DIME COMMUNITY BANCSHARES INC
Form 10-KT
March 28, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[ ]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

[X]

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from July 1, 2002 to December 31, 2002

Commission file number **0-27782**

Dime Community Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Delaware	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
209 Havemeyer Street, Brooklyn, NY	11211
*(*Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (718) 782-6200

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

(Title of Class)

Preferred Stock Purchase Rights

(Title of Class)

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file reports) and (2) has been subject to such requirements for the past 90 days.

YES

X

NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES

X

NO

—

As of December 31, 2002, there were 25,646,702 shares of the Company's common stock, $0.01 par value, outstanding. The aggregate market value of the voting stock held by non-affiliates of the Company as of December 31, 2002 was approximately $401,247,900. This figure is based upon the closing price on the NASDAQ National Market for a share of the Company's common stock on December 31, 2002, which was $19.15 as reported in the Wall Street Journal on January 1, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

(1) The definitive Proxy Statement dated April 10, 2003 to be distributed on behalf of the Board of Directors of Registrant in connection with the Annual Meeting of Shareholders to be held on May 15, 2003 and any adjournment thereof and which is expected to be filed with the Securities and Exchange Commission on or about April 11, 2003, is incorporated by reference in Part III.

- # -

TABLE OF CONTENTS

Page

PART I

Item 1. Business

General

3

Acquisitions

4

Market Area, Competition and Factors That May Affect Future Results

4

Lending Activities

5

Asset Quality

11

Allowance for Loan Losses

13

Investment Activities

16

Sources of Funds

20

Subsidiary Activities

23

Personnel

24

Federal, State and Local Taxation

Federal Taxation

24

State and Local Taxation

24

Regulation

General

25

Regulation of Federal Savings Associations

25

Regulation of Holding Company

32

Federal Securities Laws

33

Item 2. Properties

33

Item 3. Legal Proceedings

33

Item 4. Submission of Matters to a Vote of Security Holders

33

PART II

Item 5. Market for the Company's Common Stock and Related Stockholder

Matters

34

Item 6. Selected Financial Data

36

Item 7. Management Discussion and Analysis of Financial Condition and

Results of Operations

38

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

56

Item 8. Financial Statements and Supplementary Data

61

Item 9. Changes in and Disagreements with Accountants on Accounting and

Financial Disclosure

61

PART III

Item 10. Directors and Executive Officers of the Company

61

Item 11. Executive Compensation

61

Item 12. Security Ownership of Certain Beneficial Owners and

Management

61

Item 13. Certain Relationships and Related Transactions

61

Item 14. Controls and Procedure

61

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on

Form 8-K

61

Signatures

63

Certification of Chief Executive Officer

64

Certification of Chief Financial Officer

65

This Transition Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may be identified by use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "outlook," "plan," "potential," "predict," "project," "should," "will," "would" and similar terms and phrases, including references to assumptions.

Forward-looking statements are based upon various assumptions and analyses made by the Company (as defined subsequently herein) in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

•

the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;

•

there may be increases in competitive pressure among financial institutions or from non-financial institutions;

•

changes in the interest rate environment may reduce interest margins;

•

changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");

•

changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;

•

general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry may be less favorable than the Company currently anticipates;

•

legislation or regulatory changes may adversely affect the Company's business;

•

technological changes may be more difficult or expensive than the Company anticipates;

•

success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates; or

•

litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates.

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

PART I

Item 1.

Business

General

Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank.

The Holding Company is a unitary savings and loan holding company, which, under existing law, is generally not restricted as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender ("QTL"). The Holding Company's primary business is the operation of its wholly-owned

subsidiary, the Bank. Under regulations of the Office of Thrift Supervision ("OTS"), the Bank is a QTL if its ratio of qualified thrift investments to portfolio assets ("QTL Ratio") was 65% or more, on a monthly average basis, in nine of the previous twelve months. At December 31, 2002, the Bank's QTL Ratio was 82.51%, and the Bank maintained more than 65% of its portfolio assets in qualified thrift investments throughout the six-month period July 1, 2002 through December 31, 2002.

On July 18, 2002, the Boards of Directors of the Holding Company and each of its direct and indirect subsidiaries other than DSBW Preferred Funding Corporation and DSBW Residential Preferred Funding Corporation approved a change in fiscal year ends from June 30th to December 31st.

The Holding Company neither owns nor leases any property but instead uses the premises and equipment of the Bank. At the present time, the Holding Company does not employ any persons other than certain officers of the Bank who do not receive any extra compensation as officers of the Holding Company. The Holding Company utilizes the support staff of the Bank from time to time, as required. Additional employees may be hired as deemed appropriate by the Holding Company's management.

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 residential mortgage loans, commercial real estate loans, one- to four-family residential mortgage loans, construction loans, consumer loans, mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities. 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; MBS amortization, prepayments and maturities; investment securities maturities; advances ("Advances") from Federal Home Loan Bank of New York ("FHLBNY"); securities sold under agreement to repurchase ("REPOS") borrowings; and, the sale of real estate loans to the secondary market.

The Company's website address is www.dsbwdirect.com. The Company makes available free of charge through its website, by clicking the Investor Relations tab and selecting "SEC Filings," its Annual or Transition Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Acquisitions

On January 21, 1999, the Holding Company completed the acquisition of Financial Bancorp, Inc., the holding company of Financial Federal Savings Bank, F.S.B (the "FIBC Acquisition"). The consolidated operating results for the twelve months ended June 30, 1999 reflected the addition of earnings from the FIBC Acquisition for the period January 21, 1999 through June 30, 1999. The FIBC Acquisition was accounted for as a purchase transaction, generating $44.2 million of goodwill.

There are currently no other arrangements, understandings or agreements regarding any such additional acquisitions or expansion.

Market Area, Competition and Factors That May Affect Future Results

The Bank has been, and intends to remain, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York, and operates twenty full-service retail banking offices located in the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is the New York City metropolitan area, although its overall lending area is much larger, and extends approximately 150 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's mortgage loans are secured by properties located in its primary lending area, and approximately 75% of these loans are secured by real estate properties located in the New York City boroughs of Brooklyn, Queens and Manhattan.

The New York City banking environment is extremely competitive. The Bank's competition for loans exists principally from savings banks, commercial banks, mortgage banks and insurance companies. The Bank has faced sustained competition for the origination of multi-family residential and commercial real estate loans, which together comprised 92.0% of the Bank's loan portfolio at December 31, 2002. Management anticipates that the current level of competition for multi-family residential and commercial real estate loans will continue for the foreseeable future, and this competition may inhibit the Bank's ability to maintain its current level of such loans.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. In addition, it must also compete for deposit monies against the stock markets and mutual funds, especially during periods of strong performance in the U.S. equity markets. However, the Bank's principal competition for deposit funds comes from local savings and commercial banks and commercial banks with branches located in its delineated trade area, as well as Internet banks. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has dramatically altered the deposit gathering landscape. Facing increasingly efficient and larger competitors, the Bank s strategy to attract depositors and originate loans has increasingly utilized targeted marketing and delivery of technology-enhanced, customer-friendly banking services while controlling operating expenses.

All of this competition occurs within an economic and financial framework that is largely beyond the control of financial institutions. The interest rates paid to depositors and charged to borrowers, while affected by marketplace competition, are generally a function of broader-based macroeconomic and financial factors, including the level of U.S. Gross Domestic Product, the supply of, and demand for, loanable funds, and the impact of global trade and international financial markets. Within this environment, the Federal Open Market Committee's ("FOMC's") monetary policy and governance of short-term rates also significantly influence the interest rates paid and charged by financial institutions.

The Bank's success is additionally impacted by the overall condition of the economy, especially the local economy. As home to many national companies in the financial and business services, and as a popular destination for domestic travelers, the New York City economy is particularly sensitive to the economic health of the U.S. Success in banking is more easily achieved when local income levels increase due to economic strength. The Bank has shown that even in periods of economic weakness and intense competition, such as those that currently exist, it can succeed by effectively implementing its business strategies. However, if the local market for multi-family residential and commercial real estate declines, the Bank may experience greater delinquencies or be unable to originate the volume of loans that it otherwise anticipates.

Lending Activities

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of mortgage loans secured by multi-family residential apartment buildings, including buildings organized under cooperative form of ownership ("Underlying Cooperatives"), mortgage loans secured by commercial properties and conventional first mortgage loans secured primarily by one- to four-family residences, including condominiums and cooperative apartments. At December 31, 2002, the Bank's loan portfolio totaled $2.2 billion. Within the loan portfolio, $1.73 billion, or 79.7%, were multi-family residential loans, $265.5 million, or 12.2%, were loans to finance commercial real estate, $162.2 million, or 7.5%, were loans to finance one- to four-family properties, including condominium or cooperative apartments, $5.2 million, or 0.2%, were loans to finance multi-family residential and one- to four-family residential properties with full or partial credit guarantees provided by either the Federal Housing Administration ("FHA") or the Veterans Administration ("VA"), and $1.9 million, or 0.1%, were loans to finance real estate construction. Of the total mortgage loan portfolio outstanding at that date, $1.59 billion, or 73.6% were adjustable-rate loans ("ARMs") and $570.9 million, or 26.4%, were fixed-rate loans. Of the Bank s multi-family residential and commercial real estate loans, $1.53 billion, or 76.7%, were ARMs at December 31, 2002, the majority of which reprice no longer than 7 years from their origination date and carry a total amortization period of no longer than 30 years. At December 31, 2002, the Bank's loan portfolio additionally included $4.8 million in consumer loans, composed of passbook loans, student loans, consumer installment loans, overdraft loans and mortgagor advances.

The types of loans the Bank may originate are subject to federal laws and regulations (See "Regulation Regulation of Federal Savings Banks").

