

FORM 10-K

( ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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

For the transaction period from to

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 (I.R.S. employer  
organization) 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 RIGHT  
(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]

As of September XX, 1999, there were 12,725,588 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 September 27, 1999 was  
\$212,117,500. This figure is based upon the closing price on the NASDAQ  
National Market for a share of the Company's common stock on September 27,  
1999, which was \$20.13 as reported in the Wall Street Journal on September 28,  
1999.

DOCUMENTS INCORPORATED BY REFERENCE

(1) The Annual Report to Shareholders for the fiscal year ended June 30, 1999  
(Item 1 of Part I, and Items 5 through 8 of Part II) and (2) the definitive  
Proxy Statement dated October 7, 1999 to be distributed on behalf of the Board  
of Directors of Registrant in connection with the Annual Meeting of  
Shareholders to be held on November 10, 1999 and any adjournment thereof and  
which is expected to be filed with the Securities and Exchange Commission on or  
about October 8, 1999 (Part III)

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Statements contained in this Annual Report on Form 10-K relating to plans, strategies, economic performance and trends, and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking information is inherently subject to various factors which could cause actual results to differ materially from these estimates. These factors include: changes in general, economic and market conditions, or the development of an adverse interest rate environment that adversely affects the interest rate spread or other income anticipated from the Company's operations and investments. The Company has no obligation to update these forward looking statements.

## PART I

### ITEM 1. BUSINESS

#### General

Dime Community Bancshares, Inc. (the "Company") is a Delaware corporation organized in December, 1995 at the direction of the Board of Directors of The Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the conversion of the Bank, on June 26, 1996, from a federal mutual savings bank to a federal stock savings bank (the "Conversion"). In connection with the Conversion, the Company issued 14,547,500 shares (par value \$0.01) of common stock at a price of \$10.00 per share to certain of the Bank's eligible depositors who subscribed for shares and to an Employee Stock Ownership Plan ("ESOP") established by the Company.

The 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. The primary business of the Company is the operation of its wholly-owned subsidiary, the Bank. Under regulations of the Office of Thrift Supervision ("OTS") the Bank is a qualified thrift lender if its ratio of qualified thrift investments to portfolio assets ("QTL Ratio") is 65% or more, on a monthly average basis in nine of every twelve months. At June 30, 1999, the Bank's QTL Ratio was 93.50%, and the Bank has maintained more than 65% of its portfolio assets in qualified thrift investments in at least nine of the preceding twelve months.

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

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

#### ACQUISITION OF FINANCIAL BANCORP, INC.

On January 21, 1999, the Company completed the acquisition of Financial Bancorp, Inc., ("FIBC") the holding company for Financial Federal Savings Bank, F.S.B (the "FIBC Acquisition"). Based upon the closing price of the Company's common stock on January 21, 1999, of \$21.25 per share, the total consideration paid to FIBC stockholders, in the form of cash or the Company's common stock, was \$66.8 million, and was comprised

of \$34.5 million in cash and 1,504,704 shares of the Company's common stock. The Company's operating results for the fiscal year ended June 30, 1999 reflect the addition of earnings from the acquisition of FIBC for the period January 22, 1999 through June 30, 1999. The FIBC Acquisition is being accounted for as a purchase transaction, and goodwill of \$44.2 million generated from the transaction is being amortized on a straight-line basis over 20 years.

#### ACQUISITION OF CONESTOGA BANCORP, INC.

On June 26, 1996 the Bank completed the acquisition of Conestoga Bancorp, Inc. ("Conestoga"), resulting in the merger of Conestoga's wholly-owned subsidiary, Pioneer Savings Bank, F.S.B. ("Pioneer") with and into the Bank, with the Bank as the resulting financial institution (the "Conestoga Acquisition"). The Conestoga Acquisition was accounted for in the financial statements using the purchase method of accounting. Under purchase accounting, the acquired assets and liabilities of Conestoga are recognized at their fair value as of the date of the Conestoga Acquisition. Shareholders of Conestoga were paid approximately \$101.3 million in cash, resulting in goodwill of \$28.4 million, which is being amortized on a straight line basis over a twelve year period. Since the Conestoga Acquisition occurred on June 26, 1996, its impact upon the Company's consolidated results of operations for the fiscal year ended June 30, 1996 was minimal. The full effect of the Conestoga Acquisition is reflected in the Company's consolidated results of operations for all fiscal years after June 30, 1996.

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

#### MARKET AREA AND COMPETITION

The Bank has been, and intends to continue to be, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburgh section of the borough of Brooklyn. Currently, eighteen additional offices are located in the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County. The FIBC Acquisition added five branches, all of which are located in Queens and Brooklyn. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is larger, and includes much of New York City and Nassau County. Most of the Bank's mortgage loans are secured by properties located in its primary lending area. The Bank also originates loans in New Jersey from time to time.

Since 1993, the Bank's local economy has experienced strong performance. Unemployment has remained low, home sales have increased, residential apartment and commercial property vacancy rates have declined considerably, and local real estate values have increased. A strong local economy existed throughout the Company's entire fiscal year ended June 30, 1999. Despite these encouraging trends, the outlook for the local economy remains uncertain. During the fiscal year ended June 30, 1999, troubled economic conditions in several nations throughout Europe, Asia and South and Central America created interest rate volatility for U.S. government and agency obligations. As a result of this interest rate volatility, the U.S. stock market, especially amongst financial institutions, experienced even greater volatility. Due to increased interest rate uncertainty, the overall performance of financial institutions stocks trailed the overall performance of the aggregate U.S. stock markets during the period July, 1998 through June, 1999.

The Bank faces significant competition both in making loans and in attracting deposits. The Bank's market area has a high density of financial institutions, many of which have greater financial resources than the Bank, and all of which are competitors of the Bank to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage banking companies and insurance companies. The Bank has recently faced increased competition for the origination of multi-family loans, which comprised 72.2% of the Bank's loan portfolio at June 30, 1999. Management anticipates that competition for both multi-family and one-to-four family loans will continue to increase in the future. Thus, no assurances can be made that the Bank will be able to maintain its current level of such loans. The Bank's most direct competition for deposits has historically come from savings and loan associations, savings banks, commercial banks and direct purchases of government securities. The Bank faces additional competition for deposits from short-term money

market funds and other corporate and government securities funds, and from other financial institutions such as brokerage firms and insurance companies. Competition may also increase as a result of the lifting of restrictions on the overall operations of financial institutions.

#### LENDING ACTIVITIES

LOAN PORTFOLIO COMPOSITION. The Bank's loan portfolio consists primarily of multi-family loans secured by apartment buildings (including loans underlying apartment buildings organized under cooperative form of ownership, "underlying cooperatives"), conventional first mortgage loans secured primarily by one- to four-family residences, including condominiums and cooperative apartment share loans, and non-residential (commercial) property loans. At June 30, 1999, the Bank's loan portfolio totaled \$1.39 billion. Within the loan portfolio, \$1.00 billion or 72.2% were multi-family loans, \$279.0 million or 20.1% were loans to finance the purchase of one-to-four family properties and cooperative apartment share loans, \$88.8 million or 6.4% were loans to finance the purchase of commercial properties, primarily small shopping centers, warehouses and nursing homes, and \$9.7 million or 0.7% were loans to finance multi-family and residential properties with either full or partial credit guarantees provided by either the Federal Housing Administration ('FHA') or the Veterans' Administration ('VA'). Of the total mortgage loan portfolio outstanding at that date, 40.6% were fixed-rate loans and 59.4% were adjustable-rate loans ('ARMs'), of which 87.5% are multi-family and non-residential property loans which carry a maturity of 10 years, and an amortization period of no longer than 25 years. At June 30, 1999, the Bank's loan portfolio also included \$2.3 million in passbook loans, \$3.7 million in home improvement loans, and \$1.9 million in other consumer loans.

The types of loans that the Bank may originate are subject to federal and state laws and regulations. Interest rates charged by the Bank on loans are affected principally by the demand for such loans, the supply of money available for lending purposes, and the rates offered by the Bank's competitors. These factors are, in turn, affected by general and economic conditions, and the fiscal and monetary policy of the federal government.

The following table sets forth the composition of the Bank's mortgage and other loan portfolios in dollar amounts and percentages at the dates indicated.

At June 30,

|   | 1999               | Percent<br>of<br>Total | 1998             | Percent<br>of<br>Total | 1997             | Percent<br>of<br>Total | 1996             | Percent<br>of<br>Total | 1995             | Percent<br>of<br>Total |
|---|--------------------|------------------------|------------------|------------------------|------------------|------------------------|------------------|------------------------|------------------|------------------------|
| (Dollars In Thousands)                                  |                    |                        |                  |                        |                  |                        |                  |                        |                  |                        |
| Mortgage loans:   |                    |                        |                  |                        |                  |                        |                  |                        |                  |                        |
| One-to-four family                                      | \$246,075          | 17.75%                 | \$125,704        | 13.18%                 | \$140,798        | 18.68%                 | \$170,182        | 29.05%                 | \$58,291         | 13.52%                 |
| Multi-family and underlying cooperative                 | 1,000,859          | 72.20                  | 717,638          | 75.26                  | 498,536          | 66.15                  | 296,630          | 50.63                  | 252,436          | 58.56                  |
| Non-residential   | 88,837             | 6.41                   | 50,062           | 5.25                   | 43,180           | 5.73                   | 37,708           | 6.44                   | 26,972           | 6.26                   |
| FHA/VA insured  | 9,699              | 0.70                   | 11,934           | 1.25                   | 14,153           | 1.88                   | 16,686           | 2.85                   | 22,061           | 5.12                   |
| Cooperative apartment                                   | 32,893             | 2.37                   | 42,553           | 4.46                   | 50,931           | 6.76                   | 59,083           | 10.08                  | 67,524           | 15.67                  |
| <b>Total mortgage loans</b>                             | <b>1,378,363</b>   | <b>99.43</b>           | <b>947,891</b>   | <b>99.40</b>           | <b>747,598</b>   | <b>99.20</b>           | <b>580,289</b>   | <b>99.05</b>           | <b>427,284</b>   | <b>99.13</b>           |
| Other loans:  |                    |                        |                  |                        |                  |                        |                  |                        |                  |                        |
| Student loans   | 794                | 0.06                   | 677              | 0.07                   | 1,005            | 0.13                   | 1,307            | 0.22                   | 1,431            | 0.33                   |
| Passbook savings (secured by savings and time deposits) | 2,271              | 0.16                   | 2,367            | 0.25                   | 2,801            | 0.37                   | 3,044            | 0.52                   | 1,510            | 0.35                   |
| Home improvement loans                                  | 3,666              | 0.27                   | 1,753            | 0.18                   | 1,243            | 0.16                   | 891              | 0.15                   | 475              | 0.11                   |
| Consumer installment and Other                          | 1,100              | 0.08                   | 919              | 0.10                   | 1,027            | 0.14                   | 323              | 0.06                   | 336              | 0.08                   |
| <b>Total other loans</b>                                | <b>7,831</b>       | <b>0.57</b>            | <b>5,716</b>     | <b>0.60</b>            | <b>6,076</b>     | <b>0.80</b>            | <b>5,565</b>     | <b>0.95</b>            | <b>3,752</b>     | <b>0.87</b>            |
| <b>Gross loans</b>                                      | <b>1,386,194</b>   | <b>100.00%</b>         | <b>953,607</b>   | <b>100.00%</b>         | <b>753,674</b>   | <b>100.00%</b>         | <b>585,854</b>   | <b>100.00%</b>         | <b>431,036</b>   | <b>100.00%</b>         |
| Less:   |                    |                        |                  |                        |                  |                        |                  |                        |                  |                        |
| Unearned discounts and net deferred loan fees           | 2,853              |                        | 3,486            |                        | 3,090            |                        | 2,168            |                        | 1,182            |                        |
| Allowance for loan losses                               | 15,081             |                        | 12,075           |                        | 10,726           |                        | 7,812            |                        | 5,174            |                        |
| <b>Loans, net</b>                                       | <b>\$1,368,260</b> |                        | <b>\$938,046</b> |                        | <b>\$739,858</b> |                        | <b>\$575,874</b> |                        | <b>\$424,680</b> |                        |
| Loans serviced for others:                              |                    |                        |                  |                        |                  |                        |                  |                        |                  |                        |
| One-to-four family and cooperative apartment            | \$53,564           |                        | \$55,802         |                        | \$60,242         |                        | \$63,360         |                        | \$63,192         |                        |
| Multi-family and underlying cooperative                 | 293                |                        | 2,817            |                        | 9,406            |                        | 27,690           |                        | 30,264           |                        |
| <b>Total loans serviced for others</b>                  | <b>\$53,857</b>    |                        | <b>\$58,619</b>  |                        | <b>\$69,648</b>  |                        | <b>\$91,050</b>  |                        | <b>\$93,456</b>  |                        |

Includes acquisition of \$192.3 million loans from FIBC on January 21, 1999, which were comprised primarily of one-to-four family loans.

Includes acquisition of \$113.1 million loans from Conestoga on June 26, 1996, substantially all of which were one-to-four family loans.

Includes loans held for sale.

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. Generally, the Bank sells all originated one-to-four family fixed-rate mortgage loans in the secondary market to the Federal National Mortgage Association ('Fannie Mae'), the Federal Home Loan Mortgage Corporation ('Freddie Mac'), the State of New York Mortgage Agency ('SONYMA') and other private secondary market purchasers. ARMs, including adjustable-rate multi-family loans, and fixed-rate multi-family and non-residential mortgage loans with maturities up to 15 years, are retained for the Bank's portfolio. For the fiscal year ended June 30, 1999 origination of ARMs totaled \$338.5 million or 70.8% of all loan originations. Originations of fixed-rate mortgage loans totaled \$139.5 million, while sales of fixed-rate mortgage loans totaled \$6.5 million. The Bank generally sells all fixed-rate loans without recourse and retains the servicing rights. As of June 30, 1999, the Bank was servicing \$53.9 million of loans for non-related institutions. The Bank generally receives a loan servicing fee equal to 0.25% of the outstanding principal balance for servicing loans sold.

The following table sets forth the Bank's loan originations, loan sales and principal repayments for the periods indicated.

|  | For the Years Ended June 30, |           |           |
|--|------------------------------|-----------|-----------|
|  | 1999                         | 1998      | 1997      |
| (Dollars In Thousands)                                 |                              |           |           |
| Loans (gross):   |                              |           |           |
| At beginning of period                                 | \$953,607                    | \$753,674 | \$585,854 |
| Mortgage loans originated:                             |                              |           |           |
| One-to-four family                                     | 16,657                       | 11,438    | 4,279     |
| Multi-family and underlying cooperative                | 424,276                      | 292,555   | 245,324   |
| Non-residential  | 28,253                       | 15,929    | 11,055    |
| Cooperative apartment                                  | 2,187                        | 1,281     | 1,582     |
| Construction   | 130                          | -         | -         |
| Total mortgage loans originated                        | 471,503                      | 321,203   | 262,240   |
| Other loans originated                                 | 6,567                        | 5,101     | 2,549     |
| Total loans originated                                 | 478,070                      | 326,304   | 264,789   |
| Loans acquired (1)                                     | 192,318                      | -         | -         |
| Less:  |                              |           |           |
| Principal repayments                                   | 230,482                      | 120,240   | 91,405    |
| Loans sold (2)   | 6,977                        | 5,352     | 4,157     |
| Loans transferred from real estate pending foreclosure | -                            | -         | -         |
| Mortgage loans transferred to Other Real Estate Owned  | 342                          | 779       | 1,407     |
| Unpaid principal balance at end of period              | \$1,386,194                  | \$953,607 | \$753,674 |

(1) Comprised primarily of one-to-four family mortgage loans received in the FIBC Acquisition.

(2) Includes fixed-rate mortgage loans and student loans.

LOAN MATURITY AND REPRICING. The following table shows the earlier of maturity or repricing period of the Bank's loan portfolio at June 30, 1999. Loans that have adjustable rates are shown as being due in the period during which the interest rates are next subject to change. The table does not include prepayments or scheduled principal amortization. Prepayments and scheduled principal amortization on the Bank's loan portfolio totaled \$230.5 million for the year ended June 30, 1999.

| At June 30, 1999                      |                    |   |                 |                |                       |             |             |
|---------------------------------------|--------------------|---|-----------------|----------------|-----------------------|-------------|-------------|
| Mortgage Loans                        |                    |   |                 |                |                       |             |             |
|                                       | One-to-Four-Family | Multi-family and Underlying Cooperative | Non-Residential | FHA/VA Insured | Cooperative Apartment | Other Loans | Total Loans |
| (Dollars In Thousands)                |                    |   |                 |                |                       |             |             |
| Amount due:                           |                    |   |                 |                |                       |             |             |
| One year or less                      | \$47,518           | \$23,190                                | \$891           | \$3,328        | \$27,928              | \$2,610     | \$105,465   |
| After one year:                       |                    |   |                 |                |                       |             |             |
| One to three years                    | 9,785              | 162,163                                 | 17,930          | 79             | 2,507                 | 5,221       | 197,685     |
| More than three years to five years   | 11,310             | 141,938                                 | 24,412          | 30             | 27                    | -           | 177,717     |
| More than five years to ten years     | 42,567             | 605,886                                 | 34,669          | 86             | 114                   | -           | 683,322     |
| More than ten years to twenty years   | 60,283             | 67,682                                  | 10,935          | 6,176          | 2,265                 | -           | 147,341     |
| Over twenty years                     | 74,612             | -                                       | -               | -              | 52                    | -           | 74,664      |
| Total due or repricing after one year | 198,557            | 977,669                                 | 87,946          | 6,371          | 4,965                 | 5,221       | 1,280,729   |
| Total amounts due or repricing, gross | \$246,075          | \$1,000,859                             | \$88,837        | \$9,699        | \$32,893              | \$7,831     | \$1,386,194 |

The following table sets forth the dollar amounts in each loan category at June 30, 1999 that are due after June 30, 2000, and whether such loans have fixed or adjustable-interest rates.

| Due after June 30, 2000                 |           |            |             |
|---|-----------|------------|-------------|
|   | Fixed     | Adjustable | Total       |
| (Dollars In Thousands)                  |           |            |             |
| Mortgage loans:                         |           |            |             |
| One-to-four family                      | \$172,859 | \$25,698   | \$198,557   |
| Multi-family and underlying cooperative | 323,264   | 654,405    | 977,669     |
| Non-residential                         | 38,622    | 49,324     | 87,946      |
| FHA/VA insured                          | 6,371     | -          | 6,371       |
| Cooperative apartment                   | 2,549     | 2,416      | 4,965       |
| Other loans                             | -         | 5,221      | 5,221       |
| Total loans                             | \$543,665 | \$737,064  | \$1,280,729 |

MULTI-FAMILY AND NON-RESIDENTIAL LENDING. The Bank originates adjustable-rate and fixed-rate multi-family (five or more units) and non-residential loans which are secured primarily by apartment buildings, underlying cooperatives, mixed-use (residential combined with commercial) and other non-residential properties, generally located in the Bank's primary lending area. The main competitors for loans in this market tend to be other small- to medium-sized local savings institutions. Multi-family and non-residential loans in the Bank's portfolio generally range in amount from \$100,000 to \$9.0 million, and have an average loan size of approximately \$765,000. Multi-family loans in this range generally have between 5 and 100 apartments per building. The Bank had a total of \$763.8 million of multi-family loans in its portfolio on buildings with under 100 units as of June 30, 1999. Mostly as a result of rent control and rent stabilization, the associated rent rolls for buildings of this type indicate a rent range that would be considered affordable for low- to moderate-income households. In addition, at June 30, 1999, the Bank had a total of \$125.9 million in loans secured by mortgages on underlying cooperative apartment buildings.

The Bank originated multi-family loans totaling \$424.3 million during the fiscal year ended June 30, 1999, versus \$292.6 million during the year ended June 30, 1998. At June 30, 1999, the Bank had \$125.3 million of commitments outstanding to originate mortgage loans, which included \$14.3 million of commitments to refinance existing mortgage loans. This compares to \$158.0 million of commitments outstanding at June 30, 1998. All the mortgage commitments outstanding at June 30, 1999 were issued to borrowers within the Bank's service area, \$123.6 million of which are secured by multi-family and underlying cooperative apartment buildings.

As part of the underwriting process for multi-family and non-residential loans, the Bank considers the financial resources and income level of the borrower, 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 typical adjustable-rate multi-family loan carries a maturity of 10 years, and an amortization period of no longer than 25 years. These loans have a fixed interest rate that adjusts after the fifth year indexed to the 5-year FHLBNY advance rate, but may not adjust below the initial interest rate of the loan. Prepayment penalties are assessed throughout the life of the loans. The Bank also offers fixed-rate, self-amortizing, multi-family and non-residential loans with maturities of up to 15 years.

At June 30, 1999, the Bank had multi-family and underlying cooperative loans totaling \$1.00 billion in its portfolio, comprising 72.2% of the gross loan portfolio. The underwriting standards for new loans generally require (1) a maximum loan-to-value ratio of 75% based on an appraisal performed by an independent, state-certified appraiser and (2) sufficient cash flow from the underlying property to adequately service the debt, represented by a debt service ratio not below 1.15. Of the Bank's multi-family loans, \$874.9 million, or 87.4%, were secured by apartment buildings and \$125.9 million, or 12.6%, were secured by underlying cooperatives at June 30, 1999. Multi-family 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. At June 30, 1999, the Bank had 75 multi-family and non-residential loans with principal balances greater than \$2.0 million, totaling \$241.0 million. These loans, while underwritten to the same standards as all other multi-family and non-residential 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. As of June 30, 1999, none of these loans were in arrears nor in the process of foreclosure. See "'-Asset Quality.'"

Loans secured by apartment buildings and other multi-family residential properties are generally larger and involve a greater degree of risk than one-to-four family mortgage loans. Repayment of multi-family loans is dependent, in large part, on sufficient cash flow from the property to cover 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 value of the security for the loan or the future cash flow of such properties. As a result, rental income might not rise sufficiently over time to meet increases in the loan rate at repricing, or increases in overhead expenses (I.E., utilities, taxes). During the last five fiscal years, the Bank's charge-offs related to its multi-family loan portfolio totaled \$2.8 million. As of June 30, 1999, the Bank had \$1.2 million of non-performing multi-family loans. See "'-Asset Quality and - Allowance for Loan Losses" for discussions of the Bank's underwriting procedures utilized in originating multi-family loans.

The Bank's loan portfolio also includes \$88.8 million in non-residential real estate mortgage loans which represented 6.41% of gross loans at June 30, 1999. This portfolio is comprised of commercial and industrial properties, and shopping centers. The Bank utilizes, where appropriate, rent or lease income, business receipts, the borrowers' credit history and business experience, and comparable appraisal values when underwriting non-residential applications. As of June 30, 1999, there were no non-performing non-residential loans in the Bank's portfolio. Like multi-family loans, the repayment of non-residential real estate mortgage loans is dependent, in large part, upon sufficient cash flows from the property to cover operating expenses and debt service. For this reason, non-residential real estate mortgage loans are considered to include greater risk than one-to-four family residential loans.

The Bank's three largest loans at June 30, 1999, consisted of a \$8.8 million loan secured by a first mortgage on a 276 unit apartment building located in midtown Manhattan originated in May, 1997; an \$8.3 million first mortgage loan, originated in June, 1997, secured by a 631 unit apartment building located in the Forest Hills section of Queens; and a \$7.8 million first mortgage loan, originated in September, 1998, secured by a 129 unit apartment building located in Manhattan. As of June 30, 1999, all of these loans were performing in accordance with their terms. See "'-Regulation of Federal Savings Associations - - Loans to One Borrower." While the loans are current, their large loan balance does subject the Bank to a greater potential loss in the event of non-compliance by the borrower.

The Bank also currently services a total of \$293,000 in multi-family loans for various private investors. These loans were sold in the late 1980s, without recourse.

ONE-TO-FOUR FAMILY MORTGAGE AND COOPERATIVE APARTMENT LENDING. The Bank offers residential first mortgage loans secured primarily by owner-occupied, one-to-four family residences, including condominiums, and cooperative apartment share loans. Lending is primarily confined to an area covered by a 50-mile radius from the Bank's Main Office in Brooklyn. The Bank offers conforming and non-conforming fixed-rate mortgage loans and adjustable-rate mortgage loans with maturities of up to 30 years and a maximum loan amount of \$500,000. The Bank's residential mortgage loan originations are generally obtained from existing or past loan customers, depositors of the Bank, members of the local community and referrals from attorneys, realtors and independent mortgage brokers who refer members of the communities located in the Bank's primary lending area. The Bank is a participating seller/servicer with several government-sponsored mortgage agencies: Fannie Mae, Freddie Mac, 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 comprised of shares in a cooperative corporation (a corporation whose primary asset is the underlying real estate), cooperative apartment loans generally are treated as one-to-four family loans. The Bank's portfolio of such loans is \$32.9 million, or 2.37% of total loans as of June 30, 1999. The market for cooperative apartment loan financing has improved over the past five years with the support of certain government agencies, particularly SONYMA and Fannie Mae, who are insuring and purchasing, respectively, cooperative apartment share loans in qualifying buildings. The Bank adheres to underwriting guidelines established by SONYMA and Fannie Mae for all fixed-rate cooperative apartment loans which are originated for sale. Adjustable-rate cooperative apartment loans continue to be originated both for portfolio and for sale.

At June 30, 1999, \$279.0 million, or 20.12%, of the Bank's loans consisted of one-to-four family and cooperative apartment mortgage loans. ARMs represented 36.65% of total one-to-four-family and cooperative apartment loans, while fixed-rate mortgages comprised 63.35% of the total. The majority of these loans were obtained through the acquisitions of Conestoga and FIBC. The Bank, which is not an aggressive one-to-four-family mortgage lender, currently offers one-to-four family and cooperative apartment mortgage ARMs secured by residential properties with rates that adjust every one or three years. One-to-four family ARMs are offered with terms of up to 30 years. The interest rate at repricing on one-to-four family ARMs currently offered fluctuates based upon a spread above the average yield on United States Treasury securities, adjusted to a constant maturity which corresponds to the adjustment period of the loan (the "U.S. Treasury constant maturity index") as published weekly by the Federal Reserve Board. Additionally, one and three-year one-to-four family ARMs are generally subject to limitations on interest rate increases of 2% and 3%, respectively, per adjustment period, and an aggregate adjustment of 6% over the life of the loan.

The volume and types of ARMs originated by the Bank have been affected by such market factors as the level of interest rates, competition, consumer preferences and availability of funds. During the fiscal years ended June 30, 1998 and 1999, demand for one-to-four family ARMs was relatively weak due to the prevailing low interest rate environment and consumer preference for fixed-rate loans. Accordingly, although the Bank will continue to offer one-to-four family ARMs, there can be no assurance that in the future the Bank will be able to originate a sufficient volume of one-to-four family ARMs to increase or maintain the proportion that these loans bear to total loans. For the year ended June 30, 1999, demand for ARM one-to-four family loans was minimal, and the Bank originated only \$569,000 of one-to-four family and cooperative apartment mortgage ARMs.

The Bank currently offers fixed-rate mortgage loans with terms of 10 to 30 years secured by one-to-four family residences and cooperative apartments. Interest rates charged on fixed-rate loans are based upon market conditions. The Bank generally originates fixed-rate loans for sale in amounts up to the maximum allowed by Fannie Mae, Freddie Mac and SONYMA, with private mortgage insurance required for loans with loan-to-value ratios in excess of 80%. For the year ended June 30, 1999, the Bank originated \$18.3 million of fixed-rate, one-to-four family residential mortgage and cooperative apartment loans.

