mortgage-backed securities held-to-maturity	78,388	79,075
Mortgage-backed securities available for sale	230,137	230,137
Loans and loans held for sale	739,858	738,958
Federal funds sold	18,902	18,902
FHLB stock	\$ 8,322	\$ 8,322
Liabilities:		
Savings, money market, NOW, Super NOW and checking accounts	\$421,622	\$421,622
Certificates of deposit	541,773	540,319
Escrow, other deposits and borrowed funds	154,517	154,517
Other liabilities	6,225	6,225
Off-balance sheet liability—commitments to extend credit	\$ —	\$ (1,179)

18. TREASURY STOCK

The Company repurchased 919,837 shares and 1,454,750 shares of its common stock into treasury during the fiscal years ended June 30, 1998 and 1997, respectively. The average cost of all shares repurchased was \$22.58 and \$19.04, respectively, during the years ended June 30, 1998 and 1997. All shares were repurchased in accordance with applicable regulations of the Office of Thrift Supervision and Securities and Exchange Commission.

19. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures that have been established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). The Bank's primary regulatory agency, the OTS, requires that the Bank maintain minimum ratios of tangible capital (as defined in the regulations) of 1.5%, core capital (as defined) of 3%, and total risk-based capital (as defined) of 8%. The Bank is also subject to prompt corrective action requirement regulations set forth by the FDIC. These regulations require the Bank to maintain minimum of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 1998, the most recent notification from the OTS categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 1998						
Tangible capital:	\$131,186	8.32%	\$23,655	1.5%	N/A	N/A
Core capital:	131,186	8.32	47,309	3.0	N/A	N/A
Total risk-based capital (to risk-weighted assets)	141,885	16.58	68,472	8.0	\$85,590	10.00%
Tier I risk-based capital (to risk-weighted assets)	131,186	15.33	N/A	N/A	51,354	6.00
Tier I leverage capital (to average assets)	131,186	9.06	N/A	N/A	72,380	5.00

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 1997						
Tangible capital:	\$124,118	9.86%	\$18,873	1.5%	N/A	N/A
Core capital:	124,182	9.87	37,748	3.0	N/A	N/A
Total risk-based capital (to risk-weighted assets)	132,465	19.99	53,009	8.0	\$66,261	10.00%
Tier I risk-based capital (to risk-weighted assets)	124,182	18.74	N/A	N/A	39,756	6.00
Tier I leverage capital (to average assets)	124,182	10.35	N/A	N/A	59,980	5.00

The following is a reconciliation of generally accepted accounting principles (GAAP) capital to regulatory capital for the Bank:

At June 30,	1998			1997		
	Tangible Capital	Core Capital	Risk-Based Capital	Tangible Capital	Core Capital	Risk-Based Capital
GAAP capital	\$156,718	\$156,718	\$156,718	\$152,198	\$152,198	\$152,198
Non-allowable assets:						
Core deposit intangible	—	—	—	(64)	—	—
Unrealized gain on available for sale securities	(1,504)	(1,504)	(1,504)	(1,583)	(1,583)	(1,583)
Goodwill	(24,028)	(24,028)	(24,028)	(26,433)	(26,433)	(26,433)
General valuation allowance	—	—	10,699	—	—	8,283
Regulatory capital	131,186	131,186	141,885	124,118	124,182	132,465
Minimum capital requirement	23,655	47,309	68,472	18,873	37,748	53,009
Regulatory capital excess	\$107,531	\$ 83,877	\$ 73,413	\$105,245	\$ 86,434	\$ 79,456

20. QUARTERLY FINANCIAL INFORMATION

The following represents the unaudited results of operations for each of the quarters during the fiscal years ended June 30, 1998 and 1997.

For the Three Months Ended	Sept. 30, 1997	Dec. 31, 1997	March 31, 1998	June 30, 1998
Net interest income	\$12,026	\$12,279	\$12,459	\$12,765
Provision for loan losses	525	525	525	60
Net interest income after provision for loan losses	11,501	11,754	11,934	12,705
Non-interest income	981	1,032	1,261	3,733
Non-interest expense	6,746	6,860	7,063	9,268
Income before income taxes	5,736	5,926	6,132	7,170
Income tax expense	2,898	3,039	2,794	3,135
Net income	\$ 2,838	\$ 2,887	\$ 3,338	\$ 4,035
Earnings per share (1):				
Basic	\$0.25	\$0.26	\$0.31	\$0.37
Diluted	\$0.23	\$0.24	\$0.28	\$0.34