The following table sets forth the composition of the Bank's real estate and other loan portfolios (including loans held for sale) in dollar amounts and percentages at the dates indicated:

	At December 31,		At June 30,									
	2002	**Percent of Total**	**2002**	**Percent of Total**	**2001**	**Percent of Total**	**2000**	**Percent of Total**	**1999(1)**	**Percent of Total**	**1998**	**Percent of Total**
					(Dollars in Thousands)							
Real Estate loans:												
Multi-family residential	$1,730,102	79.74%	$1,694,422	79.92%	$1,541,531	78.60%	$1,349,854	78.33%	$1,000,859	72.20%	$717,638	75.26%
Commercial real estate	265,485	12.23	243,694	11.49	196,503	10.02	118,576	6.88	88,837	6.41	50,062	5.25
One- to four-family	145,808	6.72	155,013	7.31	189,651	9.67	215,648	12.51	249,741	18.02	127,457	13.36
Cooperative apartment	16,451	0.76	17,766	0.84	22,936	1.17	27,465	1.59	32,893	2.37	42,553	4.46
FHA/VA insured	5,215	0.24	5,565	0.26	6,450	0.33	7,536	0.44	9,699	0.70	11,934	1.25
Construction	1,931	0.09	-	-	-	-	-	-	-	-	-	-
Total mortgage loans	2,164,992	99.78	2,116,460	99.82	1,957,071	99.79	1,719,079	99.75	1,382,029	99.70	949,644	99.58
Other loans:												
Student loans	420	0.02	502	0.03	827	0.04	990	0.06	794	0.06	677	0.07
Depositor loans	1,552	0.07	1,520	0.07	1,589	0.08	1,900	0.11	2,271	0.16	2,367	0.25
Consumer installment and other	2,781	0.13	1,715	0.08	1,729	0.09	1,348	0.08	1,100	0.08	919	0.10
Total other loans	4,753	0.22	3,737	0.18	4,145	0.21	4,238	0.25	4,165	0.30	3,963	0.42
Gross loans	2,169,745	100.00%	2,120,197	100.00%	1,961,216	100.00%	1,723,317	100.00%	1,386,194	100.00%	953,607	100.00%
Net unearned costs (fees)	332		57		(855)		(2,017)		(2,853)		(3,486)	
Allowance for loan losses	(15,458)		(15,370)		(15,459)		(14,785)		(15,081)		(12,075)	
Loans, net	$2,154,619		$2,104,884		$1,944,902		$1,706,515		$1,368,260		$938,046	
Loans serviced for others:												
One-to-four-family and cooperative apartment	$34,683		$35,752		$42,175		$47,909		$53,564		$55,802	
Multi-family residential	73,384		-		63		281		293		2,817	
Total loans serviced for others	$108,067		$35,752		$42,238		$48,190		$53,857		$58,619	

(1)

Includes acquisition of $192.3 million in loans as a result of the FIBC Acquisition on January 21, 1999, which were composed primarily of one- to four-family loans.

Loan Originations, Purchases, Sales and Servicing. The Bank originates both ARMs and fixed-rate loans, which activity is dependent upon customer demand and market rates of interest, and generally does not purchase whole mortgage loans or loan participations. For the six months ended December 31, 2002, total loan originations were $426.5 million. Originations of ARMs totaled $366.1 million, or 85.8%, of all loan originations, and originations of fixed-rate loans totaled $60.4 million, or 14.2% of all loan originations. The majority of both ARM and fixed-rate originations were composed of multi-family residential and commercial real estate loans. Multi-family residential real estate loans are either retained in the Bank's portfolio or sold in the secondary market to the Federal National Mortgage Association ("FNMA"). One- to four-family adjustable rate and fixed-rate mortgage loans with maturities up to 15 years are retained for the Bank s portfolio. Generally, the Bank sells its newly originated one- to four-family fixed-rate mortgage loans with maturities greater than fifteen years in the secondary market to FNMA or the State of New York Mortgage Agency ("SONYMA").

During the six months ended December 31, 2002, sales of fixed-rate one- to four-family mortgage and student loans totaled $5.4 million. During December 2002, the Bank entered into a multi-family seller/servicing agreement with FNMA. The agreement envisions that the Bank will sell $200 million of multi-family residential loans to FNMA over the 18-month period ending in May 2004. The majority of these loans sold will possess a minimum term to maturity or repricing of seven years. In December 2002, the Bank sold approximately $73.4 million of recently-originated multi-family residential loans to FNMA with an average term to repricing of over seven years. Currently, the Bank has no arrangement in which it sells commercial real estate loans to the secondary market.

The Bank generally retains the servicing rights in connection with loans its sells in the secondary market. As of December 31, 2002, the Bank was servicing $108.1 million of loans for non-related institutions. On all loans other than multi-family residential loans sold to FNMA, the Bank generally receives a loan servicing fee equal to 0.25% of the outstanding principal balance for servicing the loan. For the multi-family residential loans sold to FNMA, the loan servicing fees vary in each sale agreement, as they are derived based upon the difference between the actual origination rate and contractual pass-through rate of the loans sold. At December 31, 2002, the Bank had recorded mortgage servicing rights of $1.6 million.

The following table sets forth the Bank's loan originations (including loans held for sale), loan sales and principal repayments for the periods indicated:

	For the Six Months Ended December 31,		For the Years Ended June 30,		
	2002	2001	2002	2001	2000
(Dollars in Thousands)					
Gross loans:					
At beginning of period	$2,120,197	$1,961,216	$1,961,216	$1,723,317	$1,386,194
Real estate loans originated:					
Multi-family residential	358,137	242,433	504,770	355,804	453,682
Commercial real estate	39,542	15,280	27,900	37,591	28,824
One- to four-family (1)	19,969	3,608	16,343	2,346	3,165
Cooperative apartment	956	861	1,208	1,245	744
Equity lines of credit	4,961	690	1,676	-	-
Construction, net	805	-	620	1,339	24
Total mortgage loans originated	424,370	262,872	552,517	398,325	486,439
Other loans originated	2,159	2,593	3,410	8,585	8,937
Total loans originated	426,529	265,465	555,927	406,910	495,376
Less:					
Principal repayments	298,181	168,808	392,507	166,948	156,306
Loans sold (2)	78,800	1,914	4,305	1,835	1,518
Mortgage loans transferred to Other Real Estate Owned	-	134	134	228	429
Gross loans at end of period	$2,169,745	$2,055,825	$2,120,197	$1,961,216	$1,723,317

(1)

Includes Home Equity and Home Improvement Loans.

(2)

Includes multi-family residential sold to FNMA, fixed-rate one- to four-family mortgage loans and student loans.

Loan Maturity and Repricing. The following table shows the earlier of the maturity or the repricing period of the Bank's loan portfolio at December 31, 2002. ARMs are shown as being due in the period during which the interest rates are next scheduled to adjust. The table does not include prepayments or scheduled principal amortization. Prepayments and scheduled principal amortization on the Bank's loan portfolio totaled $298.2 million during the six months ended December 31, 2002.

- # -

	At December 31, 2002							
	Real Estate Loans							
	Multi-family Residential	**Commercial Real Estate**	**One- to Four- Family**	**Cooperative Apartment**	**FHA/VA Insured**	**Construction**	**Other Loans**	**Total Loans**
(Dollars In Thousands)								
Amount due:								
One year or less	$68,117	$17,576	$24,119	$11,890	$1	$1,931	$4,473	$128,107
After one year:								
More than one year to three years	250,316	51,251	8,613	1,881	497	-	280	312,838
More than three years to seven years	1,170,397	160,127	32,048	67	-	-	-	1,362,639
More than seven years to ten years	166,051	19,796	12,093	335	389	-	-	198,664
More than ten years to twenty years	75,221	16,735	39,839	2,228	4,326	-	-	138,349
Over twenty years	-	-	29,098	50	-	-	-	29,148
Total due or repricing After one year	1,661,985	247,909	121,689	4,561	5,214	-	280	2,041,638
Total amounts								

due or repricing, gross	$1,730,102	$265,485	$145,808	$16,451	$5,215	$1,931	$4,753	$2,169,745

The following table sets forth the outstanding principal balances in each loan category at December 31, 2002 that are due to mature or reprice after December 31, 2003, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2003		
	Fixed	**Adjustable**	**Total**
(Dollars in Thousands)			
Mortgage loans:			
Multi-family residential	$398,480	$1,263,505	$1,661,985
Commercial real estate	52,605	195,304	247,909
One- to four-family	102,734	18,955	121,689
Cooperative apartment	2,684	1,877	4,561
FHA/VA insured	5,214	-	5,214
Other loans	-	280	280
Total loans	$561,717	$1,479,921	$2,041,638

Multi-family Residential Lending and Commercial Real Estate Lending. The Bank originates adjustable-rate and fixed-rate multi-family residential (five or more residential units) and commercial real estate loans. The properties underlying these loans are generally located in the Bank's primary lending area. At December 31, 2002, the Bank had multi-family residential loans totaling $1.73 billion in its portfolio comprising 79.7% of the gross loan portfolio. Of the Bank s multi-family residential loans, $1.49 billion, or 86.3%, were secured by apartment buildings and $237.1 million, or 13.7%, were secured by Underlying Cooperatives at December 31, 2002. The Bank also had $265.5 million of commercial real estate loans in its portfolio at December 31, 2002, representing 12.2% of its total loan portfolio.

The Bank originated multi-family residential and commercial real estate loans totaling $397.7 million during the six months ended December 31, 2002, versus $257.7 million during the six months ended December 31, 2001.

At December 31, 2002, the Bank had $109.9 million of commitments accepted by borrowers to originate multi-family residential and commercial real estate loans, compared to $57.2 million outstanding at June 30, 2002.

Multi-family residential and commercial real estate loans originated by the Bank were secured by three distinct property types: 1) fully residential apartment buildings; 2) "mixed-use" properties that feature a combination of residential units and commercial units within the same building; and 3) fully commercial real estate buildings. The underwriting procedures for each of these property types are substantially similar. Loans secured by fully residential apartment buildings are classified by the Bank as multi-family residential loans in all instances. Loans secured by

fully commercial real estate buildings are classified as commercial real estate loans in all instances. Loans secured by mixed-use properties may be classified as either multi-family residential loans or commercial real estate loans. The classification of loans secured by mixed-use properties is determined based upon the percentage of the property's rental income that is received from its residential tenants compared to its commercial tenants. If more than 50% of the rental income earned on a mixed-use property is received from residential tenants, the full balance of the loan is classified as a multi-family residential loan. Conversely, if less than 50% of the rental income earned on a mixed-use property is received from residential tenants, the full balance of the loan is classified as a commercial real estate loan. In the event that the rental income earned is divided exactly 50% each between residential and commercial tenants, the entire loan balance is classified as either a multi-family residential or commercial real estate loan based upon a comparison of the physical space within the property allocated to residential tenants and commercial tenants.

Multi-family residential loans are generally viewed as exposing the Bank to a greater risk of loss than one- to four-family residential loans and typically involve higher loan principal amounts. Multi-family residential and commercial real estate loans in the Bank's portfolio generally range in amount from $250,000 to $4.0 million, and have an average loan size of approximately $1.0 million and a median loan balance of $651,860. Residential loans in this range are generally secured by buildings that possess between 5 and 100 apartments. The Bank had a total of $1.59 billion of multi-family residential loans in its portfolio on buildings with under 100 units as of December 31, 2002. Principally as a result of rent control and rent stabilization laws that limit the amount of rent that may be charged to tenants, the associated rent rolls for buildings of this type indicate a rent range that would be considered affordable for low- to moderate-income households, regardless of the household income profiles of the associated census tracks.

At December 31, 2002, the Bank had 216 multi-family residential and commercial real estate loans with principal balances greater than $2.0 million, totaling $729.9 million. These loans, while underwritten to the same standards as all other multi-family residential and commercial real estate loans, tend to expose the Bank to a higher degree of risk due to the potential impact of losses from any one loan relative to the size of the Bank's capital position.