The Bank generally sells its newly originated conforming fixed-rate mortgage loans either to its wholly-owned subsidiary, DSBW Residential Preferred Funding, or in the secondary market to federal and state agencies such as Fannie Mae, Freddie Mac and SONYMA, and its non-conforming fixed-rate mortgage loans to various private sector secondary market purchasers. With few exceptions, such as SONYMA, the Bank retains the servicing rights on all such loans sold. For the year ended June 30, 1999, the Bank sold mortgage loans totaling \$6.5 million to non-affiliates. As of June 30, 1999, the Bank's portfolio of one-to-four family fixed-rate mortgage loans serviced for others totaled \$53.6 million.

Originated mortgage loans in the Bank's one-to-four family portfolio generally include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent. It is the Bank's policy to enforce due-on-sale provisions within the applicable regulations and guidelines imposed by New York law and secondary market purchasers.

Home equity loans currently are originated to a maximum of \$250,000. When combined with the balance of the first mortgage lien, the home equity loan may not exceed 75% of the appraised value of the property at the time of the loan commitment. The Bank's home equity loans outstanding at June 30, 1999, totaled \$4.8 million against total available credit lines of \$7.9 million. During the fiscal years ended June 30, 1998 and 1999, the Bank offered home-equity line promotions to selected mortgage customers, which resulted in the increase in credit lines from \$1.8 million at June 30, 1997 to \$7.9 million at June 30, 1999.

OTHER LENDING. The Bank also originates other loans, primarily student and passbook loans. Total other loans outstanding at June 30, 1999, amounted to \$7.8 million, or 0.57%, of the Bank's loan portfolio. Passbook loans, totaling \$2.3 million, and home improvement loans, totaling \$3.7 million, comprise the majority of the Bank's other loan portfolio.

LOAN APPROVAL AUTHORITY AND UNDERWRITING. The Board of Directors establishes lending authorities for individual officers as to its various types of loan products. For multi-family and one- to four-family mortgage loans, including cooperative apartment and condominium loans, the Loan Operating Committee, which is comprised of the Chief Executive Officer, President, and Executive Vice President, and the heads of both the residential loan and multi-family loan origination departments, has the authority to approve loans in amounts up to \$3.0 million. Any loan in excess of \$3.0 million, however, must be approved by the Board of Directors. All loans in excess of \$500,000 are presented to the Board of Directors for their 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 total capital. See ''- Regulation - Regulation of Federal Savings Associations - Loans to One Borrower.''

For all one-to-four family loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower, a credit report is ordered, income, assets and certain other information are verified by an independent credit agency, 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. In certain cases, the Bank may also require certain environmental hazard reports on multi-family properties. It is the Bank's policy to require appropriate insurance protection, including title and hazard insurance, on all real estate mortgage loans prior to closing. Borrowers generally are required to advance funds for certain items such as real estate taxes, flood insurance and private mortgage insurance, when applicable.

#### ASSET QUALITY

DELINQUENT LOANS AND FORECLOSED ASSETS. Management reviews delinquent loans on a continuous basis and reports monthly to the Board of Directors regarding the status of all delinquent and non-accrual loans in the Bank's portfolio. The Bank's real estate loan servicing policies and procedures require that the Bank initiate contact with a delinquent borrower as soon after the tenth day of delinquency as possible. Generally, the policy calls for a late notice to be sent 10 days after the due date of the late payment. If payment has not been received within 30 days of the due date, a letter is sent to the borrower. Thereafter, periodic letters and phone calls are placed to the borrower until payment is received. In addition, Bank policy calls for the cessation of interest accruals on loans delinquent 60 days or more. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due, or work out a repayment schedule with the borrower to avoid foreclosure. Generally, foreclosure proceedings are initiated by the Bank when a loan is 90 days past due. As soon as practicable after initiating foreclosure proceedings on a loan, the Bank prepares an estimate of the fair value of the underlying collateral. It is the Bank's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and as prudently as possible in consideration of market conditions, the physical condition of the property, and any other mitigating conditions. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is generally sold at foreclosure or by the Bank as soon thereafter as practicable.

The Bank retains outside counsel experienced in foreclosure and bankruptcy procedures to institute foreclosure and other actions on the Bank's delinquent loans.

Non-performing loans totaled \$3.0 million at June 30, 1999, as compared to \$884,000 at June 30, 1998. Of the \$3.0 million non-performing loans at June 30, 1999, \$1.8 million were acquired from FIBC, consisting of 13 one- to four-family residential loans. Otherwise, non-performing loans increased approximately \$300,000 due primarily to the addition of one multi-family and underlying cooperative loan with an aggregate principal amount of \$657,000 during the fiscal year ended June 30, 1999, and for which the Company recorded a charge-off of \$92,000 during the fiscal year ended June 30, 1999. The Company had 23 loans totaling \$819,000 delinquent 60-89 days at June 30, 1999, as compared to 30 such delinquent loans totaling \$327,000 at June 30, 1998. The Company has experienced a shift in the composition of its 60-89 day delinquencies from its conventional mortgage portfolio, which loans typically carry larger average balances, to smaller balance FHA/VA insured and consumer loans.

Under Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan," ("SFAS 114") the Company is required to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a debt constitutes a troubled-debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. Debt restructurings or loan modifications for a borrower do not necessarily always constitute troubled-debt restructurings, however, and troubled-debt restructurings do not necessarily result in non-accrual loans. The Company had two loans classified as troubled-debt restructurings at June 30, 1999, totaling \$1.2 million, both which are on accrual status as they have been performing in accordance with the restructuring terms for over one year. Troubled-debt restructurings totaled \$4.0 million at June 30, 1998, consisting of 3 loans, as one troubled-debt restructuring totaling \$2.8 million was paid-in-full during the fiscal year ended June 30, 1999. The current regulations of the Office of Thrift Supervision require that troubled-debt restructurings remain classified as such until either the loan is repaid or returns to its original terms. The Company did not have any new troubled-debt restructurings during the fiscal year ended June 30, 1999.

Under SFAS 114, the Bank established guidelines for determining and measuring impairment in loans. In the event the carrying balance of the loan, including all accrued interest, exceeds the estimate of fair value, the loan is considered to be impaired and a reserve is established. The recorded investment in loans deemed impaired was approximately \$1.6 million as of June 30, 1999, compared to \$3.1 million at June 30, 1998, and the average balance of impaired loans was \$2.3 million for the year ended June 30, 1999 compared to \$3.8 million for the year ended June 30, 1998. At June 30, 1999, reserves have been provided on all impaired loans within specific reserves totaling \$62,000 allocated within the allowance for loan losses. Generally, the Bank considers non-performing loans to be impaired loans. However, at June 30, 1999, \$1.4 million of one-to-four family, cooperative apartment and consumer loans on nonaccrual status are not deemed impaired under SFAS 114. All of these loans have outstanding balances less than \$227,000, and are considered a homogeneous loan pool not covered by SFAS 114.

NON-PERFORMING ASSETS AND TROUBLED-DEBT RESTRUCTURINGS. The following table sets forth information regarding the Bank's non-performing assets and troubled-debt restructurings at the dates indicated.

| At June 30,  | 1999    | 1998    | 1997    | 1996     | 1995     |
|--|---------|---------|---------|----------|----------|
| (Dollars In Thousands)   |         |         |         |          |          |
| Non-performing loans:  |         |         |         |          |          |
| One-to-four family   | \$1,577 | \$471   | \$1,123 | \$1,149  | \$572    |
| Multi-family and underlying cooperative                                      | 1,248   | 236     | 1,613   | 4,734    | 3,978    |
| Cooperative apartment  | 133     | 133     | 415     | 668      | 523      |
| Other loans  | 43      | 44      | 39      | -        | -        |
| Total non-performing loans   | 3,001   | 884     | 3,190   | 6,551    | 5,073    |
| Total Other Real Estate Owned  | 866     | 825     | 1,697   | 1,946    | 4,466    |
| Total non-performing assets  | \$3,867 | \$1,709 | \$4,887 | \$8,497  | \$9,539  |
| Troubled-debt restructurings   | \$1,290 | \$3,971 | \$4,671 | \$4,671  | \$7,651  |
| Total non-performing assets and troubled-debt restructurings                 | \$5,157 | \$5,680 | \$9,558 | \$13,168 | \$17,190 |
| Impaired loans   | \$1,563 | \$3,136 | \$4,294 | \$7,419  | \$-      |
| Total non-performing loans to total loans                                    | 0.22%   | 0.09%   | 0.43%   | 1.12%    | 1.18%    |
| Total non-performing loans and troubled-debt restructurings to total loans   | 0.31    | 0.51    | 1.05    | 1.92     | 2.96     |
| Total non-performing assets to total assets                                  | 0.17    | 0.11    | 0.37    | 0.62     | 1.44     |
| Total non-performing assets and troubled-debt restructurings to total assets | 0.23    | 0.35    | 0.73    | 0.96     | 2.59     |

The Bank adopted SFAS 114 effective July 1, 1995. Impaired loans were not measured prior to this date.

Adjusting total assets at June 30, 1996, for \$131.0 million of excess subscription proceeds related to the Company's initial public offering, total non-performing assets to total assets were 0.68% at June 30, 1996. The excess subscription proceeds were refunded by the Company on July 1, 1996.

The Bank recorded \$43,000 and \$125,000 of interest income on non-performing loans and troubled-debt restructurings, respectively, for the year ended June 30, 1999, and \$130,000 and \$306,000, respectively, for the fiscal year ended June 30, 1998. If the Bank's non-performing loans and troubled-debt restructurings had been performing in accordance with their terms, the Bank would have recorded additional interest income of \$108,000 and \$57,000, respectively, for the year ended June 30, 1999, and \$51,000 and \$109,000, respectively, for the fiscal year ended June 30, 1998.

OTHER REAL ESTATE OWNED ("OREO"). Property acquired by the Bank as a result of a foreclosure on a mortgage loan 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 an 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 other real estate owned ("OREO") was \$866,000, consisting of 9 properties, at June 30, 1999 compared to \$825,000, consisting of 14 properties, at June 30, 1998. During the year ended June 30, 1999, total additions to OREO were \$644,000, of which \$302,000 were acquired from FIBC. Offsetting this addition, were OREO sales and charge-offs of \$618,000 during the year ended June 30, 1999, of which \$204,000 related to OREO acquired from FIBC. All charge-offs were recorded against the allowance for losses on real estate owned, which was \$149,000 as of June 30, 1999.

CLASSIFIED ASSETS. The Bank's Loan Loss Reserve Committee meets every other month to review all problem loans in the portfolio to determine whether any loans require reclassification in accordance with applicable regulatory guidelines. Recommendations are reported by the Loan Loss Reserve Committee to the Board of Directors on a quarterly basis. The Loan Loss Reserve Committee, subject to Board approval, establishes policies relating to the internal classification of loans and believes that its classification policies are consistent with regulatory policies. All non-performing loans and OREO are considered to be classified assets. In addition, the Bank maintains a "watch list" comprised of 43 loans totaling \$4.7 million at June 30, 1999 which, while performing, are characterized by weaknesses which require 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 discussed below. As a result of its bi-monthly review of the loan portfolio, the Loan Loss Reserve Committee may decide to reclassify one or more of the loans on the watch list.

Federal regulations and Bank policy require that loans and other assets considered to be of lesser quality 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" by management. At June 30, 1999 the Bank had \$2.1 million of loans designated Special Mention.

At June 30, 1999, the Bank had \$4.0 million of assets classified Substandard, consisting of 29 loans and 9 other real estate owned properties, \$328,000 of assets classified as Doubtful, consisting of 1 loan, and no assets classified as Loss. Of the assets classified as substandard, 18 loans and 2 other real estate properties totaling \$2.9 million were acquired from FIBC.

The following table sets forth at June 30, 1999 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:                         |                 |                |             |                |          |              |          |            |
| One-to-four family                      | 5               | \$351          | 18          | \$1,975        | -        | \$-          | -        | \$-        |
| Multi-family and underlying cooperative | 7               | 1,122          | 3           | 687            | 1        | 328          | -        | -          |
| Non-residential                         | -               | -              | 1           | 90             | -        | -            | -        | -          |
| Cooperative apartment                   | 13              | 595            | 7           | 376            | -        | -            | -        | -          |
| <b>Total Mortgage Loans</b>             | <b>25</b>       | <b>2,078</b>   | <b>29</b>   | <b>3,128</b>   | <b>1</b> | <b>328</b>   | <b>-</b> | <b>-</b>   |
| Other Real Estate Owned:                |                 |                |             |                |          |              |          |            |
| One-to-four family                      | -               | -              | 3           | 558            | -        | -            | -        | -          |
| Cooperative apartment                   | -               | -              | 6           | 308            | -        | -            | -        | -          |
| <b>Total Other Real Estate Owned</b>    | <b>-</b>        | <b>-</b>       | <b>9</b>    | <b>866</b>     | <b>-</b> | <b>-</b>     | <b>-</b> | <b>-</b>   |
| <b>Total</b>                            | <b>25</b>       | <b>\$2,078</b> | <b>38</b>   | <b>\$3,994</b> | <b>1</b> | <b>\$328</b> | <b>-</b> | <b>\$-</b> |

#### ALLOWANCE FOR LOAN LOSSES

The Bank has established a Loan Loss Reserve Committee and has charged it with, among other things, specific responsibility for monitoring the adequacy of the loan loss reserve. The Loan Loss Reserve Committee's findings, along with recommendations for additional loan loss reserve provisions, if any, are reported directly to senior management of the Bank, and to the Board of Directors. The Allowance for Loan Losses is supplemented through a periodic provision for loan losses based on the Loan Loss Reserve Committee's evaluation of several variables, including the level of non-performing loans, the ratio of reserves to total performing loans, the level and composition of new loan activity, and an estimate of future losses determinable at the date the portfolio is evaluated. Such evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate loan loss allowance. 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 both the level of loans in foreclosure 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 additions to the allowance.

Loan loss reserves are established based upon a review of the two components of the Bank's loan portfolio, performing loans and non-performing loans. Performing loans are reviewed based upon the premise that, over time, the loan portfolio will generate losses and that some portion of the loan portfolio which is currently performing will default. The evaluation process is thus based upon the Bank's historical loss experience.

Non-performing loans are reviewed individually to determine if the liquidation value of the underlying collateral is sufficient to pay off the existing debt. Should the bank determine that a non-performing loan is likely to result in a principal loss, the loan is then placed into one of four classifications. The particular classification assigned to any one loan, or proportion thereof, (loss, doubtful, substandard or special mention) is based upon the actual level of loss attributable to that loan, as determined by the Loan Loss Reserve Committee. The Bank will then increase its general valuation allowance in an amount established by the Loan Loss Reserve Committee to appropriately reflect the anticipated loss from each loss classification category.

Specific reserves are established against loans classified as "loss." Rather than an estimation of potential loss, the establishment of a specific reserve represents the identification of an actual loss which will result in a charge-off. This loss amount will be set aside on the Bank's balance sheet as a specific reserve and will serve to reduce the carrying value of the associated loan. The Bank's determination as to the classification of its assets and the amount of its valuation allowances is

subject to review by various regulatory agencies which can order the establishment of additional general or specific loss allowances.

The Bank has maintained its allowance for loan losses to a level which management believes is adequate to absorb possible losses that may be incurred within the Bank's loan portfolio. The allowance for loan losses has increased \$3.0 million from June 30, 1998 to June 30, 1999, due primarily to the addition of \$3.0 million in loan loss reserves from FIBC which the Company determined was adequate to cover potential losses on the loans acquired from FIBC. The reduction in the Company's loan loss provision from \$1.6 million during the fiscal year ended June 30, 1998, to \$240,000 during the fiscal year ended June 30, 1999, resulted from continued stability of non-performing loan and charge-offs which totaled \$201,000 during the fiscal year ended June 30, 1999, compared to \$286,000 during the fiscal year ended June 30, 1998.

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

At or for the Year Ended June 30,

|   | 1999        | 1998      | 1997      | 1996      | 1995      |
|---|-------------|-----------|-----------|-----------|-----------|
| (Dollars In Thousands)  |             |           |           |           |           |
| Total loans outstanding at end of period  | \$1,383,341 | \$950,121 | \$750,584 | \$583,686 | \$429,854 |
| Average total loans outstanding   | \$1,164,982 | \$843,148 | \$648,357 | \$449,063 | \$430,845 |
| ALLOWANCE FOR LOAN LOSSES:  |             |           |           |           |           |
| Balance at beginning of period  | \$12,075    | \$10,726  | \$7,812   | \$5,174   | \$3,633   |
| Provision for loan losses   | 240         | 1,635     | 4,200     | 2,979     | 2,950     |
| Charge-offs   |             |           |           |           |           |
| One-to-four family  | (10)        | (165)     | (104)     | (21)      | (146)     |
| Multi-family and underlying cooperative   | (98)        | (49)      | (985)     | (553)     | (1,081)   |
| Non-residential   | -           | -         | -         | (274)     | (92)      |
| FHA/VA insured  | -           | -         | -         | -         | (9)       |
| Cooperative apartment   | (62)        | (112)     | (276)     | (170)     | (328)     |
| Other   | (38)        | (2)       | (23)      | (5)       | -         |
| Total charge-offs   | (208)       | (328)     | (1,388)   | (1,023)   | (1,656)   |
| Recoveries  | 7           | 42        | 102       | 14        | 247       |
| Reserve acquired in purchase acquisition  | 2,967       | -         | -         | 668       | -         |
| Balance at end of period  | \$15,081    | \$12,075  | \$10,726  | \$7,812   | \$5,174   |
| Allowance for loan losses to total loans at end of period   | 1.09%       | 1.27%     | 1.43%     | 1.34%     | 1.20%     |
| Allowance for loan losses to total non-performing loans at end of period                                  | 502.53      | 1,365.95  | 336.24    | 119.25    | 101.99    |
| Allowance for loan losses to total non-performing loans and troubled-debt restructurings at end of period | 351.46      | 248.71    | 136.45    | 69.61     | 40.66     |
| Ratio of net charge-offs to average loans outstanding during the period                                   | 0.03        | 0.03      | 0.20      | 0.22      | 0.33      |
| ALLOWANCE FOR LOSSES ON OTHER REAL ESTATE OWNED:  |             |           |           |           |           |
| Balance at beginning of period  | \$164       | \$187     | \$114     | \$-       | \$-       |
| Provision charged to operations   | 16          | 114       | 450       | 586       | -         |
| Charge-offs, net of recoveries  | (31)        | (137)     | (377)     | (472)     | -         |
| Balance at end of period  | \$149       | \$164     | \$187     | \$114     | \$-       |

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

Total loans at June 30, 1999 and June 30, 1996 include \$192.3 million and \$113.1 million of loans acquired from FIBC and Conestoga, respectively.

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 June 30,                                      |                     |  |                     |  |                     |  |                    |   |                    |   |
|--|---------------------|--|---------------------|--|---------------------|--|--------------------|---|--------------------|---|
| -----  |                     |  |                     |  |                     |  |                    |   |                    |   |
| -----  |                     |  |                     |  |                     |  |                    |   |                    |   |
|  | 1999                |  | 1998                |  | 1997                |  | 1996               |   | 1995               |   |
|  | Allowance<br>Amount | Percent<br>of Loan<br>in Each<br>Category<br>to Total<br>Loans (1) | Allowance<br>Amount | Percent<br>of Loan<br>in Each<br>Category<br>to Total<br>Loans | Allowance<br>Amount | Percent<br>of Loan<br>in Each<br>Category<br>to Total<br>Loans | Allowance<br>Loans | Percent<br>of Loan<br>in Each<br>Category<br>to Total<br>Amount | Allowance<br>Loans | Percent<br>of Loan<br>in Each<br>Category<br>to Total |
| -----  |                     |  |                     |  |                     |  |                    |   |                    |   |
| (Dollars in Thousands)                           |                     |  |                     |  |                     |  |                    |   |                    |   |
| Impaired<br>loans                                | \$62                | 0.11%  | \$23                | 0.33%  | \$122               | 0.58%  | \$955              | 1.30%   | \$-                | -%  |
| One-to-four<br>family                            | 4,112               | 17.86  | 669                 | 13.32  | 820                 | 19.04  | 1,171              | 29.90   | 556                | 14.25   |
| Multi-family<br>and<br>underlying<br>cooperative | 9,652               | 72.63  | 10,160              | 75.90  | 7,398               | 66.83  | 3,808              | 50.81   | 3,372              | 61.72   |
| Non-<br>residential<br>Cooperative               | 699                 | 6.45   | 445                 | 5.32   | 862                 | 5.84   | 605                | 6.63  | 103                | 6.60  |
| apartment  | 414                 | 2.39   | 605                 | 4.52   | 1,355               | 6.89   | 1,085              | 10.38   | 1,031              | 16.51   |
| Other  | 142                 | 0.56   | 173                 | 0.61   | 169                 | 0.82   | 188                | 0.98  | 112                | 0.92  |
| -----  |                     |  |                     |  |                     |  |                    |   |                    |   |
| Total  | \$15,081            | 100.00%  | \$12,075            | 100.00%  | \$10,726            | 100.00%  | \$7,812            | 100.00%   | \$5,174            | 100.00%   |
| =====  |                     |  |                     |  |                     |  |                    |   |                    |   |

Total loans represent gross loans less FHA and VA loans, which are government guaranteed loans.

The Bank adopted SFAS 114 effective July 1, 1995. Prior to this date, impaired loans were not measured. At June 30, 1999, 1998, 1997 and 1996, impaired loans represent 0.11%, 0.33%, 0.57% and 1.27% of total loans.

#### INVESTMENT ACTIVITIES

INVESTMENT STRATEGIES OF THE COMPANY - The Company's principal asset is its investment in the Bank's common stock, which amounted to \$189.6 million at June 30, 1999. The Company's other investments at that date totaled \$54.8 million, and are invested in Ginnie Mae adjustable rate mortgage-backed securities, which are tied closely to short-term borrowings, and equity securities and U.S. agency obligations which are utilized for general business activities, which may include, but are not limited to: (1) repurchases of Common Stock, (2) acquisition of other companies, (3) subject to applicable limitations, the payment of dividends, and/or (4) investments in the equity securities of other financial institutions and other investments not permitted for federally-insured institutions. There can be no assurance that the Company will engage in any of these activities in the future.

Otherwise, the investment policy of the Company calls for investments in relatively short-term, liquid securities similar to such 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. 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 mortgage-backed securities, commercial paper, certificates of deposit, and federal funds sold to select financial institutions periodically approved by the Board of Directors.

Investment strategies are implemented by the Asset and Liability Management Committee ("ALCO") comprised of the Chief Executive Officer, President, Executive Vice President 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 Company's earnings and market value. The strategies are reviewed monthly by the ALCO and reported regularly to the Board of Directors.

The Company did not engage in any hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) during the fiscal year ended June 30, 1999, and did not have any such hedging transactions in place at June 30, 1999. In the future, the Company may, with Board approval, engage in hedging transactions utilizing derivative instruments.

**MORTGAGE-BACKED SECURITIES.** In its securities investment activities over the past few years the Company has increased its purchases of mortgage-backed securities, which provide the portfolio with investments consisting of desirable repricing, cash flow and credit quality characteristics. Mortgage-backed securities generally 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. While mortgage-backed securities backed by federally sponsored agencies carry a reduced credit risk as 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 so affect both the prepayment speed, and value, of such securities. However, mortgage-backed securities are more liquid than individual mortgage loans and may readily be used to collateralize borrowings of the Company. Approximately 50.3% of the Company's \$525.7 million mortgage-backed securities portfolio, which represented 23.4% of the Company's total assets at June 30, 1999, was comprised of securities backed by either the Governmental National Mortgage Association ('Ginnie Mae'), Freddie Mac, or Fannie Mae. In addition to the superior credit quality provided by the agency backing, the mortgage-backed securities portfolio also provides the Company with important interest rate risk management features.

At June 30, 1999, the Bank had \$344.3 million in CMOs and REMICs, which comprise the largest component of the Bank's mortgage-backed securities. All of the securities are either backed by U.S. agency obligations or have been issued by highly reputable financial institutions. In addition, all of the non-agency backed obligations had been rated in the highest rating category by at least one nationally recognized rating agency at the time of purchase. In addition, none of these securities have stripped principal and interest components and the Bank is positioned in priority tranches in all securities. The majority of these securities have been purchased using funds from short-term borrowings as part of reverse repurchase transactions, in which these securities act as collateral for the borrowed funds. As of June 30, 1999, the fair value of these securities was approximately \$4.7 million below their cost basis, due primarily to reductions in market values associated with an increase in short-term interest rates during the quarter ended June 30, 1999.

The Bank's remaining mortgage-backed securities portfolio is comprised of a \$112.5 million investment in adjustable rate Ginnie Mae, Freddie Mac and Fannie Mae pass-through securities which have an average term to next rate adjustment of less than one year, a \$43.6 million investment in seasoned fixed-rate Ginnie Mae, Fannie Mae and Freddie Mac pass-through securities, with an estimated remaining life of less than three years, and a \$25.5 million investment in mortgage-backed securities, which provide a return of principal and interest on a monthly basis, and have original maturities of between five to seven years, at which point the entire remaining principal balance is repaid (the "balloon" payment).

GAAP requires that investments in equity securities that have readily determinable fair values and all investments in debt securities be classified in one of the following three categories and accounted for accordingly: trading securities, securities available for sale, or securities held to maturity. The Company had no securities classified as trading securities during the year ended June 30, 1999, and does not intend to trade securities. Unrealized gains and losses on available for sale securities are excluded from earnings and are reported as a separate component of stockholders' equity, net of deferred taxes. At June 30, 1999, the Company had \$649.5 million of securities classified as available for sale which represented 28.90% of total assets at June 30, 1999. Given the size of the available for sale portfolio, future fluctuations in market values of these securities could result in fluctuations in the Company's stockholders' equity.

The maturities on the Bank's fixed-rate mortgage-backed securities (balloons, seasoned Ginnie Mae's and Freddie Mac's) are relatively short as compared to the final maturities on its ARMs and CMO portfolios. Except for fixed rate mortgage backed securities acquired from Conestoga, which were generally classified as available for sale, the Company typically classifies purchased fixed rate mortgage-backed securities as held-to-maturity, and carries the securities at amortized cost. The Company is confident of its ability to hold these securities to final maturity. The Company typically classifies purchased ARMs and CMOs as available for sale, in recognition of the greater prepayment uncertainty associated with these securities, and carries these securities at fair market value.

The following table sets forth activity in the Company's mortgage-backed securities portfolio for the periods indicated.

For the Year Ended June 30,

|   | 1999      | 1998      | 1997      |
|---|-----------|-----------|-----------|
| (Dollars In Thousands)                  |           |           |           |
| Amortized cost at beginning of period   | \$408,086 | \$306,164 | \$209,542 |
| Purchases/ Sales (net)                  | 263,644   | 193,086   | 137,889   |
| Principal repayments                    | (179,434) | (90,686)  | (41,021)  |
| Premium and discount amortization, net  | 230       | (478)     | (246)     |
| Securities acquired in purchase of FIBC | 37,780    | -         | -         |
| Amortized cost at end of period         | \$530,306 | \$408,086 | \$306,164 |

(1) Amount comprised of \$13.8 million of Freddie Mac securities, \$8.7 million of Fannie Mae securities and \$15.3 of Ginnie Mae securities.

The following table sets forth the amortized cost and fair value of the Company's securities at the dates indicated.