For the Three Months Ended	Sept. 30, 1996	Dec. 31, 1996	March 31, 1997	June 30, 1997
Net interest income	\$11,165	\$11,969	\$12,116	\$12,216
Provision for loan losses	1,050	1,050	1,050	1,050
Net interest income after provision for loan losses	10,115	10,919	11,066	11,166
Non-interest income	757	1,052	781	1,543
Non-interest expense	8,132	5,604	6,741	7,015
Income before income taxes	2,740	6,367	5,106	5,694
Income tax expense	1,516	1,428	1,608	3,039
Net income	\$ 1,224	\$ 4,939	\$ 3,498	\$ 2,655

Earnings per share (1):				
Basic	\$0.09	\$0.37	\$0.26	\$0.22
Diluted	\$0.09	\$0.37	\$0.26	\$0.22

Supplemental disclosure:

SAIF special assessment charge	\$ 2,032	\$ —	\$ —	\$ —
Income tax recovery	—	1,848	1,034	—
Diluted EPS excluding SAIF special assessment and income tax recoveries	\$0.17	\$0.23	\$0.19	\$0.22

(1) The quarterly earnings per share amounts, when added, may not agree to earnings per share reported on the Consolidated Statement of Operations due to differences in the computed weighted average shares outstanding as well as rounding differences.

21. CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

The Company began operations on June 26, 1996. The following statements of condition as of June 30, 1998 and 1997, and the related statements of operations and cash flows for the years ended June 30, 1998, 1997 and 1996 reflect the Company's investment in its wholly owned subsidiary, the Bank, using the equity method of accounting:

DIME COMMUNITY BANCSHARES, INC.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except share amounts)

At June 30,	1998	1997
ASSETS:		
Cash and due from banks	\$ 55	\$ 17
Investment securities available for sale	18,677	22,363
Federal funds sold	1,291	6,040
ESOP loan to subsidiary	9,175	10,324
Investment in subsidiary	156,718	152,198
Receivable for securities sold	1,264	—
Other assets	184	344
Total assets	\$187,364	\$191,286

LIABILITIES AND STOCKHOLDERS' EQUITY:

Other liabilities	\$ 1,015	\$ 397
Stockholders' equity	186,349	190,889
Total liabilities and stockholders' equity	\$187,364	\$191,286

DIME COMMUNITY BANCSHARES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share amounts)

For the Year Ended June 30,	1998	1997	1996
Interest income	\$ 2,041	\$ 3,585	\$ 27
Dividends received from Bank	13,000	—	—
Gain on sales of securities	521	11	—
Non-interest expense	481	446	—
Income before income taxes and equity of undistributed (overdistributed) earnings of the Bank	15,081	3,150	27
Income tax expense	935	1,487	—
Income before equity of undistributed (overdistributed) earnings of the Bank	14,146	1,663	27
Equity in (over distributed) undistributed earnings of the Bank (1)	(1,048)	10,653	6,238
Net income	\$13,098	\$12,316	\$6,265

(1) The equity in overdistributed earnings of the Bank for the year ended June 30, 1998, represents dividends paid to the Company in excess of the Bank's current year's earnings.

DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands, except share amounts)

For the Year Ended June 30,	1998	1997	1996
Cash flows from			
Operating Activities:			
Net income	\$ 13,098	\$ 12,316	\$ 6,265
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in overdistributed (undistributed) earnings of Bank	1,048	(10,653)	(6,238)
Gain on sale of investment securities available for sale	(520)	(11)	—
Net accretion of discount on investment securities available for sale	(291)	(1,130)	—
Decrease (Increase) in other assets	160	(321)	(23)
Increase in receivable for securities purchased	(1,264)	—	—
(Decrease) Increase in payable for securities purchased	—	(33,994)	33,994
(Decrease) Increase in other liabilities	(71)	(225)	241
Net cash (used in) provided by operating activities	12,160	(34,018)	34,239
Cash flows from			
Investing Activities:			
Decrease (Increase) in federal funds sold	4,749	47,583	(53,623)
Proceeds from sale of investment securities available for sale	13,439	10,011	—
Proceeds from calls and maturities of investment securities available for sale	13,500	120,595	—
Purchases of investment securities available for sale	(20,940)	(117,006)	(33,994)
Principal repayments on ESOP loan	911	1,165	97
Cash disbursed in purchase of subsidiary stock	—	—	(76,332)
Net cash provided by (used in) investing activities	11,659	62,348	(163,852)
Cash flows from			
Financing Activities:			
Net proceeds from issuance of common stock	—	—	129,730
Cash disbursed for expenses related to issuance of common stock	—	(190)	—
Common stock issued for exercise of Stock Options	52	—	—
Cash dividends paid to stockholders	(2,635)	(537)	—
Purchase of treasury stock	(20,767)	(27,703)	—
Purchase of common stock by Benefit Maintenance Plan	(431)	—	—
Net cash (used in) provided by financing activities	(23,781)	(28,430)	129,730
Net (decrease) increase in cash and due from banks	38	(100)	117
Cash and due from banks, beginning of period	17	117	—
Cash and due from banks, end of period	\$ 55	\$ 17	\$ 117