The typical adjustable-rate multi-family residential and commercial real estate loan carries a final maturity of 10 or 12 years, and an amortization period not exceeding 30 years. These loans generally have an interest rate that adjusts once after the fifth or seventh year indexed to the 5-year FHLBNY advance rate, but may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the life of the loans. The Bank also offers fixed-rate, self-amortizing, multi-family residential and commercial real estate loans with maturities of up to fifteen years.

It is the Bank's policy to require appropriate insurance protection, including title and hazard insurance, on all real estate mortgage loans at closing. Borrowers generally are required to advance funds for certain expenses such as real estate taxes, hazard insurance and flood insurance.

The underwriting standards for new multi-family residential loans generally require (1) a maximum loan-to-value ratio of 75% based upon an appraisal performed by an independent, state licensed appraiser, and (2) sufficient cash flow from the underlying property to adequately service the debt, represented by a minimum debt service coverage of

120%. In certain cases, the Bank may additionally require environmental hazard reports on multi-family residential properties. As part of the underwriting process for multi-family residential and commercial real estate loans, the Bank considers the borrower's experience in owning or managing similar properties, the market value of the property and the Bank's lending experience with the borrower. The Bank utilizes, where appropriate, rent or lease income, the borrower's credit history and business experience, and comparable appraisal values when underwriting commercial real estate applications.

Repayment of multi-family residential loans is dependent, in large part, on cash flow from the collateral property sufficient to satisfy operating expenses and debt service. Economic events and government regulations, such as rent control and rent stabilization laws, which are outside the control of the borrower or the Bank, could impair the future cash flow of such properties. As a result, rental income might not rise sufficiently over time to satisfy increases in the loan rate at repricing or increases in overhead expenses (*e.g.*, utilities, taxes, insurance).

During the period July 1, 1998 through December 31, 2002, the Bank's charge-offs related to its multi-family residential loan portfolio totaled $211,000. As of December 31, 2002, the Bank had $690,000 of non-performing multi-family residential loans. (See "Asset Quality" and "Allowance for Loan Losses." See "Lending Activities - Loan Approval Authority and Underwriting" for discussions of the Bank's underwriting procedures utilized in originating multi-family residential loans).

The Bank's three largest multi-family residential loans at December 31, 2002 were a $12.5 million loan originated in April 2001 secured by a 400 unit cooperative apartment complex located in Glen Oaks, New York; a $10.0 million loan originated in December 2002 secured by a nine story apartment building located in Manhattan, New York containing 87 apartment units and one office unit.; and an $8.7 million loan originated in September 2002 secured by three properties located in Manhattan, New York, as follows: two apartment buildings containing a total of 81 apartment units and 5 commercial units, and one commercial building containing 3 store locations and 5 office units.

The underwriting standards for new commercial real estate loans generally do not exceed a 65% loan-to-value ratio and sufficient cash flow from the underlying property to adequately service the debt, represented by a minimum debt service coverage of 120%. To originate commercial real estate loans, the Bank additionally requires a security interest in personal property and standby assignments of rents and leases. The maximum dollar amount of any individual commercial real estate loan conforms to the Bank's general policies on lending limits.

Commercial real estate loans are also generally viewed as exposing the Bank to a greater risk of loss than both one- to four-family and multi-family residential mortgage loans. Because payment of loans secured by commercial real estate often is dependent upon successful operation and management of the collateral properties, repayment of such loans may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks by limiting the number of such loans, lending only to established customers and borrowers otherwise known or recommended, generally restricting such loans to the New York metropolitan area, and obtaining personal guarantees, if possible. The Bank utilizes, where appropriate, rent or lease income, the borrower's credit history and business experience, and comparable appraisal values when underwriting commercial real estate applications.

During the period July 1, 1998 through December 31, 2002, the Bank's charge-offs related to its commercial real estate loan portfolio totaled $6,000. As of December 31, 2002, the Bank had no non-performing commercial real estate loans (See "Asset Quality" and "Allowance for Loan Losses." See "Lending Activities - Loan Approval Authority and Underwriting" for a discussion of the Bank's underwriting procedures utilized in originating commercial real estate loans).

The Bank's three largest commercial real estate loans at December 31, 2002 were an $11.4 million loan originated in December 2001 and secured by a building in Manhattan, New York containing 10 commercial stores and 34 loft apartments; a $7.1 million loan originated in October 2002 and secured by a six story building located in Manhattan, New York containing 120 apartment units and 12 store locations; and a $6.9 million loan originated in May 2000 and secured by a 17-story loft building in Manhattan, New York containing 63 commercial tenants.

One- to Four-Family Mortgage and Cooperative Apartment Lending. The Bank offers residential first and second mortgage loans secured primarily by owner-occupied, one- to four-family residences, including condominiums and cooperative apartments. The majority of one- to four-family loans in the Bank's loan portfolio were obtained through the FIBC Acquisition and the acquisition of Pioneer Savings Bank, F.S.B. in 1996. The Bank originated $25.9 million of one- to four-family mortgages during the six months ended December 31, 2002, the majority of which were home equity and home improvement loans. At December 31, 2002, $162.2 million, or 7.5%, of the Bank's loans, consisted of one- to four-family mortgage loans. The Bank is a participating seller/servicer with several government-sponsored mortgage agencies: FNMA and SONYMA, and generally underwrites its one- to four-family residential mortgage loans to conform with standards required by these agencies.

Although the collateral for cooperative apartment loans is composed of shares in a cooperative corporation (i.e., a corporation whose primary asset is the underlying real estate) and a proprietary lease in the borrower's apartment, cooperative apartment loans are treated as one- to four-family loans. The Bank's portfolio of cooperative apartment loans was $16.5 million, or 0.8% of total loans, as of December 31, 2002. Adjustable-rate cooperative apartment loans continue to be originated for portfolio.

For all one- to four-family loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower: (1) a credit report is reviewed; (2) income, assets and certain other information are verified by an independent credit agency; (3) and, if necessary, additional financial information is required to be submitted by the borrower. An appraisal of the real estate intended to secure the proposed loan is required, which currently is performed by an independent appraiser designated and approved by the Board of Directors.

During the period July 1, 1998 through December 31, 2002, the Bank's charge-offs related to its one- to four-family loan portfolio totaled $712,000. As of December 31, 2002, the Bank had non-performing one- to four-family loans totaling $1.3 million (See "Asset Quality" and "Allowance for Loan Losses").

The Bank generally sells its newly originated conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years in the secondary market to FNMA and SONYMA, and its non-conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years to various private sector secondary market purchasers. With few exceptions, such as SONYMA, the Bank retains the servicing rights on all such loans sold. During the six months ended December 31, 2002, the Bank sold one- to four-family mortgage loans totaling $5.4 million to non-affiliates. As of December 31, 2002, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled $34.7 million.

Home Equity and Home Improvement Loans. Home equity loans and home improvement loans, the majority of which are included in one- to four-family loans, currently are originated to a maximum of $250,000. The combined balance of the first mortgage and home equity or home improvement loan may not exceed 89% of the appraised value of the collateral property at origination of the home equity or home improvement loan in the event that the Bank holds the first mortgage on the collateral property, and 85% of the appraised value of the collateral property at origination of the home equity or home improvement loan in the event that the Bank does not hold the first mortgage on the collateral property. On home equity and home improvement loans, the borrower pays an initial interest rate that may be as low as 200 basis points below the prime rate of interest in effect at origination. After six months, the interest rate adjusts and ranges from the prime interest rate in effect at the time to 100 basis points above the prime interest rate in effect at the time. The combined outstanding balance of the Bank's home equity and home improvement loans was $20.0 million at December 31, 2002.

Equity credit is also available on multi-family residential and commercial real estate loans. These loans are underwritten in the same manner as first mortgage loans on these properties, except that the combined loan-to-value ratio of the first mortgage and the equity line cannot exceed 75%. On equity loans, the borrower pays an interest rate ranging from 100 to 200 basis points above the prime rate. The outstanding balance of these equity loans was less than $6.0 million at December 31, 2002, on outstanding total lines of $14.5 million.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authorities for individual officers as to the various types of loan products. In addition, the Bank maintains a Loan Operating Committee that has collective loan approval authority. The Loan Operating Committee is composed of, at a minimum, the Chief Executive Officer, the President, the Chief Financial Officer, and a credit officer overseeing the underwriting function for the respective type of loan being originated. The Loan Operating Committee has authority to approve loan originations in amounts up to $3.0 million. Both the Loan Operating Committee and the Board of Directors must approve all loan originations exceeding $3.0 million. All loans approved by the Loan Operating Committee are presented to the Board of Directors for its review. In addition, regulatory restrictions imposed on the Bank's lending activities limit the amount of credit that can be extended to any one borrower to 15% of unimpaired capital and unimpaired surplus (See "Regulation - Regulation of Federal Savings Associations - Loans to One Borrower").

Asset Quality

Non-performing loans (i.e., delinquent loans for which interest accruals have ceased in accordance with the Bank's policy - typically loans 90 days or more past due) totaled $2.1 million at both December 31, 2002 and June 30, 2002.

The Bank had a total of 37 real estate and consumer loans, totaling $1.0 million, delinquent 60-89 days at December 31, 2002, compared to a total of 38 such delinquent loans, totaling $271,000, at June 30, 2002. The majority of the dollar amount of both non-performing loans and loans delinquent 60-89 days was composed of real estate loans. The majority of the count of both non-performing loans and loans delinquent 60-89 days was composed of consumer loans (primarily depositor loans). The increase in the amount delinquent 60-89 days from June 30, 2002 to December 31, 2002, resulted from a net increase of five real estate loans totaling $691,000 during the period. The 60-89 day delinquency levels fluctuate monthly, and are generally a less accurate indicator of credit quality trends than non-performing loans.

Under accounting principles generally accepted in the United States of America ("GAAP"), the Bank is required to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a loan constitutes a troubled-debt restructuring if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. 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 Bank had no loans classified as troubled-debt restructurings at December 31, 2002 or June 30, 2002.

Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting By Creditors for Impairment of a Loan," provides guidelines for determining and measuring impairment in loans. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimate of its fair value. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. Generally, the Bank considers non-performing or troubled-debt restructured multi-family residential and commercial real estate loans, along with non-performing one- to four-family loans exceeding $323,000, to be impaired. The recorded investment in loans deemed impaired was approximately $690,000, consisting of one loan, at December 31, 2002, compared with $878,000 at June 30, 2002, consisting of two loans. The average total balance of impaired loans was approximately $684,000 and $4.0 million during the six months ended December 31, 2002 and 2001, respectively, and $3.2 million, $3.7 million, and $1.5 million during the years ended June 30, 2002, 2001, and 2000, respectively. The decrease in both the current and average balance of impaired loans resulted primarily from the repayment in June 2002 of an impaired $2.9 million troubled-debt restructured loan. At December 31, 2002, there were no reserves allocated within the allowance for loan losses for impaired loans. At June 30, 2002, reserves totaling $88,000 were allocated within the allowance for loan losses for impaired loans. At December 31, 2002, non-performing loans exceeded impaired loans by $1.4 million, due to $1.4 million of one- to four-family and consumer loans, which, while on non-performing status, were not deemed impaired. This $1.4 million in one- to four-family and consumer loans were not deemed impaired since they had individual outstanding balances less than $323,000, and were considered homogeneous loan pools that were not required to be evaluated for impairment.