At June 30,

|                                  | 1999              |               | 1998              |               | 1997              |               |
|----------------------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
|                                  | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| (Dollars In Thousands)           |                   |               |                   |               |                   |               |
| Mortgage-backed securities:      |                   |               |                   |               |                   |               |
| Ginnie Mae                       | \$133,057         | \$133,337     | \$87,889          | \$89,706      | \$103,974         | \$106,431     |
| Fannie Mae                       | 25,317            | 25,355        | 33,085            | 33,420        | 71,621            | 71,745        |
| Freddie Mac                      | 22,994            | 23,093        | 31,778            | 32,016        | 58,226            | 58,536        |
| CMOs                             | 348,938           | 344,254       | 255,334           | 256,176       | 72,343            | 72,500        |
| Total mortgage-backed Securities | 530,306           | 526,039       | 408,086           | 411,318       | 306,164           | 309,212       |
| Investment securities:           |                   |               |                   |               |                   |               |
| U.S. treasury and agency         | 87,475            | 86,553        | 92,825            | 93,302        | 119,742           | 120,226       |
| Other                            | 77,746            | 76,705        | 57,981            | 58,322        | 34,271            | 34,596        |
| Total investment securities      | 165,221           | 163,258       | 150,806           | 151,624       | 154,013           | 154,822       |
| Equity securities                | 14,162            | 15,142        | 10,425            | 12,675        | 4,912             | 5,889         |
| Net unrealized (loss)gain        | (5,692)           | -             | 5,069             | -             | 3,710             | -             |
| Total securities, net            | \$703,997         | \$704,439     | \$574,386         | \$575,617     | \$468,799         | \$469,923     |

Includes \$13.8 million of Freddie Mac securities, \$8.7 million of Fannie Mae securities, \$15.3 million in Ginnie Mae securities, \$37.2 million in agency obligations, and \$6.6 million in equity securities acquired from FIBC.

The net unrealized (loss) gain at June 30, 1999, 1998 and 1997 relates to available for sale securities in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Debt and Equity Securities," ("SFAS 115"). The net unrealized gain is presented in order to reconcile the 'Amortized Cost' of the Company's securities portfolio to the recorded value reflected in the Consolidated Statements of Condition.

**CORPORATE DEBT OBLIGATIONS.** The Company invests 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 securities with comparable maturities. In addition, corporate securities are generally less liquid than comparable U.S. Treasury securities. In recognition of the additional risks associated with investing in these securities, the Company'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 Company's equity. At June 30, 1999, the Company's portfolio of corporate debt obligations totaled \$69.9 million, or 3.11% of total assets.

The following table sets forth the amortized cost and fair value of the Company's securities, by accounting classification and by type of security, at the dates indicated.

| At June 30,                        |                  |                  |                  |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                    | 1999             |                  | 1998             |                  | 1997             |                  |
|                                    | Amortized Cost   | Fair Value       | Amortized Cost   | Fair Value       | Amortized Cost   | Fair Value       |
| (Dollars In Thousands)             |                  |                  |                  |                  |                  |                  |
| <b>Held-to-Maturity:</b>           |                  |                  |                  |                  |                  |                  |
| <b>Mortgage-backed securities:</b> |                  |                  |                  |                  |                  |                  |
| Pass through securities            | \$22,820         | \$23,192         | \$46,714         | \$47,443         | \$78,388         | \$79,075         |
| Total mortgage-backed securities   | 22,820           | 23,192           | 46,714           | 47,443           | 78,388           | 79,075           |
| Investment securities              | 31,698           | 31,768           | 78,091           | 78,593           | 101,587          | 102,024          |
| <b>Total Held-to Maturity</b>      | <b>\$54,518</b>  | <b>\$54,960</b>  | <b>\$124,805</b> | <b>\$126,036</b> | <b>\$179,975</b> | <b>\$181,099</b> |
| <b>Available-for-Sale:</b>         |                  |                  |                  |                  |                  |                  |
| <b>Mortgage-backed securities:</b> |                  |                  |                  |                  |                  |                  |
| Pass through securities            | \$158,548        | \$158,593        | \$106,038        | \$107,699        | \$155,433        | \$157,637        |
| CMOs                               | 348,938          | 344,254          | 255,334          | 256,176          | 72,343           | 72,500           |
| Total mortgage-backed securities   | 507,486          | 502,847          | 361,372          | 363,875          | 227,776          | 230,137          |
| Investment securities              | 133,523          | 131,490          | 72,715           | 73,031           | 52,426           | 52,798           |
| Equity securities                  | 14,162           | 15,142           | 10,425           | 12,675           | 4,912            | 5,889            |
| Net unrealized (loss) gain         | (5,692)          | -                | 5,069            | -                | 3,710            | -                |
| <b>Total Available-for-Sale</b>    | <b>\$649,479</b> | <b>\$649,479</b> | <b>\$449,581</b> | <b>\$449,581</b> | <b>\$288,824</b> | <b>\$288,824</b> |
| <b>Total securities, net</b>       | <b>\$703,997</b> | <b>\$704,439</b> | <b>\$574,386</b> | <b>\$575,617</b> | <b>\$468,799</b> | <b>\$469,923</b> |

Includes \$37.8 million of mortgage-backed pass-through securities, \$37.2 million in investment securities and \$6.6 million in equity securities acquired from FIBC, all of which were classified as available for sale.

Mortgage-backed securities include investments in CMOs and REMICs.

Includes corporate debt obligations.

The net unrealized (loss) gain at June 30, 1999, 1998 and 1997 relates to available for sale securities in accordance with SFAS No. 115. The net unrealized gain is presented in order to reconcile the 'Amortized Cost' of the Company's securities portfolio to the recorded value reflected in the Consolidated Statements of Condition.

The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of the Company's securities at June 30, 1999, by remaining period to contractual maturity. With respect to mortgage-backed securities, the entire amount 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. Other than obligations of federal agencies and GSEs, the Company has no investments in securities issued by any one entity in excess of 10% of stockholders' equity at June 30, 1999.

At June 30, 1999

|                                       | 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                     | \$2,040          | \$2,049         | 7.08%                  | \$-                | \$-              | -%                     |
| Due after 1 year but within 5 years   | 15,073           | 15,173          | 6.95                   | 11,691             | 11,506           | 6.29                   |
| Due after 5 years but within 10 years | 5,706            | 5,969           | 7.94                   | 10,997             | 10,807           | 6.47                   |
| Due after ten years                   | 1                | 1               | 13.17                  | 484,798            | 480,534          | 6.35                   |
| <b>Total</b>                          | <b>22,820</b>    | <b>23,192</b>   | <b>7.03</b>            | <b>507,486</b>     | <b>502,847</b>   | <b>6.81</b>            |
| U.S. Treasury and Agency:             |                  |                 |                        |                    |                  |                        |
| Due within 1 year                     | -                | -               | -                      | -                  | -                | -                      |
| Due after 1 year but within 5 years   | 22,401           | 22,400          | 6.49                   | 65,074             | 64,153           | 5.85                   |
| Due after 5 years but within 10 years | -                | -               | -                      | -                  | -                | -                      |
| Due after ten years                   | -                | -               | -                      | -                  | -                | -                      |
| <b>Total</b>                          | <b>22,401</b>    | <b>22,400</b>   | <b>6.49</b>            | <b>65,074</b>      | <b>64,153</b>    | <b>5.85</b>            |
| Corporate and Other                   |                  |                 |                        |                    |                  |                        |
| Due within 1 year                     | 4,169            | 4,200           | 6.67                   | 13,103             | 14,386           | 5.08                   |
| Due after 1 year but within 5 years   | 3,908            | 3,939           | 6.40                   | 61,947             | 60,837           | 6.07                   |
| Due after 5 years but within 10 years | 1,220            | 1,229           | 7.32                   | -                  | -                | -                      |
| Due after ten years                   | -                | -               | -                      | 7,561              | 7,256            | 6.51                   |
| <b>Total</b>                          | <b>9,297</b>     | <b>9,368</b>    | <b>6.64</b>            | <b>82,611</b>      | <b>82,479</b>    | <b>5.36</b>            |
| <b>Total:</b>                         |                  |                 |                        |                    |                  |                        |
| Due within 1 year                     | 6,209            | 6,249           | 6.80                   | 13,103             | 14,386           | 5.08                   |
| Due after 1 year but within 5 years   | 41,382           | 41,512          | 6.65                   | 138,712            | 136,496          | 5.99                   |
| Due after 5 years but within 10 years | 6,926            | 7,198           | 7.83                   | 10,997             | 10,807           | 6.47                   |
| Due after ten years                   | 1                | 1               | 13.17                  | 492,359            | 487,790          | 6.35                   |
| <b>Total</b>                          | <b>\$54,518</b>  | <b>\$54,960</b> | <b>6.82%</b>           | <b>\$655,171</b>   | <b>\$649,479</b> | <b>6.25%</b>           |

#### SOURCES OF FUNDS

GENERAL. Deposits, repayments of loans and mortgage-backed securities, investment security maturities and redemptions, and short- to medium-term borrowings from the FHLBNY, which include both advances and repurchase agreements treated as financings, are the Bank's primary sources of funding for its lending and investment activities. The Bank is also active in the secondary mortgage market, selling substantially all of its new long-term, fixed-rate residential mortgage product to either Fannie Mae, Freddie Mac, or SONYMA.

DEPOSITS. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank presently offers savings accounts, money market accounts, checking accounts, NOW and Super NOW accounts, and certificates of deposit. 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. The Bank has not used brokers to attract and retain deposits, relying instead on customer service, convenience and long-standing relationships with customers.

Consequently, the communities in which the Bank maintains branch offices have historically provided the Bank with nearly all of its deposits. At June 30, 1999, the Bank had deposit liabilities of \$1.25 billion, up \$208.7 million from June 30, 1998. Within total deposits, \$78.7 million, or 6.3%, consisted of certificates of deposit with balances of \$100,000 or greater. Individual Retirement Accounts ('IRA's') totaled \$124.8 million, or 10.0% of total deposits.

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

For the Year Ended June 30,

|  | 1999             | 1998            | 1997            |
|--|------------------|-----------------|-----------------|
| (Dollars In Thousands)                                     |                  |                 |                 |
| Deposits   | \$1,686,616      | \$1,373,072     | \$1,702,024     |
| Withdrawals  | 1,751,003        | 1,340,838       | 1,729,025       |
| Deposits (Withdrawals) in excess of (deposits) withdrawals | (64,387)         | 32,234          | (27,001)        |
| Deposits acquired in purchase of FIBC (1)                  | 230,627          | -               | -               |
| Interest credited  | 42,479           | 42,713          | 40,282          |
| <b>TOTAL INCREASE IN DEPOSITS</b>                          | <b>\$208,719</b> | <b>\$74,947</b> | <b>\$13,281</b> |

(1) Amount comprised of \$123.0 million in certificates of deposit, \$67.4 in savings accounts, \$15.1 million in checking accounts, \$16.7 million in money market accounts, and \$7.5 million in NOW and Super NOW accounts.

At June 30, 1999 the Bank had \$78.7 million in certificate of deposit accounts over \$100,000 maturing as follows:

|                                    | Amount          | Weighted Average Rate |
|------------------------------------|-----------------|-----------------------|
| (Dollars In Thousands)             |                 |                       |
| Maturity Period                    |                 |                       |
| Within three months                | \$23,894        | 5.32%                 |
| After three but within six months  | 12,785          | 5.01                  |
| After six but within twelve months | 26,571          | 5.52                  |
| After 12 months                    | 15,457          | 5.66                  |
| <b>Total</b>                       | <b>\$78,707</b> | <b>5.40%</b>          |

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 June 30,        |                           |                       |                    |                           |                       |                  |                           |                       |
|----------------------------|--------------------|---------------------------|-----------------------|--------------------|---------------------------|-----------------------|------------------|---------------------------|-----------------------|
|                            | 1999               |                           |                       | 1998               |                           |                       | 1997             |                           |                       |
|                            | 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)     |                    |                           |                       |                    |                           |                       |                  |                           |                       |
| Checking accounts          | \$58,542           | 4.70%                     | - %                   | \$37,039           | 3.57%                     | - %                   | \$27,391         | 2.84%                     | - %                   |
| NOW and Super NOW accounts | 25,687             | 2.06                      | 1.22                  | 17,927             | 1.73                      | 1.24                  | 16,324           | 1.69                      | 1.24                  |
| Money market accounts      | 52,979             | 4.25                      | 3.55                  | 30,567             | 2.94                      | 3.09                  | 33,530           | 3.48                      | 2.96                  |
| Savings accounts           | 406,602            | 32.60                     | 2.09                  | 340,481            | 32.79                     | 2.27                  | 344,377          | 35.75                     | 2.27                  |
| Certificates of deposit    | 703,251            | 56.39                     | 5.31                  | 612,328            | 58.97                     | 5.84                  | 541,773          | 56.24                     | 5.61                  |
| <b>Totals</b>              | <b>\$1,247,061</b> | <b>100.00%</b>            |                       | <b>\$1,038,342</b> | <b>100.00%</b>            |                       | <b>\$963,395</b> | <b>100.00%</b>            |                       |



Presented below is information concerning securities sold with agreements to repurchase and FHLB Advances for the years ended June 30, 1999, 1998 and 1997:

Securities Sold Under Agreements to Repurchase:

|  | At or For the Year Ended June 30, |           |          |
|--|-----------------------------------|-----------|----------|
|  | 1999                              | 1998      | 1997     |
|  | (Dollars In Thousands)            |           |          |
| Balance outstanding at end of period                   | \$481,660                         | \$256,601 | \$76,333 |
| Average interest cost at end of period                 | 5.28%                             | 5.74%     | 5.69%    |
| Average balance outstanding                            | 381,996                           | 145,676   | 32,374   |
| Average interest cost during the year                  | 5.45%                             | 5.95%     | 5.73%    |
| Carrying value of underlying collateral                | \$496,500                         | \$267,469 | \$83,778 |
| Estimated market value of underlying collateral        | 491,750                           | 268,991   | 84,172   |
| Maximum balance outstanding at month end during period | 481,660                           | 256,601   | 76,333   |

FHLB Advances:

|  | At or For the Year Ended June 30, |           |          |
|--|-----------------------------------|-----------|----------|
|  | 1999                              | 1998      | 1997     |
|  | (Dollars In Thousands)            |           |          |
| Balance outstanding at end of period                   | \$250,000                         | \$103,505 | \$63,210 |
| Average interest cost at end of period                 | 5.52%                             | 6.05%     | 6.18%    |
| Average balance outstanding                            | 201,494                           | 86,709    | 20,121   |
| Average interest cost during the year                  | 5.96%                             | 6.04%     | 5.79%    |
| Maximum balance outstanding at month end during period | 260,000                           | 103,505   | 63,210   |

SUBSIDIARY ACTIVITIES

In addition to the Bank, the Company's direct and indirect subsidiaries consist of six active wholly-owned subsidiary corporations, one of which is directly owned by the Company and five of which are directly owned by the Bank. In addition, DSBW Preferred Funding Corp. is a direct subsidiary of Havemeyer Equities Inc., a direct subsidiary of the Bank. The following table presents an overview of the Company's subsidiaries as of June 30, 1999.

| COMPANY                                  | 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 Brokerage Corp.                | 1983 / New York              | Management of investment portfolio.       |
| Havemeyer Investments Inc.               | 1997 / New York              | Sale of annuity products                  |
| DSBW Preferred Funding Corp.             | 1998 / Delaware              | Real Estate Investment Trust              |
| DSBW Residential Preferred Funding Corp. | 1998 / Delaware              | Real Estate Investment Trust              |
| Finfed Development Corp.                 | 1985 / New York              | Currently Inactive                        |
| Finfed Funding Corp.                     | 1985 / New York              | Currently Inactive                        |
| FS Agency Corp.                          | 1988 / New York              | Currently Inactive                        |
| 842 Manhattan Avenue Corp.               | 1995 / New York              | Management and ownership of real estate.  |

On August 31, 1999, the Board of Directors of Havemeyer Brokerage Corporation approved a Plan of Liquidation pursuant to which all of the assets and liabilities of Havemeyer Brokerage Corporation will be transferred to the Bank.

Acquired from FIBC on January 21, 1999.

PERSONNEL

As of June 30, 1999, the Company had 256 full-time employees and 81 part-time employees. The employees are not represented by a collective bargaining unit, and the Company considers its relationship with its 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 Bank or the Company. The Bank was last audited for its taxable year ended December 31, 1988. For federal income tax purposes, the Company and the Bank will file separate income tax returns and will each report its respective income 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" (one with assets having an adjusted basis of more than \$500 million), is unable to make additions to its tax bad debt reserve, is permitted to deduct bad debts only as they occur and is required to recapture (i.e. take into income), over a multi-year period, a portion of the balance of its bad debt reserves as of June 30, 1997. Since the 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 is suspended during the tax years ended June 30, 1997 and 1998, based upon the Bank's origination levels for certain residential loans which met the minimum levels required by the Small Business Job Protection Act of 1996, (the "1996 Act") to suspend recapture for that tax year.

DISTRIBUTIONS. To the extent that the Bank makes "non-dividend distributions" to shareholders, such distributions will be considered to result in distributions from the Bank's "base year reserve," i.e. its reserve as of June 30, 1989, to the extent thereof and then from its supplemental reserve for losses on loans, and an amount based on the amount distributed will be included in the Bank's taxable income. 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 an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. 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" and "Dividend Policy" 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 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 regular tax treatment of those items. Thus, the Bank's AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds 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 Bank and the Company are subject to New York State franchise tax on one of several alternative bases, whichever results in the highest tax, and will file combined returns for purposes of this tax. The basic tax is measured by "entire net income," which is federal taxable income with adjustments. For New York State tax purposes, so long as the Bank continues to meet 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 an amount equal to 32% of the Bank's entire net income (the "PTI Method"), computed without regard to this deduction and reduced by the amount of any permitted addition to the Bank's reserve for non-qualifying loans.

New York State (the "State") enacted legislation, which enables the Bank to avoid the recapture into income of the State tax bad debt reserves unless one of the following events occur: 1) the Bank's retained earnings represented by the reserve is

used for purposes other than to absorb losses from bad debts, including dividends in excess of the Bank's earnings and profits or distributions in liquidation or in redemption of stock; 2) the Bank fails to qualify as a thrift as provided by the State tax law, or 3) there is a change in state tax law.

The Bank's deduction with respect to non-qualifying loans must be computed under the Experience Method which is based on the Bank's actual charge-offs. Each year the Bank will review the most favorable way to calculate the deduction attributable to an addition to the tax bad debt reserves.

The New York State tax rate for the 1998 calendar year is 10.53% (including a commuter transportation surcharge) of net income. In general, the Company will not be required to pay New York State tax on dividends and interest received from the Bank.

CITY OF NEW YORK. The Bank and the Company are also subject to a similarly calculated New York City banking corporation tax of 9% on income allocated to New York City.

New York City also enacted legislation which conformed its tax law regarding bad debt deductions to New York State's tax law.

STATE OF DELAWARE. As a Delaware holding company not earning income in Delaware, the 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 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, and the Bank is a member of the FHLBNY. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OTS and the FDIC conduct periodic examinations to assess the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings association can engage and is intended primarily for the protection of the insurance fund and depositors. The Company, as a publicly-held unitary savings and loan 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 Congress, could have a material adverse impact on the Company, the Bank, and the operations of both.

The following discussion is intended to be a summary of the material statutes and regulations applicable to savings associations, 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 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 that is not

rated in one of the four highest rating categories; (b) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property; (c) a limit of 20% of an association's 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 an association's 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 (loans in excess of the specific limitations of HOLA); and (f) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

**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 June 30, 1999, the Bank's limit on loans to one borrower was \$28.6 million. At June 30, 1999, the Bank's largest aggregate amount of loans to one borrower was \$14.7 million and the second largest borrower had an aggregate balance of \$14.3 million.

**QTL TEST.** HOLA requires a savings association to meet 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" in 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 and credit card and purchased mortgage servicing rights, and (c) the value of property used to conduct the association's business. "Qualified thrift investments" includes 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. At June 30, 1999, the Bank maintained 93.5% of its portfolio assets in qualified thrift investments. The Bank had also satisfied the QTL test in each of the prior 12 months and, therefore, was a qualified thrift lender. A savings association may also satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986.

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, (c) obtaining new advances from any FHLB, and (d) 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 meet the QTL test, any company controlling the association would have to register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended. If the savings association does not requalify under the QTL test within the three-year period after it failed the QTL test, it would be required to terminate any activity and to dispose of any investment not permissible for a national bank and would have to repay as promptly as possible any outstanding advances from any FHLB. A savings association that has failed the QTL test may requalify under the QTL test and be free of such limitations, but it may do so only once.

**CAPITAL REQUIREMENTS.** The OTS regulations require savings associations to meet three minimum capital standards: a tangible capital ratio requirement of 1.5% of total assets as adjusted under the OTS regulations and a risk-based capital ratio requirement of 8% of core and supplementary capital to total risk-based assets. The OTS regulations also provide that the minimum leverage capital ratio, or core capital to total adjusted assets, for a depository institution that has been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating is 3% and that the minimum leverage capital ratio for any other depository institution is 4%, unless a higher capital ratio is warranted by the particular circumstances or risk profile of the depository institution. In determining the amount of risk-weighted 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 regulation based on the risks OTS believes are inherent in the type of asset.

Tangible capital is defined, generally, as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related earnings, 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, but

core capital also includes certain qualifying supervisory goodwill and certain purchased credit card relationships. Supplementary capital currently 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 gain 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-weighted assets, and the amount of supplementary capital that may be included as total capital cannot exceed the amount of core capital.

The OTS regulations require a savings association with ''above normal'' interest rate risk to deduct a portion of such capital from its total capital to account for the ''above normal'' interest rate risk. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (I.E., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) resulting from a hypothetical 2% increase or decrease in market rates of interest, divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. At the times when the 3-month Treasury bond equivalent yield falls below 4%, an association may compute its interest rate risk on the basis of a decrease equal to one-half of that Treasury rate rather than on the basis of 2%. A savings association whose measured interest rate risk exposure exceeds 2% would be considered to have ''above normal'' risk. The interest rate risk component is an amount equal to one-half of the difference between the association's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Any required deduction for interest rate risk becomes effective on the last day of the third quarter following the reporting date of the association's financial data on which the interest rate risk was computed. The OTS has indefinitely deferred the implementation of the interest rate risk component in the computation of an institution's risk-based capital requirements. The OTS continues to monitor the interest rate risk of individual institutions and retains the right to impose additional capital requirements on individual institutions.

The table below presents the Bank's regulatory capital as compared to the OTS regulatory capital requirements at June 30, 1999:

|                      | Actual    |                        | Minimum Capital Requirement |       |
|----------------------|-----------|------------------------|-----------------------------|-------|
|                      | Amount    | Ratio                  | Amount                      | Ratio |
| As of June 30, 1999: |           |                        |                             |       |
|                      |           | (Dollars In Thousands) |                             |       |
| Tangible             | \$123,817 | 5.83%                  | \$31,846                    | 1.5%  |
| Leverage Capital     | 123,817   | 5.83                   | 63,693                      | 3.0%  |
| Risk-based capital   | 138,123   | 11.45                  | 96,515                      | 8.0%  |

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

| At June 30, 1999                                 | Tangible Capital       | Leverage Capital | Risk-Based Capital |
|--|------------------------|------------------|--------------------|
|  | (Dollars In Thousands) |                  |                    |
| GAAP capital                                     | \$189,405              | \$189,405        | \$189,405          |
| Non-allowable assets:                            |                        |                  |                    |
| Unrealized loss on available for sale securities | 3,868                  | 3,868            | 3,868              |
| Goodwill   | (64,871)               | (64,871)         | (64,871)           |
| Core deposit intangible                          | (4,585)                | (4,585)          | (4,585)            |
| General valuation allowance                      | -                      | -                | 14,306             |
| Regulatory capital                               | 123,817                | 123,817          | 138,123            |
| Minimum capital requirement                      | 31,846                 | 63,693           | 96,515             |
| Regulatory capital excess                        | \$91,971               | \$60,124         | \$41,608           |

**LIMITATION ON CAPITAL DISTRIBUTIONS.** OTS regulations currently impose limitations upon capital distributions by savings associations, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital. Effective April 1, 1999, the OTS amended its capital distribution regulations to reduce regulatory burdens on savings associations. Under the amended OTS regulations governing capital distributions, certain savings associations are permitted to pay capital distributions during a calendar year that do not exceed the association's net income for the year plus its retained net income for the prior two years, without notice to, or the approval of, the OTS. However, a savings association subsidiary of a savings and loan holding company, such as the Company, will continue to have to file an application to receive the approval of the OTS. These new regulations are more restrictive to the Company than regulations being replaced based upon the Company's historical dividend declaration activities.

In addition, the OTS can prohibit a proposed capital distribution, otherwise permissible under the regulation, if the OTS has determined that the association is in need of more than normal supervision or if it determines 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 meet its minimum capital requirements, as described above. See " - Prompt Corrective Regulatory Action."

**LIQUIDITY.** The Bank is required to maintain an average daily balance of liquid assets (cash, certain time deposits, bankers' acceptances, specified United States Government, state or federal agency obligations, shares of certain mutual funds and certain corporate debt securities and commercial paper) equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus short-term borrowings. This liquidity requirement may be changed from time to time by the OTS to any amount within the range of 4% to 10% depending upon economic conditions and the savings flows of member institutions, and is currently 4%. Monetary penalties may be imposed for failure to meet these liquidity requirements. The Bank's average liquidity ratio for the month ended June 30, 1999 was 10.0% which exceeded the applicable requirements. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirements.

**ASSESSMENTS.** Savings associations are required by OTS regulation to pay assessments to the OTS to fund the operations of the OTS. The general assessment, paid on a semi-annual basis, is computed upon the savings association's total assets, including consolidated subsidiaries, as reported in the association's latest quarterly Thrift Financial Report. The Bank's

assessment expense during the year ended June 30, 1999 totaled \$404,000. The OTS has adopted amendments to its regulations, effective January 1, 1999, that are intended to assess savings associations on a more equitable basis. The regulations base the assessment for an individual savings association 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 for others loans aggregating more than \$1 billion, or had certain off-balance sheet assets aggregating more than \$1 billion. In order to avoid a disproportionate impact upon the smaller savings institutions, which are those whose total assets never exceeded \$100.0 million, the new regulations provide that the portion of the assessment based on asset size will be the lesser of the assessment under the amended regulations or the regulations before the amendment. Management believes that any changes in the rate of OTS assessments under the amended regulations will not be material.

**BRANCHING.** Subject to certain limitations, HOLA and the 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 for a "qualified thrift lender," or qualifies as a "domestic building and loan association" under the Internal Revenue Code of 1986, which imposes qualification requirements similar to those for a "qualified thrift lender" under HOLA. See "QTL Test." The authority for a federal savings association to establish an interstate branch network would facilitate a geographic diversification of the association's activities. This authority under HOLA and the OTS regulations preempts any state law purporting to regulate branching by federal savings associations.

**COMMUNITY REINVESTMENT.** Under the CRA, as implemented by OTS regulations, a savings association has a continuing and affirmative obligation consistent with its safe and sound operation to help meet 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 that it believes are best suited to its particular community, consistent with the CRA. 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 to take such record into account in its evaluation of certain applications by such association. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a "Satisfactory" CRA rating in its most recent examination.