22. PENDING ACQUISITION OF FINANCIAL BANCORP, INC. (UNAUDITED)

On July 18, 1998, the Company entered into the Merger Agreement with Financial Bancorp, pursuant to which Financial Bancorp will be merged into the Company. The Merger Agreement provides that each outstanding share of common stock, par value \$0.01 per share, of Financial Bancorp ("Financial Bancorp Common Stock") will be converted into the right to receive, at the election of the holder thereof, either shares of common stock, par value \$0.01 per share, of the Company ("Company Common Stock") or cash (the "Merger Consideration"); *provided, however*, that 50% of the total consideration to be paid to Financial Bancorp's shareholders shall consist of Company Common Stock and 50% shall consist of cash. The Merger Consideration will be calculated to produce a value of \$40.50 per share of Financial Bancorp Common Stock if the Company's average closing price for the ten day period ending ten days prior to the anticipated closing of the Merger (the "Average Closing Price") is between \$22.95 and \$31.05. If the Company's Average Closing Price is greater than \$31.05 or less than \$22.95, then the amount of the Merger Consideration will be increased or decreased as set forth in the Merger Agreement. If the Company Common Stock has a market value during the pricing period of less than or equal to \$20.25, Financial Bancorp has the right to terminate the Merger Agreement unless the Company agrees to increase the per share consideration to Financial Bancorp's shareholders to at least \$38.12.

The Financial Acquisition is subject to (i) approval by the shareholders of Financial Bancorp, (ii) approval of the OTS and (iii) satisfaction or waiver of certain other conditions. Financial Bancorp is a unitary savings bank holding company for its wholly owned subsidiary, Financial Federal, a federal savings bank. Financial Bancorp's assets, deposits, and stockholders' equity totaled \$340,999, \$229,027 and \$28,730, respectively, at June 30, 1998.

**Directors and Executive Officers
of the Company and Bank**

Directors

Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

Michael P. Devine
President and Chief Operating Officer

Kenneth J. Mahon *
Executive Vice President and Chief Financial Officer

Anthony Bergamo
Attorney acting as Independent Fiduciary

George L. Clark, Jr.
President of George L. Clark Inc. Realtors

Steven D. Cohn
Managing partner at Goldberg and Cohn, Esq.

Patrick E. Curtin
Senior partner at Conway Farrell Curtin & Kelly, P.C.

Joseph H. Farrell
Chairman of Conway Farrell Curtin & Kelly, P.C.

Fred P. Fehrenbach
*President of Consolidated Brokerage Corp. and
BF International Corp.*

John J. Flynn
Self-employed real estate mortgage broker

Malcolm T. Kitson
Retired. Formerly a Vice President at Citibank, N.A.

Stanley Meisels
*Stockbroker with Gruntal & Co. and President of
Small Business Electronics Investment Corp.*

Louis V. Varone
Principal at Century 21 Lewis and Clark Realty

* Director of the Bank only.

Executive Officers

Timothy B. King
First Vice President and Treasurer

Michael Pucella
First Vice President and Comptroller

Executive Officers of the Bank

Michael J. Henchy
First Vice President

Stephen Varriale
Vice President

Corporate Information

Transfer Agent and Registrar

Inquiries regarding stockholder administration and services should be directed to:

ChaseMellon Shareholder Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660

Independent Auditors

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281

General Counsel

Conway Farrell Curtin & Kelly, P.C.
63 Wall Street
New York, NY 10005-3001

Special Counsel

Thacher Proffitt & Wood
Two World Trade Center
New York, NY 10048

Investor Relations

Inquiries regarding Dime Community Bancshares, Inc. should be directed to:

Kenneth A. Ceonzo
Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, NY 11211

Annual Meeting of Shareholders

The Company's Annual Meeting of Shareholders will be held at 10 a.m. on November 12, 1998, at Giando on the Water, 400 Kent Avenue, Brooklyn, New York. Holders of common stock as of September 21, 1998 will be eligible to vote.

Annual Report on Form 10-K

A copy of the Annual Report on Form 10-K for the year ended June 30, 1998 (without exhibits), which was filed with the Securities and Exchange Commission, is available without charge upon request to:

Investor Relations

209 Havemeyer Street
Brooklyn, New York 11211



DIME COMMUNITY
BANCSHARES, INC.

209 Havemeyer Street
Brooklyn, New York 11211