Other Real Estate Owned (OREO). Property acquired by the Bank as a result of a foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO and is 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. The Bank obtains a current appraisal on an OREO property as soon as practicable after it takes possession of the real property. The Bank will generally reassess the value of OREO at least annually thereafter. The balance of OREO was $134,000 at December 31, 2002 and $114,000 at June 30, 2002, consisting of one property in both instances. During the six months ended December 31, 2002, a reserve of $20,000 was reversed on the OREO property. This property was sold in January 2003 and no loss was recognized on the sale.

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

	At December 31,	At June 30,				
	2002	2002	2001	2000	1999	1998
(Dollars in Thousands)						
Non-performing loans						
One- to four-family	$1,232	$1,077	$1,572	$1,769	$1,577	$471
Multi-family residential	690	878	1,131	2,591	1,248	236
Cooperative apartment	70	71	200	54	133	133
Other	124	97	155	7	43	44
Total non-performing loans	2,116	2,123	3,058	4,421	3,001	884
Other Real Estate Owned	134	114	370	381	866	825
Total non-performing assets	2,250	2,237	3,428	4,802	3,867	1,709
Troubled-debt restructurings	-	-	2,924	700	1,290	3,971
Total non-performing assets and troubled-debt restructurings	$2,250	$2,237	$6,352	$5,502	$5,157	$5,680
Impaired loans	$690	$878	$4,054	$2,591	$1,563	$3,136
Ratios:						
Total non-performing loans to total loans	0.10%	0.10%	0.16%	0.26%	0.22%	0.09%
Total non-performing loans and troubled-debt restructurings to total loans	0.10	0.10	0.30	0.30	0.31	0.51
Total non-performing assets to total assets	0.08	0.08	0.13	0.19	0.17	0.11
Total non-performing assets and troubled-debt restructurings to total assets	0.08	0.08	0.23	0.22	0.23	0.35

Monitoring of Delinquent Loans. Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors regarding the status of all delinquent and non-performing loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that it initiate contact with a delinquent borrower as soon as possible after a payment is ten days late in the case of a multi-family residential or commercial real estate loan, or fifteen days late in the event of a one- to four-family or consumer loan. The policy calls for an automated late notice to be sent as the initial form of contact regarding the delinquency. If payment has not been received within 30 days of

the due date, a second letter is sent to the borrower. Thereafter, periodic letters are mailed and phone calls are placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Generally, the Bank initiates foreclosure proceedings when a loan is 90 days past due. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is generally either sold upon completing the foreclosure or as soon thereafter as practicable. The Bank retains outside counsel experienced in foreclosure and bankruptcy procedures to institute foreclosure and other actions on non-performing loans. As soon as practicable after initiating foreclosure proceedings on a loan, the Bank hires an independent appraiser to prepare an estimate of the fair value of the underlying collateral. It is also the Bank's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating conditions.

Classified Assets. Federal regulations and Bank policy require that loans and other assets possessing certain characteristics be classified as "Substandard," "Doubtful" or "Loss" assets. An asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets have a well-defined weakness or weaknesses and are characterized by the distinct possibility that the Bank will sustain "some loss" if deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified "Substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of current existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "Loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess potential weaknesses that deserve management's attention are designated "Special Mention."

The Bank's Loan Loss Reserve Committee reviews all loans in the Bank's portfolio quarterly, with particular emphasis on problem loans, in order to determine whether any loans require reclassification in accordance with applicable regulatory guidelines. The Loan Loss Reserve Committee reports its recommendations to the Bank's Board of Directors on a quarterly basis. The Loan Loss Reserve Committee, subject to approval of the Bank's Board of Directors, establishes policies relating to the internal classification of loans. The Bank believes that its classification policies are consistent with regulatory policies. All non-performing loans, troubled-debt restructurings and OREO are considered to be classified assets. In addition, the Bank maintains a "watch list," composed of loans that, while performing, are characterized by weaknesses requiring special attention from management and are considered to be potential problem loans. All loans on the watch list are considered to be classified assets or are otherwise categorized as "Special Mention." As a result of its review of the loan portfolio, the Loan Loss Reserve Committee may decide to reclassify one or more of the loans on the watch list.

At December 31, 2002, the Bank had 19 loans totaling $1.3 million designated Special Mention, compared to 21 loans totaling $3.6 million at June 30, 2002. The decline during the six months ended December 31, 2002 related primarily to the satisfaction of one multi-family residential loan totaling $2.2 million that was classified Special Mention at June 30, 2002.

At December 31, 2002, the Bank had $1.9 million of assets classified Substandard, consisting of 18 loans and one OREO property. At June 30, 2002, the Bank had $3.6 million of assets classified Substandard, consisting of nineteen loans, one OREO property and one investment security. The investment security classified as Substandard at June 30, 2002 was subsequently sold by the Bank in August 2002 with an immaterial loss recognized on the sale.

At both December 31, 2002 and June 30, 2002 the Bank had no assets classified as either Doubtful or Loss. The watch list contained 25 loans totaling $1.8 million at December 31, 2002, compared to 27 loans totaling $4.1 million at June 30, 2002.

The following table sets forth at December 31, 2002 the Bank's aggregate carrying value of the assets classified as Substandard, Doubtful or Loss or designated as Special Mention:

	Special Mention		**Substandard**		**Doubtful**		**Loss**	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
(Dollars in Thousands)								
Mortgage Loans:								
Multi-family residential	2	$293	1	$156	-	-	-	-
One- to four-family	8	763	16	1,503	-	-	-	-
Cooperative apartment	9	246	1	70	-	-	-	-
Commercial real estate	-	-	-	-				
Total Mortgage Loans	19	1,302	18	1,729	-	-	-	-
Other Real Estate Owned	-	-	1	134				
Total	19	$1,302	19	$1,863	-	-	-	-

Allowance for Loan Losses

The allowance for loan losses was determined in accordance with GAAP, under which the Bank is required to maintain an appropriate allowance for loan losses. The Loan Loss Reserve Committee is charged with, among other functions, specific responsibility for monitoring the appropriateness of the loan loss reserve. The Loan Loss Reserve Committee's findings, along with recommendations for changes to loan loss reserve provisions, if any, are reported directly to the Bank's senior management and the Board of Directors.

The loan loss methodology consists of several key components, including a review of the two elements of the Bank's loan portfolio, classified loans (i.e. non-performing loans, troubled-debt restructuring and impaired loans under SFAS 114) and performing loans. At December 31, 2002, the majority of the allowance for loan losses was allocated to

performing loans, which represented the overwhelming majority of the Bank's loan portfolio.

Performing loans are reviewed based upon the premise that there are losses inherent within the loan portfolio that have not been identified as of the balance sheet date. As a result, the Bank calculates an allowance for loan losses related to its performing loans by deriving an expected loan loss percentage based upon its historical loss experience and applying it to its performing loans. In deriving the expected loan loss percentage, the Bank considers the following criteria: the Bank's historical loss experience; the age and payment history of the loans (commonly referred to as their "seasoned quality"); the type of loan (i.e., one- to four-family, multi-family residential, commercial real estate, cooperative apartment or consumer); the underwriting history of the loan (i.e., whether it was underwritten by the Bank or a predecessor institution acquired subsequently by the Bank and, therefore, originally subjected to different underwriting criteria); both the current condition and recent history of the overall local real estate market (in order to determine the accuracy of utilizing recent historical charge-off data in order to derive the expected loan loss percentages); the level of and trend in non-performing loans; the level and composition of new loan activity; and the existence of geographic loan concentrations (as the overwhelming majority of the Bank's loans are secured by real estate properties located in the New York City metropolitan area) or specific industry conditions within the portfolio segments. Since these criteria effect the expected loan loss percentages that are applied to performing loans, changes in any one or more of these criteria will effect the amount of the allowance and the provision for loan losses. The Bank applied the process of determining the allowance for loan losses consistently throughout the six months ended December 31, 2002 and 2001 and the twelve months ended June 30, 2002 and 2001.

Loans classified as Special Mention, Substandard or Doubtful are reviewed individually on a quarterly basis by the Loan Loss Reserve Committee to determine if specific reserves are appropriate. Under the guidance established by SFAS 114, loans determined to be impaired are evaluated in order to establish whether the estimated value of the underlying collateral is sufficient to satisfy the existing debt. Should the Loan Loss Reserve Committee determine that a shortfall exists between the estimated value of the underlying collateral and the outstanding balance due on the impaired loan, a specific reserve is recommended to the Board for approval for the amount of the deficit. If approved by the Board of Directors, the Bank will additionally increase its valuation allowance in an amount established by the Loan Loss Reserve Committee to appropriately reflect the anticipated loss from any other loss classification category. Typically, the Bank's policy is to charge-off immediately all balances classified "Loss" and all charge-offs are recorded as a reduction of the allowance for loan losses. The Bank applied this process consistently throughout the six months ended December 31, 2002 and 2001 and the twelve months ended June 30, 2002 and 2001.

The Bank has maintained its allowance for loan losses at a level which management believes is appropriate to absorb losses inherent within the Bank's loan portfolio as of the balance sheet dates. The allowance for loan losses remained relatively constant during the six months ended December 31, 2002, approximating $15.4 million at December 31, 2002 and June 30, 2002. During the six months ended December 31, 2002, the Bank recorded a provision of $120,000 to the allowance for loan losses to provide for growth in its loan portfolio balances. Offsetting this increase were net charge-offs of $32,000 recorded during the six months ended December 31, 2002, virtually all of which related to the resolution of one classified loan. The overall credit quality of the Bank's loan portfolio remains favorable, as evidenced by a continued low level of non-performing loans and OREO during the six months ended December 31, 2002 and a continued low level of overall loan delinquencies.

Although management of the Bank believes that the Bank maintains its allowance for loan losses at appropriate levels, subsequent additions may be necessary if economic or other conditions in the future differ from the current operating environment. Although the Bank utilizes the most reliable information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, its valuation of OREO, and the level of loans both in, and pending, foreclosure. Based on their judgments about information available to them at the time of their examination, the regulators may require the Bank to recognize adjustments to the allowance.