In April 1995, the OTS and the other federal banking agencies adopted amendments revising their CRA regulations. Among other things, the amended CRA regulations substitute for the prior process-based assessment factors a new evaluation system that rates an institution based on its actual performance in meeting community needs. In particular, the amended system focuses on 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, ATMs, and other offices. The amended CRA regulations also clarify how an institution's CRA performance would be considered in the application process.

**TRANSACTIONS WITH RELATED PARTIES.** The Bank's authority to engage in transactions with its "affiliates" is limited by the OTS regulations and by 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. Currently, a subsidiary of a bank that is not also a depository institution is not treated as an affiliate of the bank for purposes of Sections 23A and 23B, but 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 BHCA as an affiliate for purposes of Sections 23A and 23B. The OTS regulations prohibit a savings association (a) from lending to any of its affiliates that is engaged in activities that are not permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act ("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 to or would apply to nonaffiliated companies.

The Bank's authority to extend credit to its directors, executive officers, and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board ('FRB') thereunder. Among other things, these provisions require that extensions of credit to insiders (a) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the association's capital. In addition, extensions of credit in excess of certain limits must be approved by the association's board of directors.

**ENFORCEMENT.** Under the Federal Deposit Insurance Act ('FDI Act'), the OTS has primary enforcement responsibility over savings associations and has the authority to bring enforcement action against all 'institution-affiliated parties,' including any controlling stockholder or any shareholder, attorney, appraiser and accountant who knowingly or recklessly participates in any violation of applicable law or regulation or breach of fiduciary duty or certain other wrongful actions that causes or is likely to cause a more than a minimal loss or other significant adverse effect on an insured savings association. Civil penalties cover a wide range of violations and actions and range from \$5,000 for each day during which violations of law, regulations, orders, and certain written agreements and conditions continue, up to \$1 million per day for such violations if the person obtained a substantial pecuniary gain as a result of such violation or knowingly or recklessly caused a substantial loss to the institution. Criminal penalties for certain financial institution crimes include fines of up to \$1 million and imprisonment for up to 30 years. In addition, regulators have substantial discretion to take enforcement action against an institution that fails to comply with its regulatory requirements, particularly with respect to its capital requirements. Possible enforcement actions range from the imposition of a capital plan and capital directive to receivership, conservatorship, or the termination of deposit insurance. Under the FDI Act, the FDIC has the authority to recommend to the Director of OTS that enforcement action be taken with respect to a particular savings association. If action is not taken by the Director of the OTS, the FDIC has authority to take such action under certain circumstances.

**STANDARDS FOR SAFETY AND SOUNDNESS.** Pursuant to the requirements of the FDI Act, as amended by FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994 ('Community Development Act'), the OTS, together with the other federal bank regulatory agencies, have adopted a set of guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the OTS adopted regulations pursuant to FDICIA that authorize, but do not require, the OTS to order an institution that has been given notice by the OTS that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the OTS must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized association is subject under the 'prompt corrective action' provisions of FDICIA. If an institution fails to comply with such an order, the OTS may seek to enforce such order in judicial proceedings and to impose civil money penalties.

**REAL ESTATE LENDING STANDARDS.** The OTS and the other federal banking agencies adopted regulations to prescribe standards for extensions of credit that (a) are secured by real estate or (b) are made for the purpose of financing the construction of improvements on real estate. The OTS regulations require each savings association to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the association and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying OTS guidelines, which include loan-to-value ratios for the different types of real estate loans. Associations are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are reviewed and justified appropriately. The guidelines also list a number of lending situations in which exceptions to the loan-to-value standards are justified.

PROMPT CORRECTIVE REGULATORY ACTION. Under the OTS prompt corrective action regulations, the OTS is required to take certain, and is authorized to take other, supervisory actions against undercapitalized savings associations. For this purpose, a savings association would be placed in one of five categories based on the association's capital. Generally, a savings association is treated as "well capitalized" if its ratio of total capital to risk-weighted assets is at least 10.0%, its ratio of core capital to risk-weighted assets is at least 6.0%, its ratio of core capital to total assets is at least 5.0%, and it is not subject to any order or directive by the OTS to meet a specific capital level. A savings association will be treated as "adequately capitalized" if its ratio of total capital to risk-weighted assets is at least 8.0%, its ratio of core capital to risk-weighted assets is at least 4.0%, and its ratio of core capital to total assets is at least 4.0% (3.0% if the association receives the highest rating on the CAMEL financial institutions rating system). A savings association that has a total risk-based capital of less than 8.0% or Tier 1 risk-based capital ratio that is less than 4.0% or a leverage ratio (3.0% leverage ratio if the association receives the highest rating on the CAMEL financial institutions rating system) is considered to be "undercapitalized." A savings association that has a total risk-based capital of less than 6.0% or a Tier 1 risk-based capital ratio or a leverage ratio of less than 3.0% is considered to be "significantly undercapitalized." A savings association that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." The elements of an association's capital for purposes of the prompt corrective action regulations are defined generally as they are under the regulations for minimum capital requirements. As of the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. See "-- Capital Requirements."

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as an association's capital deteriorates within the three undercapitalized categories. All associations are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the association would be undercapitalized. An undercapitalized association is required to file a capital restoration plan within 45 days of the date the association receives notice that it is within any of the three undercapitalized categories. The OTS is required to monitor closely the condition of an undercapitalized association and to restrict the asset growth, acquisitions, branching, and new lines of business of such an association. Significantly undercapitalized associations are subject to restrictions on compensation of senior executive officers; such an association may not, without OTS consent, pay any bonus or provide compensation to any senior executive officer at a rate exceeding the officer's average rate of compensation (excluding bonuses, stock options and profit-sharing) during the 12 months preceding the month when the association became undercapitalized. A significantly undercapitalized association may also be subject, among other things, to forced changes in the composition of its board of directors or senior management, additional restrictions on transactions with affiliates, restrictions on acceptance of deposits from correspondent associations, further restrictions on asset growth, restrictions on rates paid on deposits, forced termination or reduction of activities deemed risky, and any further operational restrictions deemed necessary by the OTS.

If one or more grounds exist for appointing a conservator or receiver for an association, the OTS may require the association to issue additional debt or stock, sell assets, be acquired by a depository association holding company or combine with another depository association. The OTS and the FDIC have a broad range of grounds under which they may appoint a receiver or conservator for an insured depository association. Under FDICIA, the OTS is required to appoint a receiver (or with the concurrence of the FDIC, a conservator) for a critically undercapitalized association within 90 days after the association becomes critically undercapitalized or, with the concurrence of the FDIC, to take such other action that would better achieve the purposes of the prompt corrective action provisions. Such alternative action can be renewed for successive 90-day periods. However, if the association continues to be critically undercapitalized on average during the quarter that begins 270 days after it first became critically undercapitalized, a receiver must be appointed, unless the OTS makes certain findings with which the FDIC concurs and the Director of the OTS and the Chairman of the FDIC certify that the association is viable. In addition, an association that is critically undercapitalized is subject to more severe restrictions on its activities, and is prohibited, without prior approval of the FDIC from, among other things, entering into certain material transactions or paying interest on new or renewed liabilities at a rate that would significantly increase the association's weighted average cost of funds.

When appropriate, the OTS can require corrective action by a savings association holding company under the "prompt corrective action" provisions of FDICIA.

INSURANCE OF DEPOSIT ACCOUNTS. Savings associations are subject to a risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under the risk-based assessment system, which

began in 1993, the FDIC assigns an institution to one of three capital categories based on the institution's financial information as of the reporting period ending seven months before the assessment period. The three capital categories consist of (a) well capitalized, (b) adequately capitalized, or (c) undercapitalized. The FDIC also assigns an institution to one of the three supervisory subcategories within each capital group. The supervisory subgroup to which an institution is assigned is based upon a supervisory evaluation provided to the FDIC by the institution's primary federal regulator and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned. Under the regulation, there are nine assessment risk classifications (i.e., combinations of capital groups and supervisory subgroups) to which different assessment rates are applied. Assessment rates currently range from 0.0% of deposits for an institution in the highest category (i.e., well-capitalized and financially sound, with no more than a few minor weaknesses) to 0.27% of deposits for an institution in the lowest category (i.e., undercapitalized and substantial supervisory concern). The FDIC is authorized to raise the assessment rates as necessary to maintain the required reserve ratio of 1.25%. Both the BIF and SAIF currently satisfy the reserve ratio requirement. If the FDIC determines that assessment rates should be increased, institutions in all risk categories could be affected. The FDIC has exercised this authority several times in the past and could raise insurance assessment rates in the future. If such action is taken, it could have an adverse effect upon the earnings of the Bank.

The Funds Act of 1996 also amended the FDIA to recapitalize the SAIF and to expand the assessment base for the payments of FICO bonds. Beginning January 1, 1997, the assessment base included the deposits of both BIF and SAIF-insured institutions. Until December 31, 1999, or such earlier date on which the last savings association ceases to exist, the rate of assessment for BIF-assessable deposits shall be one-fifth of the rate imposed on SAIF-assessable deposits. For the semi-annual period beginning on July 1, 1997, the rates of assessment for FICO bonds are 0.0126% for BIF-assessable deposits and 0.0630% for SAIF-assessable deposits. For the semi-annual period beginning July 1, 1998, the rates of assessment for the FICO bonds is 0.0122% for BIF-assessable deposits and 0.0610 for SAIF-assessable deposits.

FEDERAL HOME LOAN BANK SYSTEM. The Bank is a member of the FHLBNY, which is one of the regional FHLBs composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. The Bank, as a member of the FHLBNY, is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to the greater of 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year or one-twentieth of its advances (borrowings) from the FHLBNY. The Bank was in compliance with this requirement with an investment in FHLB stock at June 30, 1999, of \$28.3 million. Any advances from a FHLB must be secured by specified types of collateral, and all long-term advances may be obtained only for the purpose of providing funds for residential housing finance. The FHLBNY paid dividends on the capital stock of \$1.5 million, \$663,000, and \$503,000 and during the years ended June 30, 1999, 1998 and 1997, respectively. If dividends were reduced, or interest on future FHLB advances increased, the Bank's net interest income would likely also be reduced. Further, there can be no assurance that the impact of FDICIA and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ('FIRREA') on the FHLBs will not also cause a decrease in the value of the FHLB stock held by the Bank.

FEDERAL RESERVE SYSTEM. The Bank is subject to provisions of the FRA and the FRB's regulations pursuant to which depository institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). The FRB regulations generally require that reserves be maintained in the amount of 3% of the aggregate of transaction accounts up to \$46.5 million. The amount of aggregate transaction accounts in excess of \$46.5 million are currently subject to a reserve ratio of 10%, which ratio the FRB may adjust between 8% and 14%. The FRB regulations currently exempt \$4.9 million of otherwise reservable balances from the reserve requirements, which exemption is adjusted by the FRB at the end of each year. The Bank is in compliance with the foregoing reserve requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the OTS. FHLB System members are also authorized to borrow from the Federal Reserve 'discount window,' but FRB regulations require such institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

#### REGULATION OF HOLDING COMPANY

The Company is a non-diversified unitary savings association holding company within the meaning of HOLA, as amended. As such, the Company is required to register with the OTS and is subject to OTS regulations, examinations,

supervision and reporting requirements. In addition, the OTS has enforcement authority over the Company and its non-savings association subsidiaries, if any. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness, or stability of a subsidiary savings association.

HOLA prohibits a savings association holding company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings association or holding company thereof, without prior written approval of the OTS; acquiring or retaining, with certain exceptions, more than 5% of a non-subsubsidiary savings association, a non-subsubsidiary holding company, or a non-subsubsidiary company engaged in activities other than those permitted by HOLA; or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating an application by a holding company to acquire a savings association, the OTS must consider the financial and managerial resources and future prospects of the company and savings association involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, and competitive factors.

As a unitary savings and loan holding company, the Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to satisfy the QTL test. See "'- Regulation of Federal Savings Associations - QTL Test'" for a discussion of the QTL requirements. Upon any non-supervisory acquisition by the Company of another savings association or of a savings bank that meets the QTL test and is deemed to be a savings association by the OTS and that will be held as a separate subsidiary, the Company will become a multiple savings association holding company and will be subject to limitations on the types of business activities in which it can engage. HOLA limits the activities of a multiple savings association holding company and its non-insured association subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the BHC Act, subject to the prior approval of the OTS, and to other activities authorized by OTS regulation.

The OTS is prohibited from approving any acquisition that would result in a multiple savings association holding company controlling savings associations in more than one state, subject to two exceptions: an acquisition of a savings association in another state (a) in a supervisory transaction, and (b) pursuant to authority under the laws of the state of the association to be acquired that specifically permit such acquisitions. The conditions imposed upon interstate acquisitions by those states that have enacted authorizing legislation vary. Some states impose conditions of reciprocity, which have the effect of requiring that the laws of both the state in which the acquiring holding company is located (as determined by the location of its subsidiary savings association) and the state in which the association to be acquired is located, have each enacted legislation allowing its savings associations to be acquired by out-of-state holding companies on the condition that the laws of the other state authorize such transactions on terms no more restrictive than those imposed on the acquiror by the state of the target association. Some of these states also impose regional limitations, which restrict such acquisitions to states within a defined geographic region. Other states allow full nationwide banking without any condition of reciprocity. Some states do not authorize interstate acquisitions of savings associations.

Transactions between the Company and the Bank, including any of its subsidiaries, and any of its affiliates are subject to various conditions and limitations. See "' Regulation of Federal Savings Associations - Transactions with Related Parties.'" The Bank must file an application with the OTS prior to any declaration of the payment of any dividends or other capital distributions to the Company. See "'- Regulation of Federal Savings Associations - Limitation on Capital Distributions.'"

#### FEDERAL SECURITIES LAWS

The Company's Common stock is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

## ITEM 2 - PROPERTIES

The Bank conducts its business through nineteen full-service offices, including eight offices acquired from Conestoga in June, 1996, and five offices acquired from FIBC in January, 1999. The Bank's Main Office and headquarters is located at 209 Havemeyer Street, Brooklyn, New York. The Bank believes that its current facilities are adequate to meet the present and immediately foreseeable needs of the Bank and the Company.

|  | Leased or<br>Owned | Date Leased<br>or Acquired | Lease Expiration<br>Date | Net Book Value<br>at June 30, 1999 |
|--|--------------------|----------------------------|--------------------------|------------------------------------|
| ADMINISTRATIVE OFFICE<br>275 South 5th Street<br>Brooklyn, New York 11211                      | Owned              | 1989                       | -                        | \$3,695,792                        |
| MAIN OFFICE<br>209 Havemeyer Street<br>Brooklyn, New York 11211                                | Owned              | 1906                       | -                        | \$803,775                          |
| AVENUE M BRANCH<br>1600 Avenue M at East 16th<br>Street<br>Brooklyn, New York 11230            | Owned              | 1993                       | -                        | \$477,115                          |
| BAYSIDE BRANCH<br>61-38 Springfield Boulevard<br>Bayside, New York 11364                       | Leased             | 1974                       | May, 2004                | \$48,337                           |
| BELLMORE BRANCH<br>2412 Jerusalem Avenue<br>Bellmore, New York 11710                           | Owned              | 1973                       | -                        | \$465,418                          |
| BENSONHURST BRANCH<br>1545 86th Street<br>Brooklyn, New York 11228                             | Owned              | 1978                       | -                        | \$1,265,741                        |
| BRONX BRANCH<br>1931 Turnbull Avenue<br>Bronx, New York 10473                                  | Leased             | 1965                       | October, 2006            | \$89,415                           |
| FLUSHING BRANCH<br>59-23 Main Street<br>Flushing, New York 11355                               | Leased             | 1974                       | November, 2013           | \$232,947                          |
| GATES AVENUE BRANCH<br>1012 Gates Avenue<br>Brooklyn, New York 11221                           | Owned              | 1905                       | -                        | \$238,545                          |
| GREENPOINT BRANCH<br>814 Manhattan Avenue<br>Brooklyn, NY 11222                                | Owned              | 1995                       | -                        | \$832,597                          |
| HELP CENTER<br>1379 Jerusalem Avenue<br>Merrick, New York 11566                                | Leased             | 1998                       | May, 2003                | \$109,248                          |
| HILLCREST BRANCH<br>176-47 Union Turnpike<br>Flushing, New York 11366                          | Leased             | 1971                       | May, 2001                | \$41,987                           |
| JACKSON HEIGHTS BRANCH<br>75-23 37th Avenue<br>Jackson Heights, New York<br>11372              | Leased             | 1990                       | August, 2005             | \$199,007                          |
| KINGS HIGHWAY BRANCH<br>1902-1904 Kings Highway<br>Brooklyn, New York 11229                    | Owned              | 1976                       | -                        | \$766,429                          |
| LONG ISLAND CITY BRANCH<br>45-14 46th Street<br>Long Island City, New York<br>11104            | Leased             | 1976                       | April, 2001              | \$91,483                           |
| MARINE PARK BRANCH<br>2172 Coyle Street<br>Brooklyn, NY 11229                                  | Owned              | 1993                       | -                        | \$825,535                          |
| MERRICK BRANCH<br>1775 Merrick Avenue<br>Merrick, New York 11566                               | Owned              | 1960                       | -                        | \$234,958                          |
| PORT WASHINGTON BRANCH<br>1000 Port Washington Boulevard<br>Port Washington, New York<br>11050 | Owned              | 1971                       | -                        | \$406,056                          |
| SUNNYSIDE BRANCH<br>42-25 Queens Boulevard<br>Long Island City, New York<br>11104              | Owned              | 1962                       | -                        | \$2,894,168                        |

PROPERTIES (CONTINUED)

|                               |       |      |   |           |
|-------------------------------|-------|------|---|-----------|
| WESTBURY BRANCH               |       | 1994 | - | \$502,596 |
| 622 Old Country Road          |       |      |   |           |
| Westbury, New York 11590      |       |      |   |           |
| WHITESTONE BRANCH             | Owned | 1979 | - | \$753,399 |
| 24-44 Francis Lewis Boulevard |       |      |   |           |
| Whitestone, New York 11357    |       |      |   |           |

The Bank has an option to extend this lease for an additional ten year term at fair market rent, as determined by the agreement of the parties or, if the parties cannot agree, by arbitration

This branch office opened April 29, 1995.

Building owned, land leased. Lease expires in October, 2003.

ITEM 3 - LEGAL PROCEEDINGS

The Bank is involved in various other legal actions arising in the ordinary course of its business which, in the aggregate, involve amounts which are believed to be immaterial to the financial condition and results of operations of the Bank.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

PART II

ITEM 5- MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Information regarding the market for the Company's common stock and related stockholder matters appears in the 1999 Annual Report under the caption "Market for the Company's Common Stock and Related Stockholder Matters," and is incorporated herein by this reference.

ITEM 6. - SELECTED FINANCIAL DATA

Information regarding selected financial data appears in the 1999 Annual Report to Shareholders for the year ended June 30, 1999 ("1999 Annual Report") under the caption "Financial Highlights," and is incorporated herein by this reference.

ITEM 7. -MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information regarding management's discussion and analysis of financial condition and results of operations appears in the 1999 Annual Report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated herein by this reference.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Information regarding market risk appears in the 1999 Annual Report to Shareholders under the caption "Discussion of Market Risk" and is incorporated herein by reference.

ITEM 8. - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information regarding financial statements and supplementary data, including the Independent Auditors' Report appears in the 1999 Annual Report under the captions:  
"Independent Auditors' Report," "Consolidated Statements of Financial Condition at June 30, 1999 and 1998,"  
"Consolidated Statements of Operations for each of the years in the three year period ended June 30, 1999,"  
"Consolidated Statements of Stockholders' Equity for each of the years in the three year period ended June 30, 1999," "Consolidated Statements of Cash Flows for each of the years in the three year period ended June 30,1999,"and "Notes to Consolidated Financial Statements," and is incorporated herein by this reference.

ITEM 9. - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. - DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Information regarding directors and executive officers of the Company is presented under the headings "Proposal 1 - Election of Directors - General, "- Information as to Nominees and Continuing Directors,""- Nominees for Election as Director," "-Continuing Directors," "-Meetings and Committees of the Board of Directors," "-Executive Officers," "-Directors' Compensation," "-Executive Compensation," and "-Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on November 10, 1999 (the "Proxy Statement") which will be filed with the SEC within 120 days of June 30, 1999, and is incorporated herein by reference.

ITEM 11. - EXECUTIVE COMPENSATION

Information regarding executive and director compensation is presented under the headings "Election of Directors - Directors' Compensation," "- Executive Compensation," "-Summary Compensation Table," "Employment Agreements," "- Employee Retention Agreements," "-Employee Severance Compensation Plan," and "- Benefits," in the Proxy Statement and is incorporated herein by reference.

ITEM 12. - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is included under the headings "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

ITEM 13. - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information regarding certain relationships and related transactions is included under the heading "Transactions with Certain Related Persons" in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following consolidated financial statements and schedules of the Company, and the independent auditors' report thereon are included in the Company's Annual Report to Shareholders for the year ended June 30, 1999, and are incorporated herein by reference:

Independent Auditors' Report  
Consolidated Statements of Financial Condition at June 30, 1999 and 1998  
Consolidated Statements of Operations for each of the years in the three year period ended June 30, 1999  
Consolidated Statements of Stockholders' Equity for each of the years in the three year period ended June 30, 1999  
Consolidated Statements of Cash Flows for each of the years in the three year period ended June 30, 1999  
Notes to Consolidated Financial Statements  
Quarterly Results of Operations (Unaudited) for each of the years in the two year period ended June 30, 1999

The remaining information appearing in the 1999 Annual Report is not deemed to be filed as a part of this report, except as expressly provided herein.

## 2. Financial Statement Schedules

Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

(b) Reports on Form 8-K filed during the quarter ended June 30, 1999

NONE

(c) Exhibits Required by Item 601 of Securities and Exchange Commission Regulation S-K:

### EXHIBIT NUMBER

| EXHIBIT<br>NUMBER |  |
|-------------------|--|
| 3.1               | Certificate of Incorporation of Dime Community Bancshares, Inc.(1)   |
| 3.2               | Bylaws of Dime Community Bancshares, Inc. (1)  |
| 4.1               | Certificate of Incorporation of Dime Community Bancshares, Inc. (See Exhibit 3.1 hereto).  |
| 4.2               | Bylaws of Dime Community Bancshares, Inc. (See Exhibit 3.2 hereto).  |
| 4.3               | Draft Stock Certificate of Dime Community Bancshares, Inc. (1)   |
| 4.4               | Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock (2)   |
| 4.5               | Rights Agreement, dated as of April 9, 1998, between Dime Community Bancorp, Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (2)                        |
| 4.6               | Form of Rights Certificate (2)   |
| 10.1              | Agreement and Plan of Merger, dated as of July 18, 1998, by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc. (3)                                    |
| 10.2              | Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (4)  |
| 10.3              | Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (4)   |
| 10.4              | Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (4)  |
| 10.5              | Employment Agreement between Dime Community Bancorp, Inc. and Vincent F. Palagiano (4)   |
| 10.6              | Employment Agreement between Dime Community Bancorp, Inc. and Michael P. Devine (4)  |
| 10.7              | Employment Agreement between Dime Community Bancorp, Inc. and Kenneth J. Mahon (4)   |
| 10.8              | Form of Employee Retention Agreements by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain executive officers (4)                 |
| 10.9              | The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (5)   |
| 10.10             | Severance Pay Plan of The Dime Savings Bank of Williamsburgh (4)   |
| 10.11             | Retirement Plan for Board Members of Dime Community Bancorp, Inc. (5)  |
| 10.12             | Dime Community Bancorp, Inc. Stock Option Plan for Outside Directors, Officers and Employees, as amended by amendments number 1 and 2. (5)                                 |
| 10.13             | Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2. (5)                 |
| 10.14             | Form of stock option agreement for Outside Directors under Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees. (5)          |
| 10.15             | Form of stock option agreement for officers and employees under Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (5)      |
| 10.16             | Form of award notice for outside directors under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)      |
| 10.17             | Form of award notice for officers and employees under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5) |
| 10.18             | Financial Federal Savings Bank Incentive Savings Plan in RSI Retirement Trust.   |
| 10.19             | Financial Federal Savings Bank Employee Stock Ownership Plan.  |

- 10.20 Option Certificates between Dime Community Bancshares, Inc. and each of Messrs. Russo, Segrete, Calamari, Latawiec, O'Gorman and Ms. Swaya pursuant to Section 1.6(b) of the Agreement and Plan of Merger, dated as of July 18, 1998, by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc.
- 11.0 Statement Re: Computation of Per Share Earnings
- 13.1 1999 Annual Report to Shareholders
- 21.1 Subsidiaries of the Registrant
- 27.1 Financial Data Schedule (EDGAR filing only)

- (1) Incorporated by reference to the registrant's Annual Report of Form 10K for the fiscal year ended June 30, 1998, and filed on September 28, 1998.
- (2) Incorporated by reference to the registrant's Current Report on Form 8-K dated April 9, 1998, and filed on April 16, 1998.
- (3) Incorporated by reference to the registrant's Current Report on Form 8-K, dated July 18, 1998, and filed on July 20, 1998, and amended in July 27, 1998.
- (4) Incorporated by reference to Exhibits to the Annual Report on Form 10-K for the fiscal year ended June 30, 1997 and filed on September 26, 1997.
- (5) Incorporated by reference to the registrant's Annual Report of Form 10K for the fiscal year ended June 30, 1997, and filed on September 26, 1997.
- (6) Incorporated by reference to the registrant's Current Report on Form 8-K, dated July 18, 1998, and filed on July 20, 1998, and amended in July 27, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 of the Securities Exchange Act of 1934, as amended, the Registrant certifies that it has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on September 28, 1999.

Dime Community Bancshares, Inc.

By: /S/ VINCENT F. PALAGIANO  
Vincent F. Palagiano  
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

| NAME   | TITLE   | DATE               |
|--|---|--------------------|
| /S/ VINCENT F. PALAGIANO<br>Vincent F. Palagiano | Chairman of the Board and Chief Executive Officer (Principal executive officer)     | September 28, 1999 |
| /S/ MICHAEL P. DEVINE<br>Michael P. Devine       | President and Chief Operating Officer and Director                                  | September 28, 1999 |
| /S/ KENNETH J. MAHON<br>Kenneth J. Mahon         | Executive Vice President, and Chief Financial Officer (Principal financial officer) | September 28, 1999 |
| /S/ ANTHONY BERGAMO<br>Anthony Bergamo           | Director  | September 28, 1999 |
| /S/ GEORGE L. CLARK, JR.<br>George L. Clark, Jr. | Director  | September 28, 1999 |
| /S/ STEVEN D. COHN<br>Steven D. Cohn             | Director  | September 28, 1999 |
| /S/ PATRICK E. CURTIN<br>Patrick E. Curtin       | Director  | September 28, 1999 |

|  |          |                    |
|--|----------|--------------------|
| /S/ JOSEPH H. FARRELL<br>Joseph H. Farrell   | Director | September 28, 1999 |
| /S/ FRED P. FEHRENBACH<br>Fred P. Fehrenbach | Director | September 28, 1999 |
| /S/ JOHN J. FLYNN<br>John J. Flynn           | Director | September 28, 1999 |
| /S/ MALCOLM T. KITSON<br>Malcolm T. Kitson   | Director | September 28, 1999 |
| /S/ STANLEY MEISELS<br>Stanley Meisels       | Director | September 28, 1999 |
| /S/ LOUIS V. VARONE<br>Louis V. Varone       | Director | September 28, 1999 |

Financial Federal Savings  
and Loan Association  
Incentive Savings Plan

In RSI Retirement Trust

(AS AMENDED AND RESTATED EFFECTIVE MARCH 2, 1993  
AND AS FURTHER AMENDED THROUGH JANUARY 1, 1994)

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## INTRODUCTION

Effective as of June 1, 1984, Financial Federal Savings and Loan Association ("Employer") adopted the Financial Federal Savings and Loan Association Incentive Savings Plan ("Prior Plan").

Effective as of March 2, 1993, the Employer adopted resolutions wherein RSI Retirement Trust was named successor trustee and the RSI Retirement Trust Agreement and Declaration of Trust ("Agreement") was adopted.

Effective as of March 2, 1993, the Prior Plan was amended and restated in its entirety. The amended and restated plan shall be known as the Financial Federal Savings and Loan Association Incentive Savings Plan in RSI Retirement Trust ("Plan"), shall contain the terms and conditions set forth herein, and shall in all respects be subject to the provisions of the Agreement which are incorporated herein and made a part hereof.

The Plan as amended and restated hereunder incorporates a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended ("Code").

The Plan shall constitute a profit-sharing plan within the meaning of Section 401(a) of the Code.

Subject to any amendments that may subsequently be adopted by the Employer prior to his Termination of Service, the provisions set forth in this Plan shall apply to an Employee who is in the employment of the Employer on or after March 2, 1993. Except to the extent specifically required to the contrary under the terms of this Plan, for terminations of employment prior to March 2, 1993, the rights and benefits of a former participant shall be determined in accordance with the provisions of the Plan or Prior Plan as in effect on the date of the former participant's termination of employment.

The Employer has herein restated the Plan with the intention that (a) the Plan shall at all times be qualified under Section 401(a) of the Code, (b) the Agreement shall be tax-exempt under Section 501(a) of the Code, and (c) Employer contributions under the Plan shall be tax deductible under Section 404 of the Code. The provisions of the Plan and the Agreement shall be construed to effectuate such intentions.

ARTICLE I - DEFINITIONS

The following words and phrases shall have the meanings hereinafter ascribed to them. Those words and phrases which have limited application are defined in the respective Articles in which such terms appear.

- 1.1 ACCOUNTS means the Basic Contribution Account, Special Contribution Account, Matching Contribution Account and Rollover Contribution Account established under the Plan on behalf of an Employee.
- 1.2 ACTUAL CONTRIBUTION PERCENTAGE means the ratio (expressed as a percentage) of the sum of Matching Contributions under the Plan which are made on behalf of an Eligible Employee for the Plan Year to such Eligible Employee's compensation (as defined under Section 414(s) of the Code) for the Plan Year. An Eligible Employee's compensation hereunder shall include compensation receivable from the Employer for that portion of the Plan Year during which the Employee is an Eligible Employee, up to a maximum of \$200,000, adjusted as prescribed by the Secretary of the Treasury under Section 401(a)(17) of the Code. Commencing January 1, 1994, the amount of Compensation taken into account for a Plan Year shall not exceed \$150,000, adjusted in multiples of \$10,000 for increases in the cost-of-living as prescribed by the Secretary of the Treasury under Section 401(a)(17)(B) of the Code. In determining compensation, the rules of Section 414(q)(6) of the Code shall apply except that the term "family" shall include only the Spouse and those lineal descendants of the Employee who have not attained age nineteen (19) before the close of the Plan Year.
- 1.3 ACTUAL DEFERRAL PERCENTAGE means the ratio (expressed as a percentage) of the sum of Basic Contributions and Qualified Nonelective Contributions taken into account under the Plan for the purpose of determining the Actual Deferral Percentage, which are made on behalf of an Eligible Employee for the Plan Year to such Eligible Employee's compensation (as defined under Section 414(s) of the Code) for the Plan Year. An Eligible Employee's compensation hereunder shall include compensation receivable from the Employer for that portion of the Plan Year during which the Employee is an Eligible Employee, up to a maximum of \$200,000, adjusted as prescribed by the Secretary of the Treasury under Section 401(a)(17) of the Code. Commencing January 1, 1994, the amount of Compensation taken into account for a Plan Year shall not exceed \$150,000, adjusted in multiples of \$10,000 for increases in the cost-of-living as prescribed by the Secretary of the Treasury under Section 401(a)(17)(B) of the Code. In determining compensation, the rules of Section 414(q)(6) of the Code shall apply except that the term "family" shall include only the Spouse and those lineal descendants of the Employee who have not attained age nineteen (19) before the close of the Plan Year.
- 1.4 AFFILIATED EMPLOYER means a member of an affiliated service group (as defined under Section 414(m) of the Code), a controlled group of corporations (as defined under Section 414(b) of the Code), a group of trades or businesses under common control (as defined under Section 414(c) of the Code) of which the Employer is a member, any

leasing organization (as defined under Section 414(n) of the Code) providing the services of Leased Employees to the Employer, or any other group provided for under any and all Income Tax Regulations promulgated by the Secretary of the Treasury under Section 414(o) of the Code.

- 1.5 AFFILIATED SERVICE means employment with an employer during the period that such employer is an Affiliated Employer.
- 1.6 AGREEMENT means the RSI Retirement Trust Agreement and Declaration of Trust as amended and restated August 1, 1990, as amended from time to time. The Agreement shall be incorporated herein and constitute a part of the Plan.
- 1.7 AVERAGE ACTUAL CONTRIBUTION PERCENTAGE means the average of the Actual Contribution Percentages of (a) the group comprised of Eligible Employees who are Highly Compensated Employees or (b) the group comprised of Eligible Employees who are Non-Highly Compensated Employees, whichever is applicable.
- 1.8 AVERAGE ACTUAL DEFERRAL PERCENTAGE means the average of the Actual Deferral Percentages of (a) the group comprised of Eligible Employees who are Highly Compensated Employees or (b) the group comprised of Eligible Employees who are Non-Highly Compensated Employees, whichever is applicable.
- 1.9 BASIC CONTRIBUTION ACCOUNT means the separate, individual account established on behalf of a Participant to which Basic Contributions made on his behalf are credited, together with all earnings and appreciation thereon, and against which are charged any withdrawals, loans and other distributions made from such account and any losses, depreciation or expenses allocable to amounts credited to such account.
- 1.10 BASIC CONTRIBUTIONS means the contributions of the Employer made in accordance with the Compensation Reduction Agreements of Participants pursuant to Section 3.1.
- 1.11 BENEFICIARY means any person who is receiving or is eligible to receive a benefit under Section 7.7 of the Plan upon the death of an Employee or former Employee.
- 1.12 BOARD means the board of trustees, directors or other governing body of the Employer.
- 1.13 CODE means the Internal Revenue Code of 1986, as amended from time to time.
- 1.14 COMMITTEE means the person or persons appointed by the Employer in accordance with Section 9.2(b).
- 1.15 COMPENSATION means an Employee's wages, salary, fees and other amounts defined as compensation in Section 415(c) (3) of the Code and Income Tax Regulations Sections 1.415-2(d) (2) and (3), received for personal services actually rendered in the course of employment with the Employer for the calendar year, prior to any reduction pursuant to a Compensation Reduction Agreement. Compensation shall include commissions, compensation based on profits, overtime, bonuses, wage continuation payments to an Employee absent due to illness or disability of a short-term nature, amounts paid or reimbursed by the Employer for Employee moving expenses (to the extent not deductible by the Employee), and the value of any nonqualified stock option granted to an Employee by the Employer (to the extent includable in gross income for the year granted).

Compensation does not include contributions made by the Employer to any other pension, deferred compensation, welfare or other employee benefit plan, amounts realized from the exercise of a nonqualified stock option or the sale of a qualified stock option, and other amounts which receive special tax benefits.

Compensation shall not exceed \$200,000, adjusted as prescribed by the Secretary of the Treasury under Section 401(a)(17) of the Code. Commencing January 1, 1994, Compensation shall not exceed \$150,000, adjusted in multiples of \$10,000 for increases in the cost-of-living, as prescribed by the Secretary of the Treasury under Section 401(a)(17)(B) of the Code. For purposes of this Section 1.15, if the Plan Year in which a Participant's Compensation is paid is less than twelve (12) calendar months, the applicable limitation hereunder, for such Plan Year multiplied by a fraction, the numerator of which is the number of months taken into account for such Plan Year and the denominator of which is twelve (12). In determining the dollar limitation hereunder, compensation received from any Affiliated Employer shall be recognized as Compensation and the rules of Section 414(q)(6) of the Code shall apply except that the term "family" shall include only the Spouse and those lineal descendants of the Employee who have not attained age nineteen (19) before the close of the Plan Year.

- 1.16 COMPENSATION REDUCTION AGREEMENT means an agreement between the Employer and an Eligible Employee whereby the Eligible Employee agrees to reduce his Compensation during the applicable payroll period by an amount equal to any whole percentage thereof and the Employer agrees to contribute to the Trust, on behalf of such Eligible Employee, an amount equal to the specified reduction in Compensation.
- 1.17 COMPUTATION PERIOD means the twelve (12) consecutive month period commencing with the Employee's Employment Commencement Date and each Plan Year commencing subsequent to the Employee's Employment Commencement Date
- 1.18 DISABILITY means a physical or mental condition, determined after review of those medical reports deemed satisfactory for this purpose, which renders the Participant totally and permanently incapable of engaging in any substantial gainful employment based on his education, training and experience.
- 1.19 EARLY RETIREMENT DATE means the first day of any month coincident with or following the later of (a) the Participant's attainment of age fifty-five (55) or (b) the completion of a Period of Service of ten (10) years.
- 1.20 EFFECTIVE DATE means June 1, 1984.
- 1.21 ELIGIBLE EMPLOYEE means an Employee who is eligible to participate in the Plan pursuant to the provisions of Article II.
- 1.22 EMPLOYEE means any person employed by the Employer.
- 1.23 EMPLOYER means Financial Federal Savings and Loan Association or any successor organization which shall continue to maintain the Plan set forth herein.

- 1.24 EMPLOYER RESOLUTIONS means resolutions adopted by the Board.
- 1.25 EMPLOYMENT COMMENCEMENT DATE means the date on which an Employee first performs an Hour of Service for the Employer upon initial employment or, if applicable, upon reemployment.
- 1.26 ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 1.27 FORFEITURES means any amounts forfeited pursuant to Section 4.2 by a Participant whose Termination of Service occurs prior to such Participant's being fully vested in the Net Value of his Account.
- 1.28 HARDSHIP means the condition described in Section 7.3.
- 1.29 HIGHLY COMPENSATED EMPLOYEE means, with respect to a Plan Year, an Employee or an employee of an Affiliated Employer who is such an Employee or employee during the Plan Year for which a determination is being made and who:
- (a) during the Plan Year immediately preceding the Plan Year for which a determination is being made:
    - (i) received compensation as defined under Section 414(q)(7) of the Code ("Section 414(q) Compensation") from the Employer of greater than \$75,000, adjusted as prescribed by the Secretary of the Treasury under Section 415(d) of the Code, or
    - (ii) received Section 414(q) Compensation from the Employer of greater than \$50,000, adjusted as prescribed by the Secretary of the Treasury under Section 415(d) of the Code, and was a member of the top-paid group of Employees (as defined under Section 414(q)(4) of the Code) ("Top-Paid Group"), or
    - (iii) was an officer (as determined in accordance with Section 414(q)(5) of the Code) of the Employer who received Section 414(q) Compensation from the Employer of greater than fifty percent (50%) of the dollar limitation in effect under Section 415(b)(1)(A) of the Code, or if no such officer of the Employer satisfied such compensation was the highest paid officer for such year, or
  - (b) during the Plan Year for which a determination is being made, satisfies the requirements of subsection (a)(i), (ii) or (iii), determined without regard to "during the Plan Year immediately preceding the Plan Year for which a determination is made", and is a member of the group consisting of the one hundred (100) Employees receiving the highest Section 414(q) Compensation from the Employer during such Plan Year ("Top 100 Employees"), or

(c) at any time during the Plan Year for which a determination is being made or at any time during the Plan Year immediately preceding the Plan Year for which a determination is being made, was a five-percent owner as described under Section 414(q)(3) of the Code.

Highly Compensated Employee also means a former Employee who (A) incurred a Termination of Service prior to the Plan Year of the determination, (B) is not credited with an Hour of Service during the Plan Year of the determination and (C) satisfied the requirements of subsection (a), (b) or (c) during either the Plan Year of his Termination of Service or any Plan Year ending coincident with or subsequent to the Employee's attainment of age fifty-five (55).

If, during either the Plan Year of the determination or the preceding Plan Year, an Employee is a Family Member of either (1) a five-percent owner (as defined under Section 414(q)(3) of the Code), or (2) a Highly Compensated Employee who is among the ten (10) highly compensated Employees receiving the highest Section 414(q) Compensation from the Employer during such Plan Year, the Section 414(q) Compensation and the Accounts of the Family Member shall be aggregated with the Section 414(q) Compensation and the Accounts of such Highly Compensated Employee and the Family Member and the Highly Compensated Employee shall be treated as a single Employee. For purposes of this Section 1.29, Family Member includes the Spouse, lineal ascendants and descendants of the Employee or former Employee and the spouse of a lineal ascendant or descendant.

The determination of the number and identity of Employees in the Top-Paid Group, the Top 100 Employees, and the number of Employees treated as officers shall be made in accordance with Section 414(q) of the Code and regulations promulgated thereunder by the Secretary of the Treasury.

1.30 HOUR OF SERVICE means the following:

- (a) each hour for which an Employee is directly or indirectly paid, or entitled to payment, by the Employer for the performance of duties. These hours shall be credited to the Employee for the computation period or periods in which the duties are performed; and
- (b) each hour, up to a maximum of five hundred and one (501) hours for any single continuous period, for which an Employee is directly or indirectly paid or entitled to payment by the Employer for reasons (such as but not limited to vacation, sickness or disability) other than for the performance of duties (irrespective of whether the employment relationship has terminated). These hours shall be credited to the Employee for the computation period or periods in which the nonperformance of duties occur; and
- (c) each hour for which back pay, irrespective of mitigation of damage, has been either awarded or agreed to by the Employer. These hours shall be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement, or payment was made. Hours shall not be credited for payment to an individual

from a plan required by workmen's compensation, or disability insurance law, nor shall hours be credited for reimbursement of an individual for his medical or medically related expenses. These same Hours of Service shall not be credited under both paragraph (a) or paragraph (b) of this Section, and under this paragraph (c).

(d) Hours of Service shall be computed and credited in accordance with Section 2530.200b-2 of the Department of Labor Regulations which are incorporated herein by reference.

(e) Hours of Service shall include Affiliated Service.

Hours of Service for whom records are not maintained shall be determined on the assumption that each Employee has completed eight (8) Hours of Service per day for which he would be required to be credited with at least one (1) Hour of Service.

1.31 INVESTMENT ACCOUNTS means any and all of the investment accounts established by a separate written agreement between the Employer and the Trustees for the purpose of investing contributions made to the Trust Fund in accordance with the provisions of the Agreement. The securities and other property in which contributions to the Investment Accounts of the Trust Fund may be invested shall be specified in the Agreement and the rights of the Trustees shall be established in accordance with the provisions of such Agreement.

1.32 LEASED EMPLOYEE means any individual (other than an Employee of the Employer or an employee of an Affiliated Employer) who, pursuant to an agreement between the Employer or any Affiliated Employer and any other person ("leasing organization"), has performed services for the Employer or any Affiliated Employer on a substantially full-time basis for a period of at least one (1) year, and such services are of a type historically performed by employees in the business field of the Employer or any Affiliated Employer. A determination as to whether a Leased Employee shall be treated as an Employee of the Employer or an Affiliated Employer shall be made in accordance with Section 414(n) of the Code and any and all Income Tax Regulations promulgated thereunder.

1.33 MATCHING CONTRIBUTION ACCOUNT means the separate, individual account established on behalf of a Participant to which the Matching Contributions made on such Participant's behalf under the Prior Plan or the Plan are credited, together with all earnings and appreciation thereon, and against which are charged any withdrawals, loans and other distributions made from such account and any losses, depreciation or expenses allocable to amounts credited to such account.

1.34 MATCHING CONTRIBUTIONS means the contributions made by the Employer pursuant to Section 3.4.

1.35 NAMED FIDUCIARIES means the Trustees and the Committee designated by the Employer to control and manage the operation and administration of the Plan.

1.36 NET VALUE means the value of an Employee's Accounts as determined as of the Valuation Date coincident with or next following the event requiring such determination.

- 1.37 NON-HIGHLY COMPENSATED EMPLOYEE means, with respect to a Plan Year, an Employee who is neither a Highly Compensated Employee nor a family member as provided in Section 414(q)(6) of the Code.
- 1.38 NORMAL RETIREMENT AGE means the date an Employee attains age sixty-five (65).
- 1.39 NORMAL RETIREMENT DATE means the first day of the month coincident with or next following the Participant's Normal Retirement Age.
- 1.40 ONE YEAR PERIOD OF SEVERANCE means a twelve (12) consecutive month period following an Employee's Termination of Service with the Employer during which the Employee did not perform an Hour of Service. Notwithstanding the foregoing, if an Employee's Employment Commencement Date occurred prior to the Restatement Date, such Employee incurs a termination of service (as defined under the Prior Plan) during the Computation Period commencing immediately prior to the Restatement Date, such Employee's One Year Period of Severance shall be deemed to have commenced as of the first day following the last day of such Computation Period. Prior to the Restatement Date, a One Year Period of Severance means a Plan Year during which the Employee did not complete more than five hundred (500) Hours of Service.

Notwithstanding the foregoing, if an Employee is absent from employment for maternity or paternity reasons, such absence during the twenty-four (24) month period commencing on the first date of such absence shall not constitute a One Year Period of Severance. An absence from employment for maternity or paternity reasons means an absence (a) by reason of pregnancy of the Employee, or (b) by reason of a birth of a child of the Employee, or (c) by reason of the placement of a child with the Employee in connection with the adoption of such child by such Employee, or (d) for purposes of caring for such child for a period beginning immediately following such birth or placement.

- 1.41 PARTICIPANT means an Eligible Employee who, in accordance with the provisions of Section 2.3, has elected to participate in the Plan and whose participation in the Plan has not been terminated in accordance with the provisions of Section 2.4.
- 1.42 PERIOD OF SERVICE means a period commencing with an Employee's Employment Commencement Date and ending on the date such Employee first incurs a Termination of Service. Notwithstanding the foregoing, if an Employee's Employment Commencement Date occurred prior to March 1, 1993, such Employee's Period of Service shall not be less than the sum of:
- (a) the number of years of completed years of service credited to such Employee as of February 28, 1993 under the provisions of the Prior Plan; and
  - (b) and additional year of service for the Computation Period beginning immediately prior to March 2, 1993, provided the Employee completes at least one thousand Hours of Service during such Computation Period; and
  - (c) the period commencing on March 2, 1993 and ending on the date such Employee first incurs a Termination of Service.

Notwithstanding the foregoing, the period between the first and second anniversary of the first date of a maternity or paternity absence described under Section 1.40 shall not be included in determining a Period of Service.

A period on or after the Restatement Date during which an individual was not employed by the Employer shall nevertheless be deemed to be a Period of Service if such individual incurred a Termination of Service and:

- (a) such Termination of Service was the result of resignation, discharge or retirement and such individual is reemployed by the Employer within one (1) year after such Termination of Service; or
- (b) such Termination of Service occurred when the individual was otherwise absent for less than one (1) year and he was reemployed by the Employer within one (1) year after the date such absence began.

All Periods of Service not disregarded under Sections 2.5 and 4.3 shall be aggregated.

Wherever used in the Plan, a Period of Service means the quotient obtained by dividing the days in all Periods of Service not disregarded hereunder by 365 and disregarding any fractional remainder.

1.43 PLAN means the Financial Federal Savings and Loan Association Incentive Savings Plan in RSI Retirement Trust, as herein restated and as it may be amended from time to time.

1.44 PLAN ADMINISTRATOR means the person or persons who have been designated as such by the Employer in accordance with the provisions of Section 9.4.

1.45 PLAN FUNDS means the assets of the Plan held in the Trust Fund.

1.46 PLAN YEAR means the calendar year.

1.47 POSTPONED RETIREMENT DATE means the first day of the month coincident with or next following a Participant's date of actual retirement which occurs after his Normal Retirement Date.

1.48 PRIOR PLAN means the Financial Federal Savings and Loan Association Incentive Savings Plan as in effect on the date immediately preceding the Restatement Date.

1.49 QUALIFIED NONELECTIVE CONTRIBUTIONS means contributions, other than Matching Contributions, made by the Employer, which (a) Participants may not elect to receive in cash in lieu of their being contributed to the Plan; (b) are one hundred percent (100%) nonforfeitable when made; and (c) are not distributable under the terms of the Plan to Participants or their Beneficiaries until the earliest of:

- (i) the Participant's death, Disability or separation from service for other reasons;
- (ii) the Participant's attainment of age fifty-nine and one-half (59-1/2); or
- (iii) termination of the Plan.

Special Contributions defined under Section 1.55 are Qualified Nonelective Contributions.

- 1.50 RESTATEMENT DATE means March 2, 1993.
- 1.51 RETIREMENT DATE means the Participant's Normal Retirement Date, Early Retirement Date or Postponed Retirement Date, whichever is applicable.
- 1.52 ROLLOVER CONTRIBUTION means (a) a contribution to the Plan of money received by an Employee from a qualified plan or (b) a contribution to the Plan of money transferred directly from another qualified plan on behalf of the Employee, which the Code permits to be rolled over into the Plan.
- 1.53 ROLLOVER CONTRIBUTION ACCOUNT means the separate, individual account established on behalf of an Employee to which his Rollover Contributions are credited together with all earnings and appreciation thereon, and against which are charged any withdrawals, loans and other distributions made from such account and any losses, depreciation or expenses allocable to amounts credited to such account.
- 1.54 SPECIAL CONTRIBUTIONS means the contributions made by the Employer pursuant to Section 3.5. Special Contributions are Qualified Nonelective Contributions as defined under Section 1.49.
- 1.55 SPOUSE means a person to whom the Employee was legally married and which marriage had not been dissolved by formal divorce proceedings that had been completed prior to the date on which payments to the Employee are scheduled to commence.
- 1.56 TERMINATION OF SERVICE means the earlier of (a) the date on which an Employee's service is terminated by reason of his resignation, retirement, discharge, death or Disability or (b) the first anniversary of the date on which such Employee's active service ceases for any other reason.

Service in the Armed Forces of the United States of America shall not constitute a Termination of Service but shall be considered to be a period of employment by the Employer provided that (i) such military service is caused by war or other emergency or the Employee is required to serve under the laws of conscription in time of peace, (ii) the Employee returns to employment with the Employer within six (6) months following discharge from such military service and (iii) such Employee is reemployed by the Employer at a time when the Employee had a right to reemployment at his former position or substantially similar position upon separation from such military duty in accordance with seniority rights as protected under the laws of the United States of America.

A leave of absence granted to an Employee by the Employer shall not constitute a Termination of Service provided that the Participant returns to the active service of the Employer at the expiration of any such period for which leave has been granted.

Notwithstanding the foregoing, an Employee who is absent from service with the Employer beyond the first anniversary of the first date of his absence for maternity or paternity reasons set forth in Section 1.40 shall incur a Termination of Service for purposes of the Plan on the second anniversary of the date of such absence.

1.57 TRUST means the trust established or maintained under the Agreement with respect to the Plan.

1.58 TRUST FUND means the assets held in accordance with the Agreement.

1.59 TRUSTEES means the Trustees of the RSI Retirement Trust.

1.60 UNITS means the units of measure of an Employee's proportionate undivided beneficial interest in one or more of the Investment Accounts, valued as of the close of business.

1.61 VALUATION DATE means each business day.

ARTICLE II -  
ELIGIBILITY AND PARTICIPATION

2.1 Eligibility

- (a) Every Employee who was a Participant in the Prior Plan immediately prior to the Restatement Date shall continue to be a Participant on the Restatement Date.
- (b) Every other Employee who is not excluded under the provisions of Section 2.2 shall become an Eligible Employee upon satisfying all of the following conditions:
  - (i) completion of a Period of Service of one (1) year;
  - (ii) attainment of age twenty-one (21); and
  - (iii) classification as a salaried Employee or an hourly paid Employee who is regularly scheduled to complete one thousand (1,000) Hours of Service in a Plan Year.
- (c) For purposes of determining (i) if an Employee completed a Period of Service of one (1) year and (ii) Periods of Service pursuant to Section 2.5, employment with an Affiliated Employer shall be deemed employment with the Employer.
- (d) An Employee who otherwise satisfies the requirements of this Section 2.1 but who is excluded under the provisions of Section 2.2 shall become an Eligible Employee immediately upon classification as an Employee under the provisions of subsection (b) (iii).

2.2 INELIGIBLE EMPLOYEES

The following classes of Employees are ineligible to participate in the Plan:

- (a) Employees compensated on an hourly-paid basis who are not regularly scheduled to complete at least one thousand (1,000) Hours of Service during a Plan Year.
- (b) Employees compensated on a daily, commission, fee, or retainer basis;
- (c) Leased Employees;
- (d) Employees in a unit of Employees covered by a collective bargaining agreement with the Employer pursuant to which employee benefits were the subject of good faith bargaining and which agreement does not expressly provide that Employees of such unit be covered under the Plan; and
- (e) Owner-Employees. For purposes of this Section 2.2(e), Owner-Employee means an individual who is a sole proprietor or who is a partner owning more than ten

percent (10%) of either the capital or profits interest of a partnership which adopted the Plan.

### 2.3 PARTICIPATION

An Employee who was a Participant in the Prior Plan immediately prior to the Restatement Date shall continue to be a Participant in the Plan on the Restatement Date. Commencing as of the Restatement Date, an Eligible Employee may elect to participate as of the first day of any payroll period following satisfaction of the eligibility requirements set forth in Section 2.1. Such election shall be evidenced by completing and filing the form prescribed by the Committee not less than ten (10) days prior to the date participation is to commence. Such form shall include, but not be limited to, a Compensation Reduction Agreement, a designation of Beneficiary, and an investment direction as described in Section 6.1. By completing and filing such form, the Participant authorizes the Employer to make the applicable payroll deductions from Compensation, commencing on the first applicable payday coincident with or next following the effective date of the Participant's election.

### 2.4 TERMINATION OF PARTICIPATION

Participation in the Plan shall terminate on the earlier of the date a Participant dies or the entire vested interest in the Net Value of such Participant's Accounts has been distributed.

### 2.5 ELIGIBILITY UPON REEMPLOYMENT

If an Employee incurs a One Year Period of Severance prior to satisfying the eligibility requirements of Section 2.1, service prior to such One Year Period of Severance shall be disregarded and such Employee must satisfy the eligibility requirements of Section 2.1 as a new Employee.

If an Employee incurs a One Year Period of Severance after satisfying the eligibility requirements of Section 2.1 and:

- (a) if such Employee is not vested in any Matching Contributions, incurs a One Year Period of Severance and again performs an Hour of Service, the Employee shall receive credit for Periods of Service prior to a One Year Period of Severance only if the number of consecutive One Year Periods of Severance is less than the greater of: (i) five (5) years or (ii) the aggregate number of such Employee's Periods of Service credited before his One Year Period of Severance. If such former Employee's Periods of Service prior to his One Year Period of Severance are reccredited under this Section 2.5, such former Employee shall be eligible to participate immediately upon reemployment, provided such Employee is not excluded from participating under the provisions of Section 2.2. If such former Employee's Periods of Service prior to his One Year Period of Severance are not reccredited under this Section 2.5, such Employee must satisfy the eligibility requirements of Section 2.1 as a new Employee;
- (b) if such Employee is vested in any Matching Contributions, incurs a One Year Period of Severance and again performs an Hour of Service, the Employee shall

receive credit for Periods of Service prior to his One Year Period of Severance and shall be eligible to participate in the Plan immediately upon reemployment, provided such Employee is not excluded from participating under the provisions of Section 2.2.