- # -

The following table sets forth activity in the Bank's allowance for loan losses at or for the dates indicated:

	At or for the Six Months Ended December 31,		**At or for the Year Ended June 30,**				
	2002	2001	2002	2001	2000	1999[2]	1998
	(Dollars in Thousands)						
Total loans outstanding at end of period [1]	$2,170,077	$2,055,562	$2,120,254	$1,960,361	$1,721,200	$1,383,341	$950,121
Average total loans outstanding [1]	$2,169,442	$1,998,694	$2,042,923	$1,819,336	$1,563,656	$1,164,982	$843,148
Allowance for loan losses:							
Balance at beginning of period	$15,370	$15,459	$15,459	$14,785	$15,081	$12,075	$10,726
Provision for loan losses	120	120	240	740	240	240	1,635
Charge-offs							
Multi-family residential	-	(71)	(113)	-	-	(98)	(49)
Commercial real estate	-	-	-	(6)	-	-	-

One- to four-family	(33)	(20)	(156)	(13)	(500)	(10)	(165)
FHA/VA insured	-	-	-	-	-	-	-
Cooperative apartment	-	-	-	(14)	(24)	(62)	(112)
Other	(11)	(12)	(80)	(48)	(21)	(38)	(2)
Total charge-offs	(44)	(103)	(349)	(81)	(545)	(208)	(328)
Recoveries	12	16	20	15	9	7	42
Reserve acquired in purchase acquisition	-	-	-	-	-	2,967	-
Balance at end of period	$15,458	$15,492	$15,370	$15,459	$14,785	$15,081	$12,075
Allowance for loan losses to total loans at end of period	0.71%	0.75%	0.72%	0.79%	0.86%	1.09%	1.27%
Allowance for loan losses to total non-performing loans at end of period	730.53	815.80	723.98	505.53	334.43	502.53	1,365.95
Allowance for loan losses to total non-performing loans and troubled-debt restructurings at end of period	730.53	321.21	723.98	258.43	288.71	351.46	248.71
Ratio of net charge-offs to average loans outstanding during the period	-	-	0.02%	-	0.03%	0.02%	0.03%
Allowance for losses on Other Real Estate Owned:							
Balance at beginning of period	$20	$20	$20	$45	$149	$164	$187
Provision (recovery) charged to operations	(20)	-	-	18	25	16	114
Charge-offs, net of recoveries	-	-	-	(43)	(129)	(31)	(137)
Balance at end of period (1)	$-	$20	$20	$20	$45	$149	$164

Total loans represents gross loans, net of deferred loan fees and discounts.

(2)

On January 21, 1999, the Bank acquired $192.3 million of loans as a result of the FIBC Acquisition, which added $84.4 million to the average balance of loans during the twelve months ended June 30, 1999.

- # -

The following table sets forth the Bank's allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated:

	At December 31,										
							At June 30,				
	2002		2002		2001		2000		1999		1
	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Alloca Amo
	(Dollars in Thousands)										
Impaired loans	-	0.03%	$88	0.01%	$775	0.21%	$130	0.15%	$62	0.11%	
Multi-family residential	11,831	79.90	11,843	80.12	10,190	80.98	10,000	78.65	9,652	72.63	10,
Commercial											

real estate	2,416	12.26	2,167	11.52	1,214	7.78	1,095	6.92	699	6.45	
One-to-four-family	1,051	6.74	1,094	7.33	3,005	9.48	3,176	12.23	4,112	17.86	
Cooperative apartment	151	0.76	162	0.84	184	1.17	254	1.60	414	2.39	
Construction	-	0.09	-	-	-	-	-	-	-	-	
Other	9	0.22	16	0.18	91	0.38	130	0.45	142	0.56	
Total (1)	$15,458	100.00%	$15,370	100.00%	$15,459	100.00%	$14,785	100.00%	$15,081	100.00%	$12,

Total loans represent gross loans less FHA and VA guaranteed loans.

Investment Activities

Investment Strategies of the Holding Company The Holding Company's principal asset is its investment in the Bank's common stock, which amounted to $265.5 million at December 31, 2002. The Holding Company's other investments at that date totaled $16.2 million. The largest component of these investments was an investment in Government National Mortgage Association ("GNMA") adjustable rate mortgage-backed securities ("ARM MBS") totaling $9.2 million. All of the other investments were intended primarily to provide future liquidity which may be utilized for general business activities, which may include, but are not limited to: (1) purchases of common stock into treasury; (2) repayment of interest on the Holding Company's $25.0 million subordinated note obligation; (3) subject to applicable limitations, the payment of dividends on the Holding Company's common stock; and/or (4) investments in the equity securities of other financial institutions and other investments not permissible by the Bank. The Holding Company cannot assure that it will engage in any of these activities in the future.

The Holding Company's investment policy calls for investments in relatively short-term, liquid securities similar to the securities defined in the securities investment policy of the Bank.

Investment Policy of the Bank. The securities investment policy of the Bank, which is established by its Board of Directors, is designed to help the Bank achieve its overall asset/liability management objectives and to comply with the applicable regulations of the OTS. Generally, the policy calls for management to emphasize principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment when selecting new investments for the Bank's portfolio. The Bank's current securities investment policy permits investments in various types of liquid assets, including obligations of the U.S. Treasury and federal agencies, investment grade corporate obligations, various types of MBS, commercial paper, certificates of deposit ("CDs") and overnight federal funds sold to financial institutions. The Bank's Board of Directors periodically approves all financial institutions that sell federal funds to the Bank.

Investment strategies are implemented by the Asset and Liability Management Committee ("ALCO"), composed of the Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, and other senior management officers. The strategies take into account the overall composition of the Bank's balance sheet, including loans and deposits, and are intended to protect and enhance the Bank's earnings and market value. The strategies are reviewed monthly by the ALCO and reported regularly to the Board of Directors.

During the six months ended December 31, 2002 and the twelve months ended June 30, 2002 and 2001, neither the Holding Company nor the Bank held any derivative instruments or any embedded derivative instruments that require bifurcation. The Holding Company or the Bank may, with respective Board approval, engage in hedging transactions utilizing derivative instruments.

Mortgage-Backed Securities. MBS provide the portfolio with investments offering desirable repricing, cash flow and credit quality characteristics. MBS yield less than the loans that underlie the securities because of the cost of payment guarantees and credit enhancements that reduce credit risk to the investor. Although MBS guaranteed by federally sponsored agencies carry a reduced credit risk compared to whole loans, such securities remain subject to the risk that fluctuating interest rates, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and thus affect both the prepayment speed and value of such securities. However, MBS are more liquid than individual mortgage loans and may readily be used to collateralize borrowings. In addition to its superior credit quality as a result of the agency guarantees, the MBS portfolio also provides the Holding Company and the Bank with important interest rate risk management features, as the entire portfolio provides monthly cash flow for re-investment at current market interest rates.

The Company's consolidated investment in MBS totaled $363.0 million, or 12.3% of total assets, at December 31, 2002, the majority of which was owned by the Bank. Approximately 68.8% of the MBS portfolio was composed of securities guaranteed by GNMA, The Federal Home Loan Mortgage Corporation ("FHLMC") or FNMA. At December 31, 2002, the Bank had $293.9 million in Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs"), which comprised the largest component of its MBS portfolio. All of these CMOs and REMICs were either U.S agency guaranteed obligations or issued by private financial institutions. All of the non-agency guaranteed obligations were rated in the highest ratings category by at least one nationally recognized rating agency at the time of purchase. Further, none of these CMOs and REMICs had stripped principal and interest components and all occupied priority tranches within their respective issues. As of December 31, 2002, the fair value of CMOs and REMICs was approximately $1.4 million above their cost basis.

The remaining MBS portfolio was composed of a $43.9 million investment in ARM MBS pass-through securities with a weighted average term to next rate adjustment of less than one year, a $16.2 million investment in seasoned fixed-rate GNMA, FNMA and FHLMC pass-through securities with an estimated remaining life of less than three years, and a $9.0 million investment in balloon MBS (the "Balloon Payment Securities"), which provide a return of principal and interest on a monthly basis, and have original maturities of between five and seven years, at which point the entire remaining principal balance is repaid.

GAAP requires investments in equity securities that have readily determinable fair values and all investments in debt securities to be classified in one of the following three categories and accounted for accordingly: trading securities, securities available for sale or securities held to maturity. Neither the Company nor the Bank had any securities classified as trading securities during the six months ended December 31, 2002, nor do they anticipate establishing a trading portfolio. Unrealized gains and losses on available for sale securities are reported as a separate component of stockholders' equity referred to as accumulated other comprehensive income, net of deferred taxes. At December 31, 2002, the Holding Company and the Bank had, on a combined basis, $465.3 million of securities classified as available for sale, which represented 15.8% of total assets at December 31, 2002. Given the size of the available for sale portfolio, future variations in market values of the available for sale portfolio could result in fluctuations in the Company's consolidated stockholders' equity.

Both the Bank and Holding Company typically classify purchased MBS as available for sale, in recognition of the greater prepayment uncertainty associated with these securities, and carries these securities at fair market value. The fair value of MBS available for sale exceeded their amortized cost by $3.7 million at December 31, 2002.

The following table sets forth activity in the MBS portfolio for the periods indicated:

	For the Six Months Ended December 31,		**For the Year Ended June 30,**		
	2002	**2001**	**2002**	**2001**	**2000**
(Dollars In Thousands)					
Amortized cost at beginning of period	$285,201	$433,097	$433,097	$451,489	$530,306
Purchases (Sales), net	224,579	10,184	37,218	81,520	247
Principal repayments	(149,556)	(85,074)	(184,835)	(99,896)	(78,874)
Premium amortization, net	(920)	(92)	(279)	(16)	(190)
Amortized cost at end of period	$359,304	$358,115	$285,201	$433,097	$451,489

- # -

U. S. Treasury and Agency Obligations. At December 31, 2002, the Company's consolidated investment in U. S. Treasury and agency securities totaled $53.3 million. Virtually all of these investments were agency obligations issued either by the Federal Home Loan Bank ("FHLB"), FHLMC, or FNMA. In addition, the Bank owns an investment of $1.0 million issued by the Federal Farm Credit Bank at December 31, 2002. The Company's consolidated investment in U.S. Treasury and agency obligations had an average maturity of 1.1 years at December 31, 2002.

Corporate Debt Obligations. Both the Holding Company and the Bank invest in the short-term investment-grade debt obligations of various corporations. Corporate debt obligations generally carry both a higher rate of return and a higher degree of credit risk than U.S. Treasury and agency securities with comparable maturities. In addition, corporate securities are generally less liquid than comparable U.S. Treasury and agency securities. In recognition of the additional risks associated with investing in these securities, the Bank's investment policy limits new investments in corporate obligations to those companies which are rated single "A" or better by one of the nationally recognized rating agencies, and limits investments in any one corporate entity to the lesser of 1% of total assets or 15% of the Bank's equity. At December 31, 2002, the Company's consolidated portfolio of corporate debt obligations totaled $42.1 million. The majority of these investments are held by the Bank.