ARTICLE III -  
CONTRIBUTIONS AND LIMITATIONS ON CONTRIBUTIONS

3.1 Basic Contributions

The Employer shall make Basic Contributions for each payroll period in an amount equal to the amount by which a Participant's Compensation has been reduced with respect to such period under his Compensation Reduction Agreement. Subject to the limitations set forth in Sections 3.2 and 3.11, the amount of reduction authorized by the Eligible Employee shall be limited to whole percentages of Compensation and shall not be less than one percent (1%) nor greater than fifteen percent (15%). The Basic Contributions made on behalf of a Participant shall be credited to such Participant's Basic Contribution Account and shall be invested in accordance with Article VI of the Plan.

3.2 LIMITATION ON BASIC CONTRIBUTIONS

- (a) The percentage of Basic Contributions made on behalf of a Participant who is a Highly Compensated Employee shall be limited so that the Average Actual Deferral Percentage for the group of such Highly Compensated Employees for the Plan Year does not exceed the greater of:
- (i) the Average Actual Deferral Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year multiplied by 1.25; or
  - (ii) the Average Actual Deferral Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year, multiplied by two (2); provided that the difference in the Average Actual Deferral Percentage for eligible Highly Compensated Employees and eligible Non-Highly Compensated Employees does not exceed two percent (2%). Use of this alternative limitation shall be subject to the provisions of Income Tax Regulations Section 1.401(m)-2 regarding the multiple use of the alternative deferral tests set forth in Sections 401(k) and 401(m) of the Code.

If the Average Actual Deferral Percentage for the group of eligible Highly Compensated Employees exceeds the limitations set forth in the preceding paragraph, the amount of excess Basic Contributions for a Highly Compensated Employee shall be determined by "leveling" the highest Actual Deferral Percentage until the Average Actual Deferral Percentage for the group of eligible Highly Compensated Employees complies with such limitations. For purposes of this paragraph, "leveling" means reducing the Actual Deferral Percentage of the Highly Compensated Employee with the highest Actual Deferral Percentage to the extent required to:

- (A) enable the Average Actual Deferral Percentage limitations to be met, or

(B) cause such Highly Compensated Employee's Actual Deferral Percentage to equal the Actual Deferral Percentage of the Highly Compensated Employee with the next highest Actual Deferral Percentage and repeating such process until the Average Actual Deferral Percentage for the group of eligible Highly Compensated Employees complies with the Average Actual Deferral Percentage limitations.

If Basic Contributions made on behalf of a Participant during any Plan Year exceed the maximum amount applicable to a Participant as set forth above, any such contributions, including any earnings thereon as determined under Section 3.8, shall be characterized as Compensation payable to the Participant and shall be paid to the Participant from his Basic Contribution Account no later than two and one-half (2-1/2) months after the close of such Plan Year.

In the event that the Plan satisfies the requirements of Section 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of Section 410(b) of the Code only if aggregated with the Plan, then this Section 3.2 shall be applied by determining the Actual Deferral Percentages of Eligible Employees as if all such plans were a single plan.

- (b) Basic Contributions and elective deferrals (as defined under Section 402(g) of the Code) under all other plans, contracts or arrangements of the Employer made on behalf of any Participant during the 1993 Plan Year shall not exceed \$8,994. For Plan Years commencing after December 31, 1993, Basic Contributions and elective deferrals (as defined under Section 402(g) of the Code) under all other plans, contracts or arrangements of the Employer shall not exceed \$7,000, adjusted as prescribed by the Secretary of the Treasury under Section 415(d) of the Code.
- (c) If Basic Contributions made on behalf of a Participant during any Plan Year exceed the dollar limitation set forth in subsection (b), such contributions, including any earnings thereon as determined under Section 3.8, shall be characterized as Compensation payable to the Participant and shall be paid to the Participant from his Basic Contribution Account no later than April 15th of the calendar year following the close of such Plan Year.
- (d) Subject to the requirements of Sections 401(a) and 401(k) of the Code, the maximum amounts under subsections (a) and (b) may differ in amount or percentage as between individual Participants or classes of Participants, and any Compensation Reduction Agreement may be terminated, amended, or suspended without the consent of any such Participant or Participants in order to comply with the provisions of such subsections (a) and (b).

### 3.3 CHANGES IN BASIC CONTRIBUTIONS

Unless (a) an election is made to the contrary, or (b) a Participant receives a Hardship distribution pursuant to Section 7.3(c)(iii), the percentage of Basic Contributions made under Section 3.1 shall continue in effect so long as the Participant has a Compensation

Reduction Agreement in force. A Participant may, by completing the applicable form, prospectively increase or decrease the rate of Basic Contributions made on his behalf to any of the percentages authorized under Section 3.1 or suspend Basic Contributions without withdrawing from participation in the Plan. Such form must be filed at least ten (10) days prior to the first day of the payroll period with respect to which such change is to become effective. A Participant who has Basic Contributions made on his behalf suspended may resume such contributions by completing and filing the applicable form. Not more often than once in any calendar quarter may an election be made which would prospectively increase, decrease, suspend or resume Basic Contributions made on behalf of a Participant.

Notwithstanding the foregoing, a Participant who receives a Hardship distribution pursuant to Section 7.3(c)(iii) shall have his Compensation Reduction Agreement deemed null and void and all Basic Contributions made on behalf of such Participant shall be suspended until the later to occur of: (i) twelve (12) months after receipt of the Hardship distribution and (ii) the first payroll period which occurs ten (10) days following the completion and filing of a Compensation Reduction Agreement authorizing the resumption of Basic Contributions to be made on his behalf. Basic Contributions following a Hardship distribution made pursuant to Section 7.3(c)(iii) shall be subject to the following limitations:

- (A) Basic Contributions for the Participant's taxable year immediately following the taxable year of the Hardship distribution shall not exceed the applicable limit under Section 402(g) of the Code for such next taxable year less the amount of such Participant's Basic Contributions for the taxable year of the Hardship distribution, and
- (B) the percentage of Basic Contributions for the twelve (12) month period following the mandatory twelve (12) month suspension period shall not exceed the percentage of Basic Contributions made on behalf of the Participant as set forth in the last Compensation Reduction Agreement in effect prior to the Hardship distribution. Basic Contributions based on Compensation for the period during which such contributions had been suspended or decreased may not be made up at a later date.

#### 3.4 MATCHING CONTRIBUTIONS

- (a) The Employer shall make contributions on behalf of each Participant in an amount equal to twenty five percent (25%) of the first four percent (4%) such Participant's Basic Contributions, up to a maximum of one percent (1%) of the Participant's Compensation.
- (b) Matching Contributions shall be credited to the Participant's Matching Contribution Account and shall be invested in accordance with Article VI of the Plan.
- (c) If a Participant terminates his Basic Contributions, Matching Contributions attributable to such contributions will also cease. If Basic Contributions are suspended, the Matching Contributions attributable to such contributions will be suspended for the same period. Subject to the limitations set forth in subsection

(a), if Basic Contributions are increased or decreased, Matching Contributions attributable to such contributions will be increased or decreased during the same period. Matching Contributions for the period during which Basic Contributions had been suspended or decreased may not be made up at a later date.

(d) Matching Contributions will be reviewed from time to time and may be modified by the Employer's Board.

### 3.5 SPECIAL CONTRIBUTIONS

In addition to any other contributions, the Employer may, in its discretion, make Special Contributions to the Plan for a Plan Year, to the Special Contribution Account of a Participant. Special Contributions shall be in an amount determined by the Board, as a percentage of the Compensation of Participants who are in the employ of the Employer on the last day of the Plan Year. Such Special Contributions may be limited to the amount necessary to insure that the Plan complies with the requirements of Section 401(k) of the Code. The Special Contributions made on behalf of a Participant shall be invested in accordance with Article VI of the Plan.

Alternatively, the Employer may provide that Special Contributions be made only on behalf of each Eligible Employee who is a Non-Highly Compensated Employee on the last day of the Plan Year. Such Special Contributions shall be allocated in proportion to each such Eligible Employee's Compensation for the Plan Year.

Any other provision of the Plan to the contrary notwithstanding, no Matching Contributions shall be made with respect to any Special Contributions.

### 3.6 LIMITATION ON MATCHING CONTRIBUTIONS

The Actual Contribution Percentage made on behalf of a Participant who is a Highly Compensated Employee shall be limited so that the Average Actual Contribution Percentage for the group of such Highly Compensated Employees for the Plan Year shall not exceed the greater of:

- (a) the Average Actual Contribution Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year multiplied by 1.25; or
- (b) the Average Actual Contribution Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year, multiplied by two (2); provided that the difference in the Average Actual Contribution Percentage for Highly Compensated Employees and Non-Highly Compensated Employees does not exceed two percent (2%). Use of this alternative limitation shall be subject to the provisions of Income Tax Regulations Section 1.401(m)-2 regarding the multiple use of the alternative deferral tests set forth in Sections 401(k) and 401(m) of the Code.

If the Average Actual Contribution Percentage for the group of eligible Highly Compensated Employees exceeds the limitations set forth in the preceding paragraph, the amount of excess Matching Contributions for a Highly

Compensated Employee shall be determined by "leveling" the highest Actual Contribution Percentage until the Average Actual Contribution Percentage for the group of eligible Highly Compensated Employees complies with such limitations. For purposes of this paragraph, "leveling" means reducing the Actual Contribution Percentage of the Highly Compensated Employee with the highest Actual Contribution Percentage to the extent required to:

- (i) enable the Average Actual Contribution Percentage limitations to be met, or
- (ii) cause such Highly Compensated Employee's Actual Contribution Percentage to equal the Actual Contribution Percentage of the Highly Compensated Employee with the next highest Actual Contribution Percentage and repeating such process until the Average Actual Contribution Percentage for the group of eligible Highly Compensated Employees complies with the Average Actual Contribution Percentage limitations.

If Matching Contributions during any Plan Year exceed the maximum amount applicable to a Participant as set forth above, any such contributions, including any earnings thereon as determined under Section 3.8, shall, to the extent vested, be characterized as Compensation payable to the Participant and any such vested Matching Contribution, including earnings thereon as determined under Section 3.8, shall be paid to the Participant from the applicable Account no later than two and one-half (2-1/2) months after the close of such Plan Year.

In the event that the Plan satisfies the requirements of Section 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of Section 410(b) of the Code only if aggregated with the Plan, then this Section 3.6 shall be applied by determining the Actual Contribution Percentages of Eligible Employees as if all such plans were a single plan.

### 3.7 AGGREGATE LIMIT; MULTIPLE USE OF ALTERNATIVE LIMITATION

Multiple use of the alternative limitation in determining the Average Actual Deferral Percentage and Average Actual Contribution Percentage shall not be permitted.

Multiple use of the alternative limitation occurs if, for the group of Eligible Employees who are Highly Compensated Employees, the sum of the Average Actual Deferral Percentage and the Average Actual Contribution Percentage exceeds the Aggregate Limit. For purposes of this Section 3.7, Aggregate Limit shall mean the greater of (a) or (b), where (a) and (b) are as follows:

- (a) the sum of:
  - (i) one hundred twenty-five percent (125%) of the greater of:

(A) the Average Actual Deferral Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year; or

(B) the Average Actual Contribution Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year; and

(ii) two (2) plus the lesser of subsection (a)(i)(A) or (a)(i)(B). In no event shall this amount exceed two hundred percent (200%) of the lesser of subsection (a)(i)(A) or (a)(i)(B).

(b) the sum of:

(i) one hundred twenty-five percent (125%) of the lesser of:

(A) the Average Actual Deferral Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year; or

(B) the Average Actual Contribution Percentage for the group of Eligible Employees who are Non-Highly Compensated Employees for the Plan Year; and

(ii) two (2) plus the greater of subsection (b)(i)(A) or (b)(i)(B). In no event shall this amount exceed two hundred percent (200%) of the greater of subsection (b)(i)(A) or (b)(i)(B).

If multiple use of the alternative limitation occurs, the Average Actual Deferral Percentage for all Highly Compensated Employees under the Plan shall be reduced in accordance with the provisions of Income Tax Regulations Section 1.401(m)-2(c).

### 3.8 INTEREST ON EXCESS CONTRIBUTIONS

In the event Basic Contributions and/or Matching Contributions and/or Special Contributions made on behalf of a Participant during a Plan Year exceed the maximum allowable amount as described in Section 3.2(a), 3.2(b) or 3.6 ("Excess Contributions") and such Excess Contributions and earnings thereon are payable to the Participant under the applicable provisions of the Plan, earnings on such Excess Contributions for the period commencing with the first day of the Plan Year in which the Excess Contributions were made and ending with the date of payment to the Participant ("Allocation Period") shall be determined in accordance with the provisions of this Section 3.8.

The earnings allocable to excess Basic Contributions for an Allocation Period shall be equal to the sum of (a) plus (b) where (a) and (b) are determined as follows:

(a) The amount of earnings attributable to the Participant's Basic Contribution Account for the Plan Year multiplied by a fraction, the numerator of which is the excess Basic Contributions and Special Contributions for the Plan Year, and the

denominator of which is the sum of (i) the Net Value of the Participant's Basic Contribution Account and Special Contribution Account as of the last day of the immediately preceding Plan Year and (ii) the contributions (including the Excess Contributions) made to the Basic Contribution Account and Special Contribution Account on the Participant's behalf during such Plan Year.

- (b) The amount of earnings attributable to the Participant's Basic Contribution Account and Special Contribution Account for the period commencing with the first day of the Plan Year in which payment is made to the Participant and ending with the date of payment to the Participant multiplied by a fraction, the numerator of which is the excess Basic Contributions and Special Contributions made to the Basic Contribution Account and Special Contribution Account on the Participant's behalf during the Plan Year immediately preceding the Plan Year in which the payment is made to the Participant, and the denominator of which is the Net Value of the Participant's Basic Contribution Account and Special Contribution Account on the first day of the Plan Year in which the payment is made to the Participant.

The earnings allocable to excess Matching Contributions for an Allocation Period shall be equal to the sum of (A) and (B) where (A) and (B) are determined as follows:

- (A) The amount of earnings attributable to the Participant's Matching Contribution Account for the Plan Year multiplied by a fraction, the numerator of which is the excess Matching Contributions for the Plan Year, and the denominator of which is the sum of (I) the Net Value of the Participant's Matching Contribution Account as of the last day of the immediately preceding Plan Year and (II) the contributions (including the Excess Contributions) made to the Matching Contribution Account on the Participant's behalf during such Plan Year.
- (B) The amount of earnings attributable to the Participant's Matching Contribution Account for the period commencing with the first day of the Plan Year in which payment is made to the Participant and ending with the date of payment to the Participant multiplied by a fraction, the numerator of which is the excess Matching Contributions made to the Matching Contribution Account on the Participant's behalf during the Plan Year immediately preceding the Plan Year in which the payment is made to the Participant, and the denominator of which is the Net Value of the Participant's Matching Contribution Account on the first day of the Plan Year in which the payment is made to the Participant.

### 3.9 PAYMENT OF CONTRIBUTIONS TO THE TRUST

As soon as possible after each payroll period, but not less often than once a month, the Employer shall deliver to the Trustees: (a) the Basic Contributions required to be made to the Trust during such payroll period under the applicable Compensation Reduction

Agreements,  
and (b) the amount of all Matching Contributions required to be made to the Trust for such payroll period.

Special Contributions to the Trust shall be forwarded by the Employer to the Trustees no later than the time for filing the Employer's federal income tax return, plus any extensions thereon, for the Plan Year to which they are attributable.

### 3.10 ROLLOVER CONTRIBUTIONS

Subject to such terms and conditions as may from time to time be established by the Committee and the Trustees, an Employee, whether or not a Participant, may contribute a Rollover Contribution to the Plan Fund; provided, however, that such Employee shall submit a written certification, in form and substance satisfactory to the Committee, that the contribution qualifies as a Rollover Contribution. The Committee shall be entitled to rely on such certification and shall accept the contribution on behalf of the Trustees. Rollover Contributions shall be credited to an Employee's Rollover Contribution Account and shall be invested in accordance with Article VI of the Plan.

### 3.11 SECTION 415 LIMITS ON CONTRIBUTIONS

(a) For purposes of this Section 3.11, the following terms and phrases shall have the meanings hereafter ascribed to them:

(i) "Annual Additions" shall mean the sum of the following amounts credited to a Participant's Accounts for the Limitation Year: (A) Employer contributions, including Basic Contributions, Special Contributions and Matching Contributions; (B) any Employee contributions; (C) forfeitures; and (D) contributions attributable to medical benefits as described in Sections 415(1)(1) and 419A(d)(2) of the Code. Annual Additions include the following contributions credited to a Participant's Accounts for the Limitation Year, regardless of whether such contributions have been distributed to the Participant:

(I) Basic Contributions which exceed the limitations set forth in Section 3.2(a);

(II) Basic Contributions made on behalf of a Highly Compensated Employee which exceed the limitations set forth in Section 3.2(b); and

(III) Matching Contributions made on behalf of a Highly Compensated Employee which exceed the limitations set forth in Section 3.6.

(ii) "Current Accrued Benefit" shall mean a Participant's annual accrued benefit under a defined benefit plan, determined in accordance with the meaning of Section 415(b)(2) of the Code, as if the Participant had separated from service as of the close of the last Limitation Year beginning before January 1, 1987. In determining the amount of a Participant's Current Accrued Benefit, the following shall be disregarded:

(A) any change in the terms and conditions of the defined benefit plan after May 5, 1986; and

(B) any cost of living adjustment occurring after May 5, 1986.

(iii) "Defined Benefit Plan" and "Defined Contribution Plan" shall have the meanings set forth in Section 415(k) of the Code.

(iv) "Defined Benefit Plan Fraction" for a Limitation Year shall mean a fraction, (A) the numerator of which is the aggregate projected annual benefit (determined as of the last day of the Limitation Year) the Participant under all defined benefit plans (whether or not terminated) maintained by the Employer, and (B) the denominator of which is the lesser of: (I) the product of 125 (or such adjustment as required under Section 12.5) and the dollar limitation in effect under Section 415(b)(1)(A) of the Code, adjusted as prescribed by the Secretary of the Treasury under Section 415(d) of the Code, or (II) the product of 1.4 and the amount which may be taken into account with respect to such Participant under Section 415(b)(1)(B) of the Code for such Limitation Year. Notwithstanding the above, if the Participant was a participant in one or more defined benefit plans of the Employer in existence on May 6, 1986, the dollar limitation of the denominator of this fraction will not be less than the Participant's Current Accrued Benefit.

(v) "Defined Contribution Plan Fraction" for a Limitation Year shall mean a fraction, (A) the numerator of which is the sum of the Participant's Annual Additions under all defined contribution plans (whether or not terminated) maintained by the Employer for the current year and all prior Limitation Years (including annual additions attributable to the Participant's nondeductible employee contributions to all defined benefit plans (whether or not terminated) maintained by the Employer), and (B) the denominator of which is the sum of the maximum aggregate amounts for the current year and all prior Limitation Years with the Employer (regardless of whether a defined contribution plan was maintained by the Employer). "Maximum aggregate amounts" shall mean the lesser of (I) the product of 1.25 (or such adjustment as required under Section 12.5) and the dollar limitation in effect under Section 415(c)(1)(A) of the Code, adjusted as prescribed by the Secretary of the Treasury under Section 415(d) of the Code, or (II) the product of 1.4 and the amount that may be taken into account under Section 415(c)(1)(B) of the Code; provided, however, that the Committee may elect, on a uniform and nondiscriminatory basis, to apply the special transition rule of Section 415(e)(6) of the Code applicable to Limitation Years ending before January 1, 1983 in determining the denominator of the Defined Contribution Plan Fraction.

(vi) "Limitation Year" shall mean the calendar year.

- (vii) "Section 415 Compensation" shall be a Participant's remuneration as defined in Income Tax Regulations Sections 1.415-2(d) (2), (3) and (6).
- (b) For purposes of applying the Section 415 limitations, the Employer and all members of a controlled group of corporations (as defined under Section 414(b) of the Code as modified by Section 415(h) of the Code), all commonly controlled trades or businesses (as defined under Section 414(c) of the Code as modified by Section 415(h) of the Code), all affiliated service groups (as defined under Section 414(m) of the Code) of which the Employer is a member, any leasing organization (as defined under Section 414(n) of the Code) that employs any person who is considered an Employee under Section 414(n) of the Code and any other group provided for under any and all Income Tax Regulations promulgated by the Secretary of the Treasury under Section 414(o) of the Code, shall be treated as a single employer.
- (c) If the Employer maintains more than one qualified Defined Contribution Plan on behalf of its Employees, such plans shall be treated as one Defined Contribution Plan for purposes of applying the Section 415 limitations of the Code.
- (d) Notwithstanding anything contained in the Plan to the contrary, in no event shall the Annual Additions to a Participant's Accounts for a Limitation Year exceed the lesser of:
- (i) \$30,000 or, if greater, one-fourth (1/4th) of the defined benefit dollar limitation set forth in Section 415(b)(1)(A) of the Code as in effect for the Limitation Year; or
  - (ii) twenty-five percent (25%) of the Participant's Section 415 Compensation for such Limitation Year. For purposes of this subsection (d)(ii), Section 415 Compensation shall not include (A) any contribution for medical benefits within the meaning of Section 419A(f)(2) of the Code after separation from service, which is otherwise treated as an Annual Addition, and (B) any amount otherwise treated as an Annual Addition under Section 415(1)(1) of the Code.
- (e) If the Annual Additions to a Participant's Accounts for a Limitation Year exceed the limitation set forth in subsection (d) above during the Limitation Year, any or all of the following contributions on behalf of such Participant shall be immediately adjusted to that amount which will result in such Annual Additions not exceeding the limitation set forth in subsection (d):
- (i) Basic Contributions;
  - (ii) Special Contributions; and
  - (iii) Matching Contributions.

- (f) If the Annual Additions to a Participant's Accounts for a Limitation Year exceed the limitations set forth in subsection (d) above at the end of a Limitation Year, such excess amounts shall not be treated as Annual Additions in such Limitation Year but shall instead be used to reduce the Basic Contributions, Matching Contributions and/or Special Contributions to be made on behalf of such Participant in the succeeding Limitation Year, provided that such Participant is an Eligible Employee during such succeeding Limitation Year. If such Participant is not an Eligible Employee or ceases to be an Eligible Employee during such succeeding Limitation Year, any remaining excess amounts from the preceding Limitation Year shall be allocated during such succeeding Limitation Year to each Participant then actively participating in the Plan. Such allocation shall be in proportion to the Basic Contributions made to date on his behalf for such Limitation Year, or the prior Limitation Year with respect to an allocation as of the beginning of a Limitation Year, before any other contributions are made in such succeeding Limitation Year.
- (g) If a Participant participates in both (i) the Plan and/or any other defined contribution plan maintained by the Employer and (ii) any defined benefit plan or plans maintained by the Employer, the sum of the Defined Contribution Plan Fraction and the Defined Benefit Plan Fraction shall not exceed the sum of 1.0.
- (h) If the sum determined under subsection (g) for any Participant exceeds 1.0, the Defined Contribution Plan Fraction of such Participant as provided in the defined contribution plan or plans maintained by the Employer shall be reduced in order that such sum shall not exceed 1.0.

ARTICLE IV -  
VESTING AND FORFEITURES

4.1 Vesting

- (a) An Employee shall always be fully vested in the Net Value of his Basic Contribution Account, the Net Value of his Special Contribution Account and the Net Value of his Rollover Contribution Account.
- (b) A Participant shall become fully vested in the Net Value of his Matching Contribution Account upon the earlier of such Participant's (i) Normal Retirement Age or (ii) termination of employment by reason of death, Disability or reaching his Retirement Date.
- (c) A Participant who is not fully vested under subsection (b) shall be vested in the Net Value of his Matching Contribution Account in accordance with the following schedule:

| Vested | PERIOD OF SERVICE             | PERCENTAGE |
|--------|-------------------------------|------------|
|        | Less than 3 years             | 0%         |
|        | 3 years but less than 4 years | 33-1/3%    |
|        | 4 years but less than 5 years | 66-2/3%    |
|        | 5 or more years               | 100%       |

For purposes of determining a Participant's Period of Service under this subsection (c) and under Section 4.3, employment with an Affiliated Employer shall be deemed employment with the Employer.

For purposes of determining a Participant's vested percentage of the Net Value of his Matching Contribution Account, all Periods of Service shall be included.

- (d) The vested Net Value of a Participant's Matching Contribution Account shall be determined as follows:
  - (i) the Participant's Matching Contribution Account shall first be increased to include (A) that portion of such Account which had been previously withdrawn in accordance with Sections 7.2 and 7.3 and (B) that portion of such Account which had been borrowed in accordance with Article VIII and is outstanding on the date of this determination;
  - (ii) the applicable vested percentage determined in accordance with subsection (c) shall then be applied to such Account as determined in accordance with clause (i);

(iii) the amount determined in accordance with clause (ii) shall then be reduced by (A) that portion of such Account which had been previously withdrawn in accordance with Sections 7.2 and 7.3 and (B) that portion of such Account which had been borrowed in accordance with Article VIII and is outstanding on the date of this determination.

#### 4.2 FORFEITURES

If a Participant who is not fully vested in the Net Value of his Accounts terminates employment, the Units representing the nonvested portion of his Accounts shall constitute Forfeitures. Forfeitures shall be treated as Matching Contributions and shall be applied to reduce the amount of subsequent Matching Contributions otherwise required to be made.

If a former Participant who is not fully vested in the Net Value of his Accounts receives a distribution of his vested interest in the Net Value of his Accounts and is subsequently reemployed by the Employer prior to incurring five (5) consecutive One Year Periods of Severance, he shall have the Net Value of his Accounts as of the date he previously terminated employment reinstated provided he repays the full amount of his distribution before the end of the five (5) consecutive One Year Periods of Severance commencing with his termination of employment. The reinstated amount shall be unadjusted by any gains or losses occurring subsequent to the Participant's termination of employment and prior to repayment of such distribution. Any forfeited amounts required to be reinstated hereunder shall be made by an additional Employer contribution for such Plan Year. If such former Participant does not repay the full amount of his distribution before the end of the five (5) consecutive One Year Periods of Severance commencing with his termination of employment, the Net Value of his Accounts as of the date he previously terminated employment shall not be reinstated.

If a former Participant who is not fully vested in the Net Value of his Accounts elects to defer distribution of his vested account interest or elects to receive installment payments pursuant to Section or 7.6(d), the nonvested portion of such former Participant's Account shall be forfeited as of the date of his Termination of Service; provided, however, that if such former Participant is reemployed before incurring five (5) consecutive One Year Periods of Severance, the nonvested portion of his Accounts shall be reinstated in its entirety, unadjusted by any gains or losses occurring subsequent to the distribution.

#### 4.3 VESTING UPON REEMPLOYMENT

- (a) For purposes of this Section 4.3, "Period of Service" means an Employee's Period of Service determined in accordance with Section 4.1(c).
- (b) For the purpose of determining a Participant's vested interest in the Net Value of his Matching Contribution Account:
  - (i) if an Employee is not vested in any Matching Contributions, incurs a One Year Period of Severance and again performs an Hour of Service, such Employee shall receive credit for his Periods of Service prior to his One Year Period of Severance only if the number of consecutive One Year

Periods of Severance is less than the greater of: (A) five (5) years or (B) the aggregate number of his Periods of Service credited before his One Year Period of Severance.

- (ii) if a Participant is partially vested in any Matching Contributions, incurs a One Year Period of Severance and again performs an Hour of Service, such Participant shall receive credit for his Periods of Service prior to his One Year Period of Severance; provided, however, that after five (5) consecutive One Year Periods of Severance, a former Participant's vested interest in the Net Value of the Matching Contribution Account attributable to Periods of Service prior to his One Year Period of Severance shall not be increased as a result of his Periods of Service following his reemployment date.
- (iii) if a Participant is fully vested in any Matching Contributions, incurs a One Year Period of Severance and again performs an Hour of Service, such Participant shall receive credit for all his Periods of Service prior to his One Year Period of Severance.

ARTICLE V -  
Trust Fund and Investment Accounts

5.1 Trust Fund

The Employer has adopted the Agreement as the funding vehicle with respect to the Investment Accounts.

All contributions forwarded by the Employer to the Trustees pursuant to the Agreement shall be held by them in trust and shall be used to purchase Units on behalf of the Plan in accordance with the terms and provisions of the Agreement. Contributions designated for investment in any Investment Account of the Trust Fund shall be allocated proportionately to and among the classes of Units so selected for such Investment Account.

All assets of the Plan shall be held for the exclusive benefit of Participants, Beneficiaries or other persons entitled to benefits. No part of the corpus or income of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants, Beneficiaries or other persons entitled to benefits and for defraying reasonable administrative expenses of the Plan and Trust. No person shall have any interest in or right to any part of the earnings of the Trust Fund, or any rights in, to or under the Trust Fund or any part of its assets, except to the extent expressly provided in the Plan.

The Trustees shall invest and reinvest the Trust Fund, and the income therefrom, without distinction between principal and income, in accordance with the terms and provisions of the Agreement. The Trustees may maintain such part of the Trust Fund in cash uninvested as they shall deem necessary or desirable. The Trustees shall be the owner of and have title to all the assets of the Trust Fund and shall have full power to manage the same, except as otherwise specifically provided in the Agreement.

5.2 INTERIM INVESTMENTS

The Trustees may temporarily invest any amounts designated for investment in any of the Investment Accounts of the Trust Fund identified herein in the Investment Account which provides for short-term investments and retain the value of such contributions therein pending the allocation of such values to the Investment Accounts designated for investment.

5.3 ACCOUNT VALUES

The Net Value of the Accounts of an Employee means the sum of the total Net Value of each Account maintained on behalf of the Employee in the Trust as determined as of the Valuation Date coincident with or next following the event requiring the determination of such Net Value. The assets of any Account shall consist of the Units credited to such

Account. The Units shall be valued from time to time by the Trustees in accordance with the Agreement, but not less often than monthly. On the basis of such valuations, each Employee's Accounts shall be adjusted to reflect the effect of income collected and accrued, realized and unrealized profits and losses, expenses and all other transactions during the period ending on the applicable Valuation Date.

Upon receipt by the Trustees of Basic Contributions, Matching Contributions, and, if applicable, Rollover Contributions and Special Contributions, such contributions shall be applied to purchase Units for such Employee's Account, using the value of such Units as of the close of business on the date received. Whenever a distribution is made to a Participant, Beneficiary or other person entitled to benefits, the appropriate number of Units credited to such Employee shall be reduced accordingly and each such distribution shall be charged against the Units of the Investment Accounts of such Employee pro rata according to their respective values.

For the purposes of this Section 5.3, fractions of Units as well as whole Units may be purchased or redeemed for the Account of an Employee.

ARTICLE VI -

Investment Directions, Changes of Investment Directions and  
Transfers Between Investment Accounts

6.1 INVESTMENT DIRECTIONS

Upon electing to participate, each Participant shall direct that the contributions made to his Accounts shall be applied to purchase Units in any one or more of the Investment Accounts of the Trust Fund . Such direction shall indicate the percentage, in multiples of ten percent (10%), in which Basic Contributions, Matching Contributions, Special Contributions and Rollover Contributions shall be made to the designated Investment Accounts.

To the extent a Participant shall fail to make an investment direction, contributions made on his behalf shall be applied to purchase Units in the Investment Account which provides for short-term investments.

6.2 CHANGE OF INVESTMENT DIRECTIONS

A Participant may change any investment direction not more often than once in any calendar quarter by completing and filing a notice in the form and manner prescribed by the Committee at least ten (10) days prior to the effective date of such direction. Any such change shall be subject to the same conditions as if it were an initial direction and shall be applied only to any contributions to be invested on or after the effective date of such direction.

6.3 TRANSFERS BETWEEN INVESTMENT ACCOUNTS

By filing a notice in the form and manner prescribed by the Committee at least ten (10) days prior to the effective date of such change, a Participant or Beneficiary may, not more often than once in any calendar quarter, direct that multiples of ten percent (10%) of the Net Value of any one or more Investment Accounts be transferred to any one or more of the other Investment Accounts. The requisite transfers shall be valued as of the Valuation Date on which the direction is received by the Trustees and shall be affected within seven (7) days of the Trustees' receipt of such direction.

6.4 EMPLOYEES OTHER THAN PARTICIPANTS

(a) INVESTMENT DIRECTION

An Employee who is not a Participant but who has made a Rollover Contribution in accordance with the provisions of Section 3.10, shall direct, in the form and manner prescribed by the Committee, that such contribution be applied to the purchase of Units in any one or more of the Investment Accounts. Such direction shall indicate the percentage, in multiples of ten percent (10%), in which contributions shall be made to the designated Investment Accounts. To the extent any Employee shall fail to make an investment direction, the Rollover

Contributions shall be applied to the purchase of Units in the Investment Account which provides for short-term investments.

(b) TRANSFERS BETWEEN INVESTMENT ACCOUNTS

An Employee who is not a Participant may, subject to the provisions of Section 6.3, not more often than once in any calendar quarter, direct that multiples of ten percent (10%) of the Net Value of any one or more Investment Accounts be transferred to any one or more of the other Investment Accounts. The requisite transfers shall be valued as of the Valuation Date on which the direction is received by the Trustees and shall be affected within seven (7) days of the Trustees' receipt of such direction.

ARTICLE VII -  
Payment of Benefits \*

7.1 GENERAL

- (a) The vested interest in the Net Value of any one or more of the Accounts of a Participant, Beneficiary or any other person entitled to benefits under the Plan shall be paid only at the times, to the extent, in the manner, and to the persons provided in this Article VII.
- (b) Notwithstanding the foregoing, if payments are to be made on a monthly basis and if, in the judgment of the Committee, payments are too small to warrant monthly payments, the Committee, in its sole discretion, may determine to make such payments in a lump sum or in quarterly, semi-annual, or annual installments.
- (c) The Net Value of any one or more of the Accounts of a Participant shall be subject to the provisions of Section 8.7.
- (d) Notwithstanding any provisions of the Plan to the contrary, any and all withdrawals, distributions or payments made under the provisions of this Article VII shall be made in accordance with Section 401(a)(9) of the Code and any and all Income Tax Regulations promulgated thereunder.

7.2 NON-HARDSHIP WITHDRAWALS

- (a) Subject to the terms and conditions contained in this Section 7.2, upon ten (10) days prior written notice to the Committee each Participant who has attained age fifty-nine and one-half (59-1/2), or each Employee who has attained age fifty-nine and one-half (59-1/2) and who solely maintains a Rollover Contribution Account, shall be entitled to withdraw all or any portion of his Accounts in the following order of priority not more often than once during any Plan Year:
  - (i) the Net Value of his Basic Contribution Account;
  - (ii) the Net Value of his Special Contribution Account;
  - (iii) the Net Value of the Employee's Rollover Contribution Account provided that such Participant or Employee shall have satisfied such additional terms and conditions as the Committee may deem necessary; and
  - (iv) only that portion of the vested interest in the Net Value of his Matching Contribution Account.

- (b) Withdrawals under this Section 7.2 shall be made by the redemption of Units from each of the Participant's Accounts on a pro rata basis from the Investment Accounts selected by the Participant pursuant to Article VI.

### 7.3 HARDSHIP DISTRIBUTIONS

- (a) For purposes of this Section 7.3, a "Hardship" distribution shall mean a distribution that is (i) made on account of a condition which has given rise to immediate and heavy financial need of a Participant and (ii) necessary to satisfy such financial need. A determination of the existence of an immediate and heavy financial need and the amount necessary to meet the need shall be made by the Committee in accordance with uniform nondiscriminatory standards with respect to similarly situated persons.

- (b) Immediate and Heavy Financial Need:

A Hardship distribution shall be deemed to be made on account of an immediate and heavy financial need if the distribution is on account of:

- (i) expenses for medical care described under Section 213(d) of the Code which were previously incurred by the Participant, the Participant's Spouse or any of the Participant's dependents as defined under Section 152 of the Code or expenses which are necessary to obtain medical care described under Section 213(d) of the Code for the Participant, the Participant's Spouse or any of the Participant's dependents as defined under Section 152 of the Code; or
- (ii) purchase (excluding mortgage payments) of a principal residence of the Participant; or
- (iii) payment of tuition and related educational fees for the next twelve (12) months of post-secondary education for the Participant, the Participant's Spouse, children or any of the Participant's dependents as defined under Section 152 of the Code; or
- (iv) the need to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence; or
- (v) any other condition which the Commissioner of Internal Revenue, through the publication of revenue rulings, notices and other documents of general applicability, deems to be an immediate and heavy financial need.
- (c) Necessary to Satisfy Such Financial Need:
- (i) A distribution will be treated as necessary to satisfy an immediate and heavy financial need of a Participant if: (A) the amount of the distribution is not in excess of (1) the amount required to relieve the financial need of

the Participant and (2) if elected by the Participant, an amount necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from such distribution, or (B) such need may not be satisfied from other resources that are reasonably available to the Participant.

(ii) A distribution will be treated as necessary to satisfy a financial need if the Committee reasonably relies upon the Participant's representation that the need cannot be relieved:

- (A) through reimbursement or compensation by insurance or otherwise,
- (B) by reasonable liquidation of the Participant's assets, to the extent such liquidation would not itself cause an immediate and heavy financial need,
- (C) by cessation of Basic Contributions or Employee contributions, if any, under the Plan, or
- (D) by other distributions or nontaxable loans from plans maintained by the Employer or by any other employer, or by borrowing from commercial sources on reasonable commercial terms.

For purposes of this subsection (c)(ii), the Participant's resources shall be deemed to include those assets of his Spouse and minor children that are reasonably available to the Participant.

(iii) Alternatively, a Hardship distribution will be deemed to be necessary to satisfy an immediate and heavy financial need of a Participant if (A) or (B) are met:

- (A) all of the following requirements are satisfied:
  - (I) the distribution is not in excess of (1) the amount of the immediate and heavy financial need of the Participant and (2) if elected by the Participant, an amount necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from such distribution;
  - (II) the Participant has obtained all distributions, other than Hardship distributions, and all nontaxable loans currently available under all plans maintained by the Employer;
  - (III) the Plan, and all other plans maintained by the Employer, provide that the Participant's elective contributions and Employee contributions, if any, will be suspended for at

least twelve (12) months  
after receipt of the Hardship distribution; and

(IV) the Plan, and all other plans maintained by the Employer, provide that the Participant may not make elective contributions for the Participant's taxable year immediately following the taxable year of the Hardship distribution in excess of the applicable limit under Section 402(g) of the Code for such next taxable year less the amount of such Participant's elective contributions for the taxable year of the Hardship distribution; or

(B) the requirements set forth in additional methods, if any, prescribed by the Commissioner of Internal Revenue (through the publication of revenue rulings, notices and other documents of general applicability) are satisfied.

(d) A Participant who has withdrawn the maximum amounts available to such Participant under Section 7.2 or a Participant who is not eligible for a withdrawal thereunder, may, in case of Hardship (as defined under this Section 7.3), apply not more often than once in any Plan Year to the Committee for a Hardship distribution. Any application for a Hardship distribution shall be made in writing to the Committee at least ten (10) days prior to the requested date of payment. Hardship distributions may be made by a distribution of all or a portion of an Employee's (i) Basic Contributions, (ii) Net Value of his Rollover Contribution Account and (iii) vested interest in the Net Value of his Matching Contribution Account.

(e) Distributions under this Section 7.3 shall be made in the following order of priority:

(i) Participant's Basic Contribution Account, exclusive of investment earnings;

(ii) the Net Value of the Participant's Special Contribution Account, if any;

(ii) the Net Value of the Employee's Rollover Contribution Account; and

(iii) the vested interest in the Net Value of the Participant's Matching Contribution Account.

(f) Distributions under this Section 7.3 shall be made by the redemption of Units from each of the Participant's Accounts on a pro rata basis from the Investment Accounts selected by the Participant pursuant to Article VI.

(g) A Participant who receives a Hardship distribution under this Section 7.3 may have his Basic Contributions suspended in accordance with Section 3.3.

7.4 DISTRIBUTION OF BENEFITS FOLLOWING RETIREMENT OR TERMINATION OF SERVICE

- (a) If an Employee incurs a Termination of Service for any reason other than death, a distribution of the vested interest in the Net Value of his Accounts shall be made to the Employee in accordance with the provisions of Section 7.5 or 7.6 or 7.8. The amount of such distribution shall be the vested interest in the Net Value of his Accounts as of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation acceptable to the Trustees for such purpose.
- (b) An election by an Employee to receive the vested interest in the Net Value of his Accounts in a form other than in the normal form of benefit payment set forth in Sections 7.5(a) and (b) and Sections 7.6(a) and (b) may not be revoked or amended by him after he terminates his employment. Notwithstanding the foregoing, an Employee who elected to receive payment of benefits as of a deferred Valuation Date or in the form of installments, may, by completing and filing the form prescribed by the Committee, change to another form of benefit payment.
- (c) An Employee who incurs a Termination of Service and is reemployed by the Employer prior to the distribution of all or part of the entire vested interest in the Net Value of his Accounts in accordance with the provisions of Section 7.5 or 7.6, shall not be eligible to receive or to continue to receive such distribution during his period of reemployment with the Employer. Upon such Employee's subsequent Termination of Service, his prior election to receive a distribution in a form other than the normal form of benefit payment shall be null and void and the vested interest in the Net Value of his Accounts shall be distributed to him in accordance with the provisions of Section 7.5 or 7.6 or 7.8.

7.5 PAYMENTS UPON RETIREMENT OR DISABILITY

- (a) If an Employee incurs a Termination of Service as of his Normal Retirement Date or his Postponed Retirement Date, a lump sum distribution of the Net Value of his Accounts shall be made to the Employee within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating that the Employee incurred a Termination of Service as of such Retirement Date.
- (b) If an Employee incurs a Termination of Service as of his Early Retirement Date or if an Employee incurs a Termination of Service due to Disability, a lump sum distribution of the vested interest in the Net Value of his Accounts shall be made to the Employee within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating the date the Employee would have attained his Normal Retirement Date if he were still employed by the Employer.
- (c) In lieu of the normal form of benefit payment set forth in subsection (b), an Employee who incurs a Termination of Service as of his Early Retirement Date or

incurs a Termination of Service due to Disability may file an election form to receive the vested interest in the Net Value of his Accounts as a lump sum distribution as of some other Valuation Date following his Termination of Service and prior to his Normal Retirement Date; provided, however, that the Valuation Date may not be later than thirteen (13) months following his Termination of Service. The vested interest in the Net Value of his Accounts shall be distributed to such Employee as a lump sum distribution within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating the Employee's distribution date.

- (d) In lieu of the normal form of benefit payment set forth in subsections (a) and (b), an Employee who incurs a Termination of Service as of his Retirement Date or incurs a Termination of Service due to Disability may, subject to the required minimum distribution provisions of Sections 7.9(b) and 7.9(c), file an election form to receive the vested interest in the Net Value of his Accounts in the form of installments over a period not to exceed ten (10) years. The vested interest in the Net Value of his Accounts shall be determined as of such Valuation Date or Valuation Dates in each such Plan Year as may be elected by such Employee and shall be based on the respective values of the Employee's Units in each Investment Account as of such Valuation Date or Valuation Dates. The amount of the installment payment shall be distributed by the redemption of Units from the Employee's Accounts on a pro rata basis among such Employee's Investment Accounts. Any portion of the vested interest in the Net Value of the Accounts of such former Employee which shall not have been so paid shall continue to be held for his benefit or for the benefit of his Beneficiary in the Employee's Investment Accounts. If an Employee elects to receive his benefit pursuant to this subsection (d), the installment period may not extend beyond the life expectancy of such Employee or the life expectancy of such Employee and his Beneficiary.
- (e) In lieu of the normal form of benefit payment set forth in subsections (a) and (b), an Employee who incurs a Termination of Service as of his Retirement Date or incurs a Termination of Service due to Disability may elect to defer receipt of the vested interest in the Net Value of his Accounts beyond his Normal Retirement Date or Postponed Retirement Date. The applicable form must be filed at least ten (10) days prior to the Employee's Retirement Date. If such an election is made, the vested interest in the Net Value of his Accounts shall continue to be held in the Trust Fund. Subject to the required minimum distribution provisions of Sections 7.9(b) and 7.9(c), the vested interest in the Net Value of his Accounts shall (i) be distributed to such Employee as a lump sum distribution within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating the Employee's deferred distribution date or (ii), upon the election of the Employee, commence to be distributed in installments in accordance with the provisions of subsection (d).
- (f) In lieu of the normal form of benefit payment set forth in subsections (a) and (b), an Employee who incurs a Termination of Service as of his Retirement Date or incurs a Termination of Service due to Disability may, at least ten (10) days prior

to the date on which his benefit is scheduled to be paid, file an election form that a lump sum distribution equal to the vested interest in the Net Value of his Accounts be made payable to the trustee of another qualified pension or profit-sharing plan designated by the Employee. Such lump sum distribution shall be made within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation.

7.6 PAYMENTS UPON TERMINATION OF SERVICE FOR REASONS OTHER THAN RETIREMENT OR DISABILITY

- (a) If an Employee incurs a Termination of Service as of a date other than a Retirement Date or for reasons other than Disability, and the vested interest in the Net Value of the Employee's Accounts, as determined by the Trustees in accordance with subsection (e), is equal to or less than \$3,500, a lump sum distribution of the vested interest in the Net Value of his Accounts shall be made to the Employee within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating that he incurred a Termination of Service.
- (b) If an Employee incurs a Termination of Service as of a date other than a Retirement Date or for reasons other than Disability, has not elected to receive his benefit pursuant to an optional form of benefit payment in accordance with the provisions of subsection (c) or (d) and the vested interest in the Net Value of the Employee's Accounts, as determined by the Trustees in accordance with subsection (e), exceeds \$3,500, a lump sum distribution of the vested interest in the Net Value of his Accounts shall be made to the Employee within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating the date the Employee would have attained his Normal Retirement Date if he were still employed by the Employer.
- (c) In lieu of the normal form of benefit payment set forth in subsection (b), an Employee who incurs a Termination of Service as of a date other than a Retirement Date or for reasons other than Disability may, subject to the provisions of Sections 7.9(b) and 7.9(c), file an election form to receive the vested interest in the Net Value of his Accounts as a lump sum distribution as of some other Valuation Date following his termination; provided, however, that the Valuation Date may not be later than thirteen (13) months following his Termination of Service. Subject to the required minimum distribution provisions of Sections 7.9(b) and 7.9(c), the vested interest in the Net Value of his Accounts shall be distributed to such Employee as a lump sum distribution within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating the Employee's distribution date.
- (d) In lieu of the normal form of benefit payment set forth in subsection (b), an Employee who incurs a Termination of Service as of a date other than his Retirement Date or for reasons other than Disability may, at least ten (10) days prior to the date on which his benefit is scheduled to be paid, file an election form

that a lump sum distribution equal to the vested interest in the Net Value of his Accounts be made payable to the trustee of another qualified pension or profit-sharing plan designated by the Employee. Such lump sum distribution shall be made within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation.

- (e) If an Employee incurs a Termination of Service as of a date other than a Retirement Date or for reasons other than Disability and has not elected to receive the vested interest in the Net Value of his Accounts pursuant to an optional form of benefit payment in accordance with subsection (c), (d) or (e), the Employer shall notify the Trustees of such termination.

#### 7.7 PAYMENTS UPON DEATH

- (a) In the case of a married Participant, the Spouse shall be the designated Beneficiary. Notwithstanding the foregoing, such Participant may effectively elect to designate a person or persons other than the Spouse as Beneficiary. Such an election shall not be effective unless (i) such Participant's Spouse irrevocably consents to such election in writing, (ii) such election designates a Beneficiary which may not be changed without spousal consent or the consent of the Spouse expressly permits designation by the Participant without any requirement of further consent by the Spouse, (iii) the Spouse's consent acknowledges understanding of the effect of such election and (iv) the consent is witnessed by a Plan representative or acknowledged before a notary public. Notwithstanding this consent requirement, if the Participant establishes to the satisfaction of the Plan representative that such written consent cannot be obtained because there is no Spouse or the Spouse cannot be located, the consent hereunder shall not be required. Any consent necessary under this provision shall be valid only with respect to the Spouse who signs the consent.
- (b) In the case of a single Participant, Beneficiary means a person or persons who have been designated under the Plan by such Participant or who are otherwise entitled to a benefit under the Plan.
- (c) The designation of a Beneficiary who is other than a Participant's Spouse and the designation of any contingent Beneficiary shall be made in writing by the Participant in the form and manner prescribed by the Committee and shall not be effective unless filed prior to the death of such person. If more than one person is designated as a Beneficiary or a contingent Beneficiary, each designated Beneficiary in such Beneficiary classification shall have an equal share unless the Participant directs otherwise. For purposes of this Section 7.7, "person" includes an individual, a trust, an estate, or any other person or entity designated as a Beneficiary.
- (d) A married Participant who has designated a person or persons other than the Spouse as Beneficiary may, without the consent of such Spouse, revoke such prior election by submitting written notification of such revocation. Such revocation

shall result in the reinstatement of the Spouse as the designated Beneficiary unless the Participant effectively designates another person as Beneficiary in accordance with the provisions of subsection (a). The number of election forms and revocations shall not be limited.

- (e) Upon the death of a Participant the remaining vested interest in the Net Value of his Accounts shall become payable, in accordance with the provisions of subsection (g), to his Beneficiary or contingent Beneficiary. If there is no such Beneficiary, the remaining vested interest in the Net Value of his Accounts shall be payable to the executor or administrator of his estate, or, if no such executor or administrator is appointed and qualifies within a time which the Committee shall, in its sole and absolute discretion, deem to be reasonable, then to such one or more of the descendants and blood relatives of such deceased Participant as the Committee, in its sole and absolute discretion, may select.
- (f) If a designated Beneficiary entitled to payments hereunder shall die after the death of the Participant but before the entire vested interest in the Net Value of Accounts of such Participant has been distributed, then the remaining vested interest in the Net Value of Accounts of such Participant shall be paid, in accordance with the provisions of subsection (g), to the surviving Beneficiary who is not a contingent Beneficiary, or, if there are no such surviving Beneficiaries then living, to the designated contingent Beneficiaries as shall be living at the time such payment is to be made. If there is no designated contingent Beneficiary then living, the remaining interest in the Net Value of his Accounts shall be paid to the executor or administrator of the estate of the last to die of the Beneficiaries who are not contingent Beneficiaries.
- (g) If a Participant dies before his entire vested interest in the Net Value of his Accounts has been distributed to him, the remainder of such vested interest shall be paid to his Beneficiary or, if applicable, his contingent Beneficiary, in a lump sum distribution as soon as practicable following the date of the Participant's death. Notwithstanding the foregoing, if, prior to the Participant's death:
  - (i) the Participant had elected to receive a deferred lump sum distribution and had not yet received such distribution, such Beneficiary shall receive a lump sum distribution as of the earlier of: (A) the Valuation Date set forth in the Participant's election or (B) the last Valuation Date which occurs within one (1) year of the Participant's death; or
  - (ii) the Participant had elected to receive and had begun receiving a distribution in the form of installments, such Beneficiary shall receive distributions over the remaining installment period, at the times set forth in such election.

If the Beneficiary is the Participant's Spouse and if benefits are payable to such Beneficiary as an immediate or deferred lump sum distribution, such Spouse may defer the distribution up to the date on which the Participant would have attained

age seventy and one-half (70-1/2). If such Spouse dies prior to such distribution, the prior sentence shall be applied as if the Spouse were the Participant.

- (h) Notwithstanding anything in the Plan to the contrary, the provisions of subsections (a) through (g) shall also apply to a person who is not a Participant but who has made a contribution to and maintains a Rollover Contribution Account under the Plan.

#### 7.8 DIRECT ROLLOVER OF ELIGIBLE ROLLOVER DISTRIBUTIONS

For purposes of this Section 7.8, the following definitions shall apply:

- (a) "Direct Rollover" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.
- (b) "Distributee" means an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's Spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the Spouse or former spouse.
- (c) "Eligible Retirement Plan" means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.
- (d) "Eligible Rollover Distribution" means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) or the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten(10) years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

This Section 7.8 applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

## 7.9 COMMENCEMENT OF BENEFITS

(a) Unless the Employee elects otherwise in accordance with the Plan, in no event shall the payment of benefits commence later than the sixtieth (60th) day after the close of the Plan Year in which the latest of the following events occur: (i) the attainment by the Employee of age sixty-five (65), (ii) the tenth (10th) anniversary of the year in which the Participant commenced participation in the Plan, or (iii) the termination of the Employee's employment with the Employer; provided, however, that if the amount of the payment required to commence on the date determined under this sentence cannot be ascertained by such date, a payment retroactive to such date may be made no later than sixty (60) days after the earliest date on which the amount of such payment can be ascertained under the Plan.

(b) Distributions to five-percent owners:

The vested interest in the Net Value of the Accounts of a five-percent owner (as described in Section 416(i) of the Code and determined with respect to the Plan Year ending in the calendar year in which such individual attains age seventy and one-half (70-1/2)) must be distributed or commence to be distributed no later than the first day of April following the calendar year in which such individual attains age seventy and one-half (70-1/2). The vested interest in the Net Value of the Accounts of an Employee who is not a five-percent owner (as described in Section 416(i) of the Code) for the Plan Year ending in the calendar year in which such person attains age seventy and one-half (70-1/2) but who becomes a five-percent owner (as described in Section 416(i) of the Code) for a later Plan Year must be distributed or commence to be distributed no later than the first day of April following the last day of the calendar year that includes the last day of the first Plan Year for which such individual is a five-percent owner (as described in Section 416(i) of the Code).

(c) Distributions to other than five-percent owners:

The vested interest in the Net Value of the Accounts of an Employee who is not a five-percent owner and who attained age seventy and one-half (70-1/2) prior to January 1, 1988, must be distributed or commence to be distributed no later than the first day of April following the calendar year in which occurs the later of: (i) his termination of employment or (ii) his attainment of age seventy and one-half (70-1/2).

The vested interest in the Net Value of the Accounts of any Employee who attains age seventy and one-half (70-1/2) after December 31, 1987, must be distributed or commence to be distributed no later than the first day of April following the calendar year in which such individual attains age seventy and one-half (70-1/2).