Equity Investments. The Company's consolidated investment in equity securities totaled $9.1 million at December 31, 2002. The largest single investment in this category was a $5.0 million investment in preferred stock issued by FNMA. The remaining investment was composed primarily of various equity mutual fund investments.

The following table sets forth the amortized cost and fair value of the total portfolio of investment and MBS at the dates indicated:

	At December 31,				**At June 30,**			
	2002		**2002**		**2001**		**2000**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
	(Dollars in Thousands)							
Mortgage-backed securities:								
CMOs and REMICs	$292,541	$293,928	$209,476	$213,579	$301,412	$304,439	$287,780	$279,867
FHLMC	15,896	16,289	10,069	10,351	19,560	19,798	14,929	14,853
FNMA	8,122	8,435	11,681	12,005	19,862	20,269	15,558	15,427
GNMA	42,745	44,388	53,975	55,686	92,263	94,107	133,222	132,477
Total								

mortgage-backed securities	359,304	363,040	285,201	291,621	433,097	438,613	451,489	442,624
Investment securities:								
U.S. Treasury and agency	52,741	53,289	85,050	85,823	35,705	35,996	67,686	65,788
Other	52,463	52,110	53,136	53,639	57,302	59,180	73,808	72,684
Total investment securities	105,204	105,399	138,186	139,462	93,007	95,176	141,494	138,472
Net unrealized gain (loss) (1)	3,833	-	7,553	-	7,484	-	(11,683)	-
Total securities, net (1)	$468,341	$468,439	$430,940	$431,083	$533,588	$533,789	$581,300	$581,096

The net unrealized gain (loss) at December 31, 2002 and June 30, 2002, 2001 and 2000 relates to available for sale securities in accordance with SFAS 115, "Accounting for Investments in Debt and Equity Securities." The net unrealized gain (loss) is presented in order to reconcile the "Amortized Cost" of the securities portfolio to the recorded value reflected in the Company's Consolidated Statements of Condition.

- # -

The following table sets forth the amortized cost and fair value of the total portfolio of investment and MBS, by accounting classification and type of security, at the dates indicated:

At December 31,		At June 30,					
2002		2002		2001		2000	
Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**

(Dollars in Thousands)

Held-to-Maturity:								
Mortgage-backed securities (1)	$2,249	$2,337	$3,275	$3,409	$8,160	$8,326	$13,329	$13,263
Investment securities (2)	825	835	875	884	3,784	3,819	17,489	17,351
Total Held-to-Maturity	$3,074	$3,172	$4,150	$4,293	$11,944	$12,145	$30,818	$30,614
Available-for-Sale:								
Mortgage-backed securities:								
Pass-through securities	$64,514	$66,775	$72,450	$74,633	$123,525	$125,848	$150,380	$149,494
CMOs and REMICs	292,541	293,928	209,476	213,579	301,412	304,439	287,780	279,867
Total mortgage-backed securities available for sale	357,055	360,703	281,926	288,212	424,937	430,287	438,160	429,361
Investment securities (2)	104,379	104,564	137,311	138,578	89,223	91,357	124,005	121,121
Net unrealized gain (loss) (3)	3,833	-	7,553	-	7,484	-	(11,683)	-
Total Available-for-Sale	$465,267	$465,267	$426,790	$426,790	$521,644	$521,644	$550,482	$550,482
Total securities, net	$468,341	$468,439	$430,940	$431,083	$533,588	$533,789	$581,300	$581,096

(1)

MBS include both pass-through securities and investments in CMOs and REMICs.

(2)

Includes corporate debt obligations.

(3)

The net unrealized gain (loss) at December 31, 2002 and June 30, 2002, 2001 and 2000 relates to available for sale securities in accordance with SFAS No. 115. The net unrealized gain (loss) is presented in order to reconcile the "Amortized Cost" of the securities portfolio to the recorded value reflected in the Company's Consolidated Statements of Condition.

- # -

The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of investment and MBS at December 31, 2002, by remaining period to contractual maturity. With respect to MBS, the entire carrying amount of the security at December 31, 2002 is reflected in the maturity period that includes the final security payment date and, accordingly, no effect has been given to periodic repayments or possible prepayments. The investment policy of both the Holding Company and the Bank calls for the purchase of only priority tranches when investing in MBS. As a result, the weighted average duration of MBS approximates 1.4 years as of December 31, 2002, when giving consideration to anticipated repayments or possible prepayments, which is far less than their calculated average maturity in the table below. Other than obligations of federal agencies and GSEs, neither the Holding Company nor the Bank had a combined investment in securities issued by any one entity in excess of 15% of stockholders' equity at December 31, 2002.

	At December 31, 2002					
	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in Thousands)					
Mortgage-backed securities:						
Due within 1 year	$1,051	$1,068	7.26%	$567	$568	5.92%
Due after 1 year but within 5 years	1,058	1,120	7.95	11,427	11,512	3.85
Due after 5 years but within 10 years	140	149	8.00	12,240	12,415	4.67
Due after ten years	-	-	-	332,821	336,208	4.85
Total	2,249	2,337	7.63	357,055	360,703	4.82
U.S. Treasury and agency:						
Due within 1 year	-	-	-	30,649	30,974	3.16
Due after 1 year but within 5 years	-	-	-	22,092	22,315	4.81
Due after 5 years but within	-	-	-	-	-	-

10 years						
Due after ten years	-	-	-	-	-	-
Total	-	-	-	52,741	53,289	3.85
Corporate and other:						
Due within 1 year	-	-	-	20,259	20,492	5.66
Due after 1 year but within 5 years	75	85	5.83	-	-	-
Due after 5 years but within 10 years	750	750	7.50	2,000	2,122	6.55
Due after ten years	-	-	-	29,379	28,661	3.35
Total	825	835	7.35	51,638	51,275	4.38
Total:						
Due within 1 year	1,051	1,068	7.26	51,475	52,034	4.17
Due after 1 year but within 5 years	1,133	1,205	7.81	33,519	33,827	4.48
Due after 5 years but within 10 years	890	899	7.58	14,240	14,537	4.93
Due after ten years	-	-	-	362,200	364,869	4.73
Total	$3,074	$3,172	7.56%	$461,434	$465,267	4.66%

Sources of Funds

General. The Bank's primary sources of funding for its lending and investment activities include: deposits, repayments of loans and MBS, investment security maturities and redemptions, Advances from the FHLBNY, and borrowing in the form of REPOS made with various financial institutions, including the FHLBNY. In addition, the Holding Company acquired $25.0 million of funding through the issuance of subordinated notes in April 2000, with a stated coupon of 9.25% and a maturity of May 1, 2010. The Bank also sells selected multi-family residential and commercial real estate loans to FNMA, and long-term, one- to four-family residential real estate loans to either FNMA or SONYMA.

Deposits. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank, at December 31, 2002, and presently, offers savings accounts, money market accounts, checking accounts, NOW and Super NOW accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. Traditionally, the Bank has relied upon direct marketing, customer service, convenience and long-standing relationships with customers to generate deposits. The communities in which the Bank maintains branch offices have historically provided the Bank with nearly all of its deposits. At December 31, 2002, the Bank had deposit liabilities of $1.93 billion, up $147.1 million from June 30, 2002 (See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources"). Within total deposits at December 31, 2002, $176.1 million, or 9.1%, consisted of CDs with balances of $100,000 or greater. Individual Retirement

Accounts totaled $121.8 million, or 6.3% of total deposits.

In June 2000, the Bank's Board of Directors approved acceptance of brokered CDs up to an aggregate limit of $120.0 million. At December 31, 2002, the Bank had no brokered CDs. As of June 30, 2002, the Bank had accepted brokered CDs totaling $2.0 million. Brokered CDs are utilized by the Bank solely as a funding alternative to borrowings.

The following table presents the deposit activity of the Bank for the periods indicated:

	Six Months Ended December 31,		**Year Ended June 30,**		
	2002	**2001**	**2002**	**2001**	**2000**
(Dollars in Thousands)					
Deposits	$1,556,645	$1,332,182	$2,787,649	$2,620,203	$2,178,658
Withdrawals	1,435,740	1,191,187	2,485,046	2,461,159	2,223,597
Deposits greater (less) than Withdrawals	120,905	140,365	302,603	159,044	(44,939)
Deposits relinquished in branch sale	-	-	-	-	(17,949)
Interest credited	26,236	26,565	48,999	50,240	43,103
Total increase (decrease) in deposits	$147,141	$166,930	$351,602	$209,284	$(19,785)

At December 31, 2002 the Bank had $176.1 million in CDs over $100,000 maturing as follows:

Maturity Period	Amount	Weighted Average Rate
(Dollars in Thousands)		
Within three months	$31,614	3.06%
After three but within six months	35,511	2.80
After six but within twelve months	47,331	2.78
After 12 months	61,655	3.99

Total	$176,111	3.26%

The following table sets forth the distribution of the Bank's deposit accounts and the related weighted average interest rates at the dates indicated:

	At December 31,			At June 30,					
	2002			2002			2001		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in Thousands)								
Savings accounts	$362,400	18.80%	0.78%	$363,732	20.43%	1.25%	$347,983	24.36%	2.08%
CDs	830,140	43.08	3.21	748,005	42.02	3.73	691,193	48.39	5.30
Money market accounts	616,762	32.00	1.90	556,376	31.26	2.39	296,157	20.73	4.54
NOW and									
Super NOW accounts	31,821	1.65	1.24	29,005	1.63	1.23	25,754	1.80	1.22
Checking accounts	86,052	4.47	-	82,916	4.66	-	67,345	4.72	-
Totals	$1,927,175	100.00%	2.16%	$1,780,034	100.00%	2.59%	$1,428,432	100.00%	4.03%

- # -

The following table presents, by interest rate ranges, the amount of CDs outstanding at the dates indicated and the period to maturity of the CDs outstanding at December 31, 2002:

Period to Maturity at December 31, 2002

Interest Rate Range	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total at December 31, 2002	Total at June 30, 2002	Total at June 30, 2001
		(Dollars in Thousands)					
4.00% and below	$438,559	$198,242	$10,532	$-	$647,333	$483,285	$103,411
4.01% to 5.00%	45,874	17,285	32,353	-	95,512	134,704	192,588
5.01% to 6.00%	29,771	24,786	10,934	-	65,491	80,097	252,538
6.01% to 7.00%	6,446	15,115	243	-	21,804	49,825	142,489
7.01% and above	-	-	-	-	-	94	167
Total	$520,650	$255,428	$54,062	$-	$830,140	$748,005	$691,193

Borrowings. The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges given to FHLBNY shareholders is the ability to secure Advances under various lending programs at competitive interest rates. The Bank, as a member of the FHLBNY, is provided with a borrowing line that equaled $697.8 million at December 31, 2002.

The Bank had Advances from the FHLBNY totaling $555.0 million and $575.0 million at December 31, 2002 and June 30, 2002, respectively. At December 31, 2002, the Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such Advances.

REPOS totaled $95.5 million at December 31, 2002. REPOS involve the delivery of securities to broker-dealers as collateral for borrowing transactions. The securities remain registered in the name of the Bank, and are returned upon the maturities of the agreements. Funds to repay the Bank's REPOS at maturity will be provided primarily by cash received from the maturing securities.

Excluding prepayment expenses paid on FHLBNY Advances of $3.6 million during the six months ended December 31, 2002 and combined prepayment expenses on FHLBNY Advances and REPOS totaling $6.2 million during the twelve months ended June 30, 2002 and $766,000 during the twelve months ended June 30, 2001, the average cost of FHLBNY Advances was 4.90% during the six months ended December 31, 2002, 5.90% during the twelve months ended June 30, 2002 and 5.99% during the twelve months ended June 30, 2001, and the average cost of REPOS was 5.35% during the six months ended December 31, 2002, 4.47% during the twelve months ended June 30, 2002 and 6.26% during the twelve months ended June 30, 2001. The prepayments on borrowings were made in order to take advantage of reductions in interest rates. During the six months ended December 31, 2002, the Bank prepaid a total of $152.5 million in FHLBNY Advances. The prepaid FHLBNY Advances possessed a combined average interest rate

of 6.62% and an average remaining term to maturity of less than one year on their respective prepayment dates. The majority of these prepaid FHLBNY Advances were replaced with new FHLBNY Advances. During the six months ended December 31, 2002, the average rate on the replacement FHLBNY Advances was 3.26%. These FHLBNY Advances possessed an average remaining term to their next maturity, call or repricing of approximately 5.0 years at December 31, 2002. The remainder of the prepaid FHLBNY Advances were not replaced with borrowed funds as liquidity generated from deposit inflows and loan and MBS amortization replaced their need as a source of funding. During the twelve months ended June 30, 2002, the Bank prepaid a total of $254.0 million in FHLBNY Advances and REPOS. The prepaid FHLBNY Advances and REPOS possessed a combined average interest rate of 5.43% and an average remaining term to maturity of less than one year on their respective prepayment dates. The majority of these prepaid FHLBNY Advances and REPOS were replaced with new FHLBNY Advances. During the twelve months ended June 30, 2002, the average rate on new FHLBNY Advances was 3.91%. These FHLBNY Advances possessed an average remaining term to maturity of approximately 5 years at June 30, 2002. The remainder of the prepaid FHLBNY Advances and REPOS were not replaced with borrowed funds as liquidity generated from deposit inflows and loan and MBS amortization replaced their need as a source of funding.

- # -

Presented below is information concerning REPOS and FHLBNY Advances for the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001:

REPOS:

	At or for the Six Months Ended December 31,	**At or for the Twelve Months Ended June 30,**	
	2002	**2002**	**2001**
	(Dollars in Thousands)		
Balance outstanding at end of period	$95,541	$97,717	$427,788
Average interest cost at end of period	5.68%	5.61%	4.73%
Average balance outstanding during the period	$97,941	$260,988	$437,153

Average interest cost during the period **(1)**	5.35%	4.34%	6.26%
Carrying value of underlying collateral at end of period	$85,226	$95,994	$425,450
Estimated fair value of underlying collateral	$87,479	$96,093	$430,803
Maximum balance outstanding at month end during the period	$98,728	$395,444	$455,603

(1) Amounts in the above table exclude the effects of prepayment expenses paid on REPOS. Including prepayment expenses of $322,000, the average cost on REPOS was 4.47% during the twelve months ended June 30, 2002. There were no prepayments of REPOS during the six months ended December 31, 2002 or the twelve months ended June 30, 2001.

FHLBNY Advances:

	At or for the Six Months Ended December 31,	**At or for the Twelve Months Ended June 30,**	
	2002	**2002**	**2001**
	(Dollars in Thousands)		
Balance outstanding at end of period	$555,000	$575,000	$542,500
Average interest cost at end of period	4.11%	5.07%	5.98%
Weighted average balance outstanding during the period	$572,024	$565,520	$553,918
Average interest cost during the period **(1)**	4.90	5.90%	5.99%
Maximum balance outstanding at month end during period	$590,000	$582,500	$572,500

(1) Amounts in the above table exclude the effects of prepayment expenses paid on FHLBNY Advances. Including prepayment expenses paid on FHLBNY Advances of $3.6 million during the six months ended December 31, 2002, $5.9 million during the twelve months ended June 30, 2002 and $766,000 during the twelve months ended June 30, 2001, the average interest cost on FHLBNY Advances was 6.18% during the six months ended December 31, 2002, 6.94% during the twelve months ended June 30, 2002 and 6.13% during the twelve months ended June 30, 2001.

Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of six wholly-owned corporations, one of which is directly owned by the Holding Company and five of which are directly or indirectly owned by the Bank. DSBW Preferred Funding Corp. is a direct subsidiary of Havemeyer Equities, Inc., which is a direct subsidiary of the Bank. The following table presents an overview of the Holding Company's subsidiaries as of December 31, 2002:

Subsidiary	Year/ State of Incorporation	Primary Business Activities
Havemeyer Equities Inc.	1977 / New York	Ownership of DSBW Preferred Funding Corp.
Boulevard Funding Corp.	1981 / New York	Currently inactive
Havemeyer Investments, Inc.	1997 / New York	Sale of annuity products
DSBW Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in multi-family residential and commercial real estate loans
DSBW Residential Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in one-to four-family real estate loans
842 Manhattan Avenue Corp.	1995/ New York	Management and ownership of real estate

Personnel

As of December 31, 2002, the Company had 307 full-time employees and 104 part-time employees. The employees are not represented by a collective bargaining unit, and both the Holding Company and all of its subsidiaries consider their relationships with their employees to be good.

Federal, State and Local Taxation

Federal Taxation

General. The following is a discussion of material tax matters and does not purport to be a comprehensive description of the tax rules applicable to the Company. The Bank was last audited by the Internal Revenue Service ("IRS") for its taxable year ended December 31, 1988. For federal income tax purposes, the Company files consolidated income tax returns on a June 30 fiscal year basis using the accrual method of accounting and will be subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's tax reserve for bad debts, discussed below.

Tax Bad Debt Reserves. The Bank, as a "large bank" under IRS classifications (i.e., 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 tax bad debt reserves as of June 30, 1997. Since the Bank has already provided a deferred income tax liability for this tax for financial reporting purposes, there was no adverse impact to the Bank's financial condition or results of operations from the enactment of the federal legislation that imposed such recapture. The recapture was suspended during the tax years ended June 30, 1997 and 1998, based upon the Bank's origination levels for certain residential loans which satisfied the minimum levels required by the Small Business Job Protection Act of 1996 to suspend recapture for those tax years.

Distributions. To the extent that the Bank makes "non-dividend distributions" to shareholders, such distributions are considered distributions from the Bank's "base year reserve" (i.e., its reserve as of December 31, 1987, to the extent thereof), and then from its supplemental reserve for losses on loans. An amount based on the amount distributed will be included in the Bank's taxable income in the year of distribution. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's income.

The amount of additional taxable income created from a non-dividend distribution is equal to the amount of the distribution reduced by the tax attributable to the income. Thus, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. (See "Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions" for limits on the payment of dividends by the Bank). The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserves.

Corporate Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the "Code") imposes a tax ("AMT") on alternative minimum taxable income ("AMTI") at a rate of 20%. AMTI is adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the customary tax treatment of those items. Thus, the Bank's AMTI is increased by 75% of the amount by which the Bank's adjusted current earnings exceed its AMTI (determined without regard to this adjustment and prior to reduction for net operating losses).

State and Local Taxation

State of New York. The Company is subject to New York State ("NYS") franchise tax on one of several alternative bases, whichever results in the highest tax, and files combined returns for purposes of this tax. The basic tax is measured by "entire net income," which is federal taxable income with adjustments. For NYS tax purposes, as long as the Bank continues to satisfy certain definitional tests relating to its assets and the nature of its business, it will be permitted deductions, within specified formula limits, for additions to its bad debt reserves for purposes of computing its entire net income.

The Bank's deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property, may be computed using an amount based on the Bank's actual loss experience (the "Experience Method") or 32% of the Bank's entire net income, computed without regard to this deduction and reduced by the amount of any permitted addition to the Bank's reserve for non-qualifying loans. The Bank's deduction with respect to non-qualifying loans must be computed pursuant to the Experience Method which is based on the Bank's actual charge-offs. Each year the Bank will review the most appropriate method of calculating the deduction attributable to an addition to the tax bad debt reserves.

NYS enacted legislation which enables the Bank to avoid the recapture into income of NYS tax bad debt reserves unless one of the following events occurs: 1) the Bank's retained earnings represented by the reserve are 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 NYS tax law, or 3) there is a change in NYS tax law.

The NYS tax rate for the six months ended December 31, 2002 was 9.03% (including a commuter transportation surcharge) of net income. In general, the Holding Company is not required to pay NYS tax on dividends and interest received from the Bank.

City of New York. The Holding Company and the Bank are also both subject to a New York City banking corporation tax of 9% on taxable income allocated to New York City.

New York City additionally enacted legislation which conformed its tax law regarding bad debt deductions to NYS tax law.

State of Delaware. As a Delaware holding company not earning income in Delaware, the Holding Company is exempted from Delaware corporate income tax, but is required to file an annual report and pay an annual franchise tax to the State of Delaware.

Regulation

General

The Bank is subject to extensive regulation, examination, and supervision by the OTS, as its chartering agency, and the Federal Deposit Insurance Corporation ("FDIC"), as its deposit insurer. The Bank's deposit accounts are insured up to applicable limits by the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF"), which are administered by the FDIC. The Bank must file reports with the OTS concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OTS conducts periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings association may engage and is intended primarily for the protection of the insurance fund and depositors. As a publicly-held unitary savings and loan holding company, the Holding Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the Securities and Exchange Commission (the "SEC") under the federal securities laws and of the OTS.

The OTS and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OTS, the FDIC or the United States Congress, could have a material adverse impact on the operations of the Company.

The following discussion is intended to be a summary of the material statutes and regulations applicable to savings associations and savings and loan holding companies, and it does not purport to be a comprehensive description of all such statutes and regulations.