ARTICLE VIII -  
Loans to Participants

8.1 DEFINITIONS AND CONDITIONS

- (a) For purposes of this Article VIII, the following terms and phrases shall have the meanings hereafter ascribed to them:
- (i) "Borrower" means a Participant or a "Party in Interest" (as defined under Section 3(14) of ERISA) who maintains an Account, provided such Participant or Party in Interest is not receiving a benefit payment in accordance with the provisions of Section 7.5(d) or 7.7.
  - (ii) "Loan Account" means the separate, individual account established on behalf of a Borrower in accordance with the provisions of Section 8.4(d).
- (b) To the extent permitted under the provisions of this Article VIII and subject to the terms and conditions set forth herein, a Borrower may request a loan from his Accounts. Any loans made in accordance with this Article VIII shall not be subject to the provisions of Article VI.

8.2 LOAN AMOUNT

Upon a finding by the Committee that all requirements hereunder have been met, a Borrower may request a loan from his Accounts in an amount up to the lesser of: (a) fifty percent (50%) of the Net Value as of the close of business on the date the loan is processed of the Basic Contribution Account, vested Matching Contribution Account, Special Contribution Account and Rollover Contribution Account, or (b) \$50,000, reduced by the highest outstanding loan balance during the preceding twelve (12) months. The minimum loan permitted shall be \$1,000. For purposes of this Section 8.2, the Net Value of a Borrower's Accounts includes the Borrower's Loan Accounts under Section 8.4(d).

8.3 TERM OF LOAN

All loans shall be for a fixed term of not more than five (5) years, except that a loan which shall be used to acquire any dwelling which within a reasonable time is to be used as the principal residence of the Participant, may, in the discretion of the Committee, be made for a term of not more than fifteen (15) years. Interest on a loan shall be based on a reasonable rate of interest. Such rate shall be the "prime rate" as set forth in the first publication of THE WALL STREET JOURNAL issued during the month in which the Borrower requests the loan, rounded to the nearest quarter of one percent (1/4 of 1%), increased by one (1) percentage point. Such rate shall remain in effect until the Loan Account is closed.

#### 8.4 OPERATIONAL PROVISIONS

- (a) An application for a loan shall be filed in the form and manner prescribed by the Committee ten (10) days prior to the Valuation Date as of which such loan is requested. If the Committee shall approve such application, the Committee shall establish the amount of such loan and such loan shall be effected as of such Valuation Date.
- (b) The amount of the loan shall be distributed from the Investment Accounts in which the Borrower's Accounts are invested, in the following order of priority:
  - (i) Basic Contribution Account;
  - (ii) Special Contribution Account, if any;
  - (iii) Rollover Contribution Account; and
  - (iv) vested Matching Contribution Account.

Distributions from each of the foregoing Accounts shall be made on a pro rata basis among the Investment Accounts selected pursuant to Section 6.1.

- (c) The proceeds of a loan shall be distributed to the Borrower as soon as practicable after the Valuation Date as of which the loan is processed; provided, however, that the Borrower shall have satisfied such reasonable conditions as the Committee shall deem necessary, including, without limitation: (i) the delivery of an executed promissory note for the amount of the loan, including interest, payable to the order of the Trustees; (ii) an assignment to the Plan of such Borrower's interest in his Accounts to the extent of such loan; and (iii) if the Borrower is actively employed by the Employer, an authorization to the Employer to make payroll deductions in order to repay his loan to the Plan. The aforementioned promissory note shall be duly acknowledged and executed by the Borrower and shall be held by the Trustees, or the Committee as agent for the Trustees, as an asset of the Borrower's Loan Account pursuant to subsection (d).
- (d) A Loan Account shall be established for each Borrower with an outstanding loan pursuant to this Article VIII. Each Loan Account shall be comprised of a Borrower's (i) executed promissory note and (ii) installment payments of principal and interest made pursuant to Section 8.5(a). Upon full payment and satisfaction of the outstanding Loan Account balance, a Borrower's promissory note shall be marked paid in full, returned to the Borrower, and his Loan Account thereupon closed.
- (e) As of each Valuation Date coincident with or next succeeding each payment of principal and interest on a loan, the then current balance of each Borrower's Loan Account shall be debited by the amount of such payment and such amount shall be transferred for investment in accordance with Section 8.5(c) to the appropriate Borrower's Account. If the Committee established a lien against the Borrower's

Accounts pursuant to Section 8.6(c), and foreclosure of such lien is deferred until the Borrower's Termination of Service pursuant to Section 8.6(c)(i), for each month that foreclosure of the lien is deferred, the then current balance of the Borrower's Loan Account shall be charged with interest on the unpaid principal and interest thereon.

- (f) A Borrower will be permitted no more than one (1) outstanding loan at any time, with the exception of any Borrower who had more than one (1) outstanding loan prior to the Restatement Date.

#### 8.5 REPAYMENTS

- (a) If the Borrower is on the payroll of the Employer and unless otherwise agreed to by the Committee, repayments of loan principal, or the unpaid balance thereof, and interest thereon shall be made through payroll deductions. The first repayment shall be deducted as of the first payroll date occurring no later than three (3) weeks after the Committee submits the loan form for processing.

If the Borrower is not on the payroll of the Employer and unless otherwise agreed to by the Committee, repayments of loan principal, or the unpaid balance thereof, and interest thereon, shall be made in cash or cash equivalencies to the Employer in equal monthly installments for payment to his Loan Account.

- (b) Any amount repaid to the Plan by a Borrower with respect to a loan, including interest thereon, shall be invested as if such amount were a contribution to be invested in accordance with Section 6.1.
- (c) With respect to each Borrower's Loan Account, any repayment of principal and interest made by a Borrower shall be credited, as of the Valuation Date coincident with or next succeeding such payment, to the Borrower's Accounts in the order of priority established under Section 8.4(b). No Account having a lesser degree of priority shall be credited until the Account having the immediately preceding degree of priority has been restored by an amount equal to that which had been borrowed from such Account.
- (d) A Borrower may prepay his entire loan, plus all interest accrued and unpaid thereon, as of any Valuation Date. Alternatively and subject to such other terms and conditions as may be established from time to time by the Committee, a Borrower may prepay a portion of his loan on any Valuation Date. Such prepayment shall be applied first to all accrued and unpaid interest on the outstanding balance of the loan. After any partial prepayment of principal, interest will only be charged on the remaining outstanding balance of the loan.
- (e) In the event the Plan is terminated, the entire unpaid principal amount of the loan hereunder, together with any accrued and unpaid interest thereon, shall become immediately due and payable.

## 8.6 DEFAULT

- (a) If a Borrower fails to make any payment on any loan when due under this Article VIII, the entire unpaid principal amount of such loan, together with any accrued and unpaid interest thereon, shall be deemed in default and become due and payable ninety (90) days after the initial date of payment delinquency.
- (b) If a Borrower fails to make any payment on a loan and is deemed to be in default pursuant to subsection (a), the Committee shall establish a lien against the Borrower's Accounts in an amount equal to any unpaid principal and interest. The lien shall be foreclosed by applying the value of the Borrower's Loan Account (determined as of the next Valuation Date immediately following foreclosure) in satisfaction of said unpaid principal and interest as follows:
  - (i) if the Borrower is in the employment of the Employer, upon the Borrower's Termination of Service; or
  - (ii) if the Borrower is not in the employment of the Employer, immediately upon default.

Thereupon, the vested interest in the balance of the Borrower's Accounts shall be distributed in accordance with the applicable provisions of the Plan.

- (c) The Committee may, in accordance with uniform rules established by it, restrict the right of any Borrower who has defaulted on a loan from the Plan to: (i) make withdrawals and/or loans from his Matching Contribution Account, Basic Contribution Account, Special Contribution Account and/or Rollover Contribution Account for a period not exceeding twelve (12) months or (ii) if the Borrower is an Eligible Employee, authorize Basic Contributions to be made on his behalf or make any other contributions to the Plan for a period not exceeding twelve (12) months.

## 8.7 COORDINATION OF OUTSTANDING ACCOUNT AND PAYMENT OF BENEFITS

- (a) If the Borrower has an outstanding Loan Account and is either (i) scheduled to receive or elects to receive a lump sum distribution in accordance with the provisions of Article VII, or (ii) scheduled to receive the last installment payment under a previous election made in accordance with the provisions of Article VII to receive payments in a form other than the normal form of benefit payments, then, at the time of the distribution or payment under clause (i) or (ii) above, the entire unpaid principal amount of the loan together with any accrued and unpaid interest thereon, shall become immediately due and payable. No Plan distribution, except as permitted under Section 7.2 or Section 7.3, shall be made to any Borrower unless and until such Borrower's Loan Account, including accrued interest thereunder, has been liquidated and closed. If a Borrower fails to pay the outstanding balance of his Loan Account hereunder, such loan shall be satisfied as if a default had occurred pursuant to Section 8.6.

(b) Except as otherwise provided in Section 8.2, any reference in the Plan to the Net Value of Units in a Borrower's Accounts available for distribution to any Borrower, shall mean the value after the satisfaction of the entire unpaid principal loan amount and any accrued, unpaid interest thereon, as provided in this Article VIII

ARTICLE IX -  
Administration

9.1 GENERAL ADMINISTRATION OF THE PLAN

The operation and administration of the Plan shall be subject to the management and control of the Named Fiduciaries and Plan Administrator designated by the Employer. The designation of such Named Fiduciaries and Plan Administrator, the terms of their appointment, and their duties and responsibilities allocated among them shall be as set forth in this Article IX.

9.2 DESIGNATION OF NAMED FIDUCIARIES

The management and control of the operation and administration of the Plan shall be allocated in the following manner:

- (a) The Employer shall designate the Trustees as a Named Fiduciary to perform those functions set forth in the Agreement or the Plan that are assigned to the Trustees.
- (b) The Employer shall designate one or more individuals to serve as member(s) of an employee benefits Committee to perform those functions set forth in the Agreement or the Plan that are assigned to such Committee.
- (c) A Trust Participant (as defined under the Agreement) may delegate to a person or persons the duties and responsibilities for voting Units set forth under the Agreement.

9.3 RESPONSIBILITIES OF FIDUCIARIES

The Named Fiduciaries and Plan Administrator shall have only those powers, duties, responsibilities and obligations that are specifically allocated to them under the Plan or the Agreement.

To the extent permitted by ERISA, each Named Fiduciary and Plan Administrator may rely upon any direction, information or action of another Named Fiduciary, Plan Administrator or the Employer as being proper under the Plan or the Agreement and is not required to inquire into the propriety of any such direction, information or action and no Named Fiduciary or Plan Administrator shall be responsible for any act or failure to act of another Named Fiduciary, Plan Administrator or the Employer.

No Named Fiduciary, Plan Administrator or the Employer guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

The allocation of responsibility between the Trustees and the Employer may be changed by written agreement. Such reallocation shall be evidenced by Employer Resolutions and shall not be deemed an amendment to the Plan.

#### 9.4 PLAN ADMINISTRATOR

The Employer shall designate the Trustees as the Trustee Administrator and shall designate one or more persons to act as Plan Administrator and to perform those functions set forth in the Agreement or the Plan that are assigned to the Plan Administrator.

The duties and responsibilities of a plan administrator under ERISA shall be allocated between the Plan Administrator and the Trustee Administrator as set forth herein or in the Agreement. Such allocation may be changed only by written agreement between the parties and shall not be deemed an amendment to the Plan.

The Plan Administrator shall be solely responsible for monitoring and notifying the Trustees of an Employee's age for all purposes under the Plan.

The Plan Administrator is designated as the Plan's agent for the service of legal process.

#### 9.5 COMMITTEE

The members of the Committee designated by the Employer under Section 9.2(b) shall serve for such term(s) as the Employer shall determine and until their successors are designated and qualified. The term of any member of the Committee may be renewed from time to time without limitation as to the number of renewals. Any member of the Committee may (a) resign upon at least sixty (60) days written notice to the Employer or (b) be removed from office but only for his failure or inability, in the opinion of the Employer, to carry out his responsibilities in an effective manner. Termination of employment with the Employer shall be deemed to give rise to such failure or inability.

The powers and duties allocated to the Committee shall be vested jointly and severally in its members. Notwithstanding specific instructions to the contrary, any instrument or document signed on behalf of the Committee by any member of the Committee may be accepted and relied upon by the Trustees as the act of the Committee. The Trustees shall not be required to inquire into the propriety of any such action taken by the Committee nor shall they be held liable for any actions taken by them in reliance thereon.

The Employer may, pursuant to Employer Resolutions and upon notice to the Trustees, change the number of individuals comprising the Committee, their terms of office or other conditions of their incumbency provided that there shall be at all times at least one individual member of the Committee. Any such change shall not be deemed an amendment to the Plan.

#### 9.6 POWERS AND DUTIES OF THE COMMITTEE

The Committee shall have authority to perform all acts it may deem necessary or appropriate in order to exercise the duties and powers imposed or granted by ERISA, the Plan, the Agreement or any Employer Resolutions. Such duties and powers shall include, but not be limited to, the following:

- (a) Power to Construe - Except as otherwise provided in the Agreement, the Committee shall have the power to construe the provisions of the Plan and to determine any questions of fact which may arise thereunder.

- (b) POWER TO MAKE RULES AND REGULATIONS - The Committee shall have the power to make such reasonable rules and regulations as it may deem necessary or appropriate to perform its duties and exercise its powers. Such rules and regulations shall include, but not be limited to, those governing (i) the manner in which the Committee shall act and manage its own affairs, (ii) the procedures to be followed in order for Employees or Beneficiaries to claim benefits, and (iii) the procedures to be followed by Participants, Beneficiaries or other persons entitled to benefits with respect to notifications, elections, designations or other actions required by the Plan or ERISA. All such rules and regulations shall be applied in a uniform and nondiscriminatory manner.
- (c) POWERS AND DUTIES WITH RESPECT TO INFORMATION - The Committee shall have the power and responsibility:
- (i) to obtain such information as shall be necessary for the proper discharge of its duties;
  - (ii) to furnish to the Employer, upon request, such reports as are reasonable and appropriate;
  - (iii) to receive, review and retain periodic reports of the financial condition of the Trust Fund; and
  - (iv) to receive, collect and transmit to the Trustees all information required by the Trustees in the administration of the Accounts of the Employee as contemplated in Section 9.7.
- (d) POWER OF DELEGATION - The Committee shall have the power to delegate fiduciary responsibilities (other than trustee responsibilities defined under Section 405(c)(3) of ERISA) to one or more persons who are not members of the Committee. Unless otherwise expressly indicated by the Employer, the Committee must reserve the right to terminate such delegation upon reasonable notice.
- (e) POWER OF ALLOCATION - Subject to the written approval of the Employer, the Committee shall have the power to allocate among its members specified fiduciary responsibilities (other than trustee responsibilities defined under Section 405(c)(3) of ERISA). Any such allocation shall be in writing and shall specify the persons to whom such allocation is made and the terms and conditions thereof.
- (f) DUTY TO REPORT - Any member of the Committee to whom specified fiduciary responsibilities have been allocated under subsection (e) shall report to the Committee at least annually. The Committee shall report to the Employer at least annually regarding the performance of its responsibilities as well as the performance of any persons to whom any powers and responsibilities have been further delegated.

(g) POWER TO EMPLOY ADVISORS AND RETAIN SERVICES - The Committee may employ such legal counsel, enrolled actuaries, accountants, pension specialists, clerical help and other persons as it may deem necessary or desirable in order to fulfill its responsibilities under the Plan.

#### 9.7 CERTIFICATION OF INFORMATION

The Committee shall certify to the Trustees on such periodic or other basis as may be agreed upon, but in no event later than ten (10) days before any Valuation Date as of which the Trustees must effect any action with respect to any Accounts held under the provisions of the Plan, relevant facts regarding the establishment of the Accounts of an Employee, periodic contributions with respect to such Accounts, investment elections and modifications thereof and withdrawals and distributions therefrom. The Trustees shall be fully protected in maintaining individual Account records and in administering the Accounts of the Employee on the basis of such certifications and shall have no duty of inquiry or otherwise with respect to any transactions or communications between the Committee and Employees relating to the information contained in such certifications.

#### 9.8 AUTHORIZATION OF BENEFIT PAYMENTS

The Committee shall forward to the Trustees any application for payment of benefits within a reasonable time after it has approved such application. The Trustees may rely on any such information set forth in the approved application for the payment of benefits to the Participant, Beneficiary or any other person entitled to benefits.

#### 9.9 PAYMENT OF BENEFITS TO LEGAL CUSTODIAN

Whenever, in the Committee's opinion, a person entitled to receive any benefit payment is a minor or deemed to be physically, mentally or legally incompetent to receive such benefit, the Committee may direct the Trustees to make payment for his benefit to such individual or institution having legal custody of such person or to his legal representative. Any benefit payment made in accordance with the provisions of this Section 9.9 shall operate as a valid and complete discharge of any liability for payment of such benefit under the provisions of the Plan.

#### 9.10 SERVICE IN MORE THAN ONE FIDUCIARY CAPACITY

Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan, regardless of whether any such person is an officer, employee, agent or other representative of a party in interest.

#### 9.11 PAYMENT OF EXPENSES

The Employer will pay the ordinary administrative expenses of the Plan and compensation of the Trustees to the extent required, except that any expenses directly related to the Trust Fund, such as transfer taxes, brokers' commissions, registration charges, or administrative expenses of the Trustees (including expenses of counsel retained by it in accordance with the Agreement), shall be paid from the Trust Fund or from such Investment Account to which such expenses directly relate.

The Employer may charge Employees all or part of the reasonable expenses associated with withdrawals and other distributions or Account transfers. The Employer will charge Employees loan origination fees and all annual maintenance fees associated with loans.

ARTICLE X -  
Benefit Claims Procedure

10.1 DEFINITION

For purposes of this Article X, "Claimant" shall mean any Participant, Beneficiary or any other person entitled to benefits under the Plan or his duly authorized representative.

10.2 CLAIMS

A Claimant may file a written claim for a Plan benefit with the Plan Administrator on the appropriate form to be supplied by the Plan Administrator. The Plan Administrator shall, in its sole and absolute discretion, review the Claimant's application for benefits and determine the disposition of such claim.

10.3 DISPOSITION OF CLAIM

The Plan Administrator shall notify the Claimant as to the disposition of the claim for benefits under this Plan within ninety (90) days after the appropriate form has been filed unless special circumstances require an extension of time for processing. If such an extension of time is required, the Plan Administrator shall furnish written notice of the extension to the Claimant prior to the termination of the initial ninety (90) day period. The extension notice shall indicate the special circumstances requiring the extension of time and the date the Plan Administrator expects to render a decision. In no event shall such extension exceed a period of one hundred-eighty (180) days from the receipt of the claim.

10.4 DENIAL OF CLAIM

If a claim for benefits under this Plan is denied in whole or in part by the Plan Administrator, a notice written in a manner calculated to be understood by the Claimant shall be provided by the Plan Administrator to the Claimant and such notice shall include the following:

- (a) a statement that the claim for the benefits under this Plan has been denied;
- (b) the specific reasons for the denial of the claim for benefits, citing the specific provisions of the Plan which set forth the reason or reasons for the denial;
- (c) a description of any additional material or information necessary for the Claimant to perfect the claim for benefits under this Plan and an explanation of why such material or information is necessary; and
- (d) appropriate information as to the steps to be taken if the Claimant wishes to appeal such decision.

#### 10.5 INACTION BY PLAN ADMINISTRATOR

A claim for benefits shall be deemed to be denied if the Plan Administrator shall not take any action on such claim within ninety (90) days after receipt of the application for benefits by the Claimant or, if later, within the extended processing period established by the Plan Administrator by written notice to the Claimant, in accordance with Section 10.3.

#### 10.6 RIGHT TO FULL AND FAIR REVIEW

A Claimant who is denied, in whole or in part, a claim for benefits under the Plan may file an appeal of such denial. Such appeal must be made in writing by the Claimant or his duly authorized representative and must be filed with the Committee within sixty (60) days after receipt of the notification under Section 10.4 or the date his claim is deemed to be denied under Section 10.5. The Claimant or his representative may review pertinent documents and submit issues and comments in writing.

#### 10.7 TIME OF REVIEW

The Committee, independent of the Plan Administrator, shall conduct a full and fair review of the denial of claim for benefits under this Plan to a Claimant within sixty (60) days after receipt of the written request for review described in Section 10.6; provided, however, that an extension, not to exceed sixty (60) days, may apply in special circumstances. Written notice shall be furnished to the Claimant prior to the commencement of the extension period.

#### 10.8 FINAL DECISION

The Claimant shall be notified in writing of the final decision of such full and fair review by such Committee. Such decision shall be written in a manner calculated to be understood by the Claimant, shall state the specific reasons for the decision and shall include specific references to the pertinent Plan provisions upon which the decision is based. In no event shall the decision be furnished to the Claimant later than sixty (60) days after the receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered within one hundred-twenty (120) days after receipt of such request for review.

ARTICLE XI -  
Amendment, Termination, and Withdrawal

11.1 AMENDMENT AND TERMINATION

The Employer expects to continue the Plan indefinitely, but specifically reserves the right, in its sole and absolute discretion, at any time, by appropriate action of the Board, to terminate its Plan or to amend (subject to the approval of the Trustees), in whole or in part, any or all of the provisions of the Plan. Subject to the provisions of Section 13.7, no such amendment or termination shall permit any part of the Trust Fund to be used for or diverted to purposes other than for exclusive benefit of Participants, Beneficiaries or other persons entitled to benefits, and no such amendment or termination shall reduce the interest of any Participant, Beneficiary or other person who may be entitled to benefits, without his consent. In the event of a termination or partial termination of the Plan, or upon complete discontinuance of contributions under the Plan, the Accounts of each affected Participant shall become fully vested and shall be distributable in accordance with the provisions of Article VII. In the event of a complete termination of the Plan, the Accounts of each affected Participant shall become fully vested and shall be distributable as a lump sum distribution within seven (7) days of the Valuation Date coincident with the date of receipt by the Trustees of the proper documentation indicating the Participant's distribution date.

If any amendment changes the vesting schedule, any Participant who has a Period of Service of three (3) or more years may, by filing a written request with the Employer, elect to have his vested percentage computed under the vesting schedule in effect prior to the amendment.

The period during which the Participant may elect to have his vested percentage computed under the prior vesting schedule shall commence with the date the amendment is adopted and shall end on the latest of:

- (a) sixty (60) days after the amendment is adopted;
- (b) sixty (60) days after the amendment becomes effective; or
- (c) sixty (60) days after the Participant is issued written notice of the amendment from the Employer.

11.2 WITHDRAWAL FROM THE TRUST FUND

An Employer may withdraw its Plan from the Trust Fund in accordance with and subject to the provisions of the Agreement.

ARTICLE XII -  
Top-Heavy Plan Provisions

12.1 INTRODUCTION

Any other provisions of the Plan to the contrary notwithstanding, the provisions contained in this Article XII shall be effective with respect to any Plan Year in which this Plan is a Top-Heavy Plan, as hereinafter defined.

12.2 DEFINITIONS

For purposes of this Article XII, the following words and phrases shall have the meanings stated herein unless a different meaning is plainly required by the context.

- (a) "Account," for the purpose of determining the Top-Heavy Ratio, means the sum of (i) a Participant's Accounts as of the most recent Valuation Date and (ii) an adjustment for contributions due as of the Determination Date.
- (b) "Determination Date" means, with respect to any Plan Year, the last day of the preceding Plan Year. With respect to the first Plan Year, "Determination Date" means the last day of such Plan Year.
- (c) "Five-Percent Owner" means, if the Employer is a corporation, any Employee who owns (or is considered as owning within the meaning of Section 318 of the Code modified by Section 416(i)(1)(B)(iii) of the Code) more than five percent (5%) of the value of the outstanding stock of, or more than five percent (5%) of the total combined voting power of all the stock of, the Employer. If the Employer is not a corporation, a Five-Percent Owner means any Employee who owns more than five percent (5%) of the capital or profits interest in the Employer.
- (d) "Key Employee" means any Employee or former Employee (or, where applicable, such person's Beneficiary) in the Plan who, at any time during the Plan Year containing the Determination Date or any of the preceding four (4) Plan Years, is: (i) an Officer having Top-Heavy Earnings from the Employer of greater than fifty percent (50%) of the dollar limitation in effect under Section 415(b)(1)(A) of the Code; (ii) one of the ten (10) Employees having Top-Heavy Earnings from the Employer of more than the dollar limitation in effect under Section 415(c)(1)(A) of the Code and owning (or considered as owning within the meaning of Section 318 of the Code modified by Section 416(i)(1)(B)(iii) of the Code) both more than a one-half of one percent (1/2%) interest in value and the largest interests in the value of the Employer; (iii) a Five-Percent Owner of the Employer; or (iv) a One-Percent Owner of the Employer having Top-Heavy Earnings from the Employer greater than \$150,000. For purposes of computing the Top-Heavy

Earnings in subsections (d)(i), (d)(ii) and (d)(iv), the aggregation rules of Sections 414(b), (c), (m) and (o) of the Code shall apply.

- (e) "Non-Key Employee" means an Employee or former Employee (or, where applicable, such person's Beneficiary) who is not a Key Employee.
- (f) "Officer" means an Employee who is an administrative executive in the regular and continued service of his Employer; any Employee who has the title but not the authority of an officer shall not be considered an Officer for purposes of this Article XII. Similarly, an Employee who does not have the title of an officer but has the authority of an officer shall be considered an Officer. For purposes of this Article XII, the maximum number of Officers that must be taken into consideration shall be determined as follows: (i) three (3), if the number of Employees is less than thirty (30); (ii) ten percent (10%) of the number of Employees, if the number of Employees is between thirty (30) and five hundred (500); or (iii) fifty (50), if the number of Employees is greater than five hundred (500). In determining such limit, the term "Employer" shall be determined in accordance with Sections 414(b), (c), (m) and (o) of the Code and "Employee" shall include Leased Employees and exclude employees described in Section 414(q)(8) of the Code.
- (g) "One-Percent Owner" means, if the Employer is a corporation, any Employee who owns (or is considered as owning within the meaning of Section 318 of the Code modified by Section 416(i)(1)(B)(iii) of the Code) more than one percent (1%) of the value of the outstanding stock of, or more than one percent (1%) of the total combined voting power of all the stock of, the Employer. If the Employer is not a corporation, a One-Percent Owner means any Employee who owns more than one percent (1%) of the capital or profits interest in the Employer.
- (h) A "Permissive Aggregation Group" consists of one or more plans of the Employer that are part of a Required Aggregation Group, plus one or more plans that are not part of a Required Aggregation Group but that satisfy the requirements of Sections 401(a)(4) and 410 of the Code when considered together with the Required Aggregation Group. If two (2) or more defined benefit plans are included in the aggregation group, the same actuarial assumptions must be used with respect to all such plans in determining the Present Value of Accrued Benefits.
- (i) "Present Value of Accrued Benefits" shall be determined in accordance with the actuarial assumptions set forth in the defined benefit plan and the assumed benefit commencement date shall be determined taking into account any nonproportional subsidy.
- (j) "Related Rollover Contributions" means rollover contributions received by the Plan that are not initiated by the Employee nor made from another plan maintained by the Employer.

- (k) A "Required Aggregation Group" consists of each plan of the Employer (whether or not terminated) in which a Key Employee participates or participated at any time during the Plan Year containing the Determination Date or any of the four (4) preceding Plan Years and each other plan of the Employer (whether or not terminated