Regulation of Federal Savings Associations

Business Activities. The Bank derives its lending and investment powers from the Home Owner's Loan Act, as amended ("HOLA"), and the regulations of the OTS enacted thereunder. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities, and certain other assets. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage. These investment powers are subject to various limitations, including (a) a prohibition against the acquisition of any corporate debt security not rated in one of the four highest rating categories; (b) a limit of 400% of capital on the aggregate amount of loans secured by commercial property; (c) a limit of 20% of assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (d) a limit of 35% of assets on the aggregate amount of consumer loans and acquisitions of certain debt securities; (e) a limit of 5% of assets on non-conforming loans (i.e., loans in excess of the specific limitations of HOLA); and (f) a limit of the greater of 5% of assets or capital on certain construction loans made for the purpose of financing property which is, or is expected to become, residential.

Loans to One Borrower. Under HOLA, savings associations are generally subject to the same limits on loans to one borrower as are imposed on national banks. Generally, under these limits, a savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of the association's unimpaired capital and surplus. Additional amounts may be lent, not in excess of 10% of unimpaired capital and surplus, if such loans or

extensions of credit are fully secured by readily-marketable collateral. Such collateral is defined to include certain debt and equity securities and bullion, but generally does not include real estate. At December 31, 2002, the Bank's limit on loans to one borrower was $55.4 million. At December 31, 2002, the Bank's largest aggregate amount of loans to one borrower was $16.2 million and the second largest borrower had an aggregate balance of $15.3 million.

QTL Test. HOLA requires a savings association to satisfy a QTL test. A savings association may satisfy the QTL test by maintaining at least 65% of its "portfolio assets" in certain "qualified thrift investments" during at least nine months of the most recent twelve-month period. "Portfolio assets" means, in general, an association's total assets less the sum of (a) specified liquid assets up to 20% of total assets, (b) certain intangibles, including goodwill, credit card relationships and purchased mortgage servicing rights, and (c) the value of property used to conduct the association's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, small business loans, education loans, and credit card loans. A savings association may additionally satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Code. At December 31, 2002, the Bank maintained 82.5% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each of the prior 12 months and, therefore, was a QTL.

A savings association that fails the QTL test must either operate under certain restrictions on its activities or convert to a bank charter. The initial restrictions include prohibitions against (a) engaging in any new activity not permissible for a national bank, (b) paying dividends not permissible under national bank regulations, and (c) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, within one year of the date a savings association ceases to satisfy the QTL test, any company controlling the association must register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended. A savings association that has failed the QTL test may requalify under the QTL test and be free of such limitations, however, may do so only once. If the savings association does not requalify under the QTL test within three years after failing the QTL test, it would be required to terminate any activity, and dispose of any investment, not permissible for a national bank and repay as promptly as possible any outstanding Advances from the FHLBNY.

Capital Requirements. OTS regulations require savings associations to satisfy three minimum capital standards: (1) a tangible capital ratio of 1.5% of total assets as adjusted under OTS regulations; (2) a risk-based capital ratio of 8% of risk-based capital (as defined under OTS regulations) to total risk-based assets (also as defined under OTS regulations); and (3) a leverage capital ratio (as defined under OTS regulations). For a depository institution that has been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating, the minimum leverage capital required ratio is 3%. For any other depository institution, the minimum leverage capital required ratio is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution.

In determining the amount of risk-based assets for purposes of the risk-based capital requirement, a savings association must compute its risk-based assets by multiplying its assets and certain off-balance sheet items by risk-weights, which range from 0% for cash and obligations issued by the United States government or its agencies, to 100% for consumer and commercial loans, as assigned by the OTS capital regulations based on the risks the OTS believes are inherent in the type of asset.

Tangible capital is defined, generally, as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related earnings, and minority interests in equity accounts of fully consolidated subsidiaries, less intangibles other than certain purchased mortgage servicing rights and investments in, and loans to, subsidiaries engaged in activities not permissible for a national bank.

Core capital is defined similarly to tangible capital, however, additionally includes, among other items, certain qualifying supervisory goodwill and certain purchased credit card relationships. Supplementary capital includes cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, and the allowance for possible loan losses. The OTS and other federal banking regulators adopted, effective October 1, 1998, an amendment to their risk-based capital guidelines that permits insured depository institutions to include in supplementary capital up to 45% of the pretax net unrealized holding gains on certain available-for-sale equity securities, as such gains are computed under the guidelines. The allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-based assets, and the amount of supplementary capital that may be included as total capital cannot exceed the amount of core capital.

On May 10, 2002, the OTS adopted amendments to its capital regulations which, among other matters, eliminated the interest rate risk component of the risk-based capital requirement. Pursuant to the amendment, the OTS will continue to monitor the interest rate risk management of individual institutions through the OTS requirements for interest rate risk management, the ability of the OTS to impose an individual minimum capital requirement on institutions that exhibit a high degree of interest rate risk, and the requirements of Thrift Bulletin 13a, which provides guidance regarding the management of interest rate risk and the responsibility of boards of directors in that area.

The table below presents the Bank's regulatory capital as compared to the OTS regulatory capital requirements at December 31, 2002:

	As of December 31, 2002			
			Minimum Capital	
	Actual		**Requirement**	
	Amount	**Ratio**	**Amount**	**Ratio**
	(Dollars in Thousands)			
Tangible	$205,991	7.19%	$43,000	1.5%
Leverage Capital	205,991	7.19	114,667	4.0%
Risk-based capital	221,448	13.17	134,476	8.0%

The following is a reconciliation of GAAP capital to regulatory capital for the Bank:

	At December 31, 2002		
	Tangible Capital	Leverage Capital	Risk-Based Capital
	(Dollars in Thousands)		
GAAP capital	$265,297	$265,297	$265,297
Non-allowable assets:			
Accumulated other comprehensive income	(1,970)	(1,970)	(1,970)
Goodwill	(55,638)	(55,638)	(55,638)
Core deposit intangible	(1,698)	(1,698)	(1,698)
General valuation allowance	-	-	15,457
Regulatory capital	205,991	205,991	221,448
Minimum capital requirement	43,000	114,667	134,476
Regulatory capital excess	$162,991	$91,324	$86,972

Limitation on Capital Distributions. OTS regulations currently impose limitations upon capital distributions by savings associations, such as cash dividends, payments to purchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital.

As the subsidiary of a savings and loan holding company, the Bank is required to file a notice with the OTS at least 30 days prior to each capital distribution. However, if the total amount of all capital distributions (including each proposed capital distribution) for the applicable calendar year exceeds net income for that year plus the retained net income for the preceding two years, then the Bank must file an application for OTS approval of a proposed capital distribution. In addition, the OTS can prohibit a proposed capital distribution otherwise permissible under the regulation, if it has determined that the association is in need of more than customary supervision or that a proposed distribution by an association would constitute an unsafe or unsound practice. Furthermore, under the OTS prompt corrective action regulations, the Bank would be prohibited from making any capital distribution if, after the distribution, the Bank failed to satisfy its minimum capital requirements, as described above (See "Regulation - Regulation of Federal Savings Associations - Prompt Corrective Regulatory Action").

In addition, pursuant to the Federal Deposit Insurance Act ("FDIA"), an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" as defined in the FDIA.

Liquidity. Pursuant to OTS regulations, the Bank is required to maintain sufficient liquidity to ensure its safe and sound operation (See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," for further discussion). At December 31, 2002, the Bank's liquid assets approximated 21.0% of total assets.

Assessments. Savings associations are required by OTS regulation to pay semi-annual assessments to the OTS to fund its operations. The regulations base the assessment for individual savings associations, other than those with total assets never exceeding $100.0 million, on three components: the size of the association on which the basic assessment is based; the association's supervisory condition, which results in percentage increases for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which results in percentage increases for a savings association that managed over $1 billion in trust assets, serviced loans for other institutions aggregating more than $1 billion, or had certain off-balance sheet assets aggregating more than $1 billion.

Branching. Subject to certain limitations, HOLA and OTS regulations permit federally chartered savings associations to establish branches in any state of the United States. The authority to establish such a branch is available (a) in states that expressly authorize branches of savings associations located in another state and (b) to an association that either satisfies the QTL test or qualifies as a "domestic building and loan association" under the Code, which imposes qualification requirements similar to those for a QTL under HOLA (See "Regulation - Regulation of Federal Savings Associations - QTL Test"). This authority under HOLA and the OTS regulations preempts any state law purporting to regulate branching by federal savings associations.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by OTS regulations, a savings association possesses a continuing and affirmative obligation, consistent with its safe and sound operation, to help satisfy the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services it believes are best suited to its particular community. The CRA requires the OTS, in connection with its examination of a savings association, to assess the association's record of meeting the credit needs of its community and consider such record in its evaluation of certain applications by such association. The assessment is composed of three tests: (a) a lending test, to evaluate the institution's record of making loans in its service areas; (b) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) a service test, to evaluate the institution's delivery of services through its branches, automated teller machines and other offices. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received an "Outstanding" CRA rating in its most recent examination.

Regulations implementing the requirements under the Gramm-Leach-Bliley Act of 1999 ("Gramm-Leach") that insured depository institutions publicly disclose certain agreements that are in fulfillment of the CRA became effective April 1, 2001. The Bank has no such agreements in place at this time.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by OTS regulations and Sections 23A and 23B of the Federal Reserve Act ("FRA"). In general, an affiliate of the Bank is any company that controls the Bank or any other company that is controlled by a company that controls the Bank, excluding the Bank's subsidiaries other than those that are insured depository institutions. A subsidiary of a bank that is not also a depository institution is generally not treated as an affiliate of the bank for purposes of Sections 23A and 23B, however the Federal Reserve Bank has proposed treating any subsidiary of a bank that is engaged in activities not permissible for bank holding companies under the Bank Holding Company Act ("BHC Act") as an affiliate for purposes of Sections 23A and 23B. OTS regulations prohibit a savings association (a) from lending to any of its

affiliates that are engaged in activities that are not permissible for bank holding companies under Section 4(c) of the BHC Act, and (b) from purchasing the securities of any affiliate other than a subsidiary. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the savings association and also limits the aggregate amount of transactions with all affiliates to 20% of the savings association's capital and surplus. Extensions of credit to affiliates are required to be secured by collateral in an amount and of a type described in Section 23A, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the association as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards, that in good faith would be offered, or would apply, to nonaffiliated companies.

Effective April 1, 2003, the Federal Reserve Board's ("FRB's") interpretations of Section 23A and 23B of the FRA will be rescinded and replaced with Regulation W. In addition, Regulation W makes various amendments to existing law regarding Sections 23A and 23B, including expanding the definition of affiliate and exempting certain subsidiaries of state-chartered banks from the restrictions of Sections 23A and 23B.

Pursuant to Regulation W, all transactions entered into on or before December 12, 2002 which became subject to Sections 23A and 23B solely because of Regulation W, will become subject to Regulation W on July 1, 2003. All other affiliate transactions become subject to Regulation W on April 1, 2003. The FRB expects each depository institution that is subject to Sections 23A and 23B to implement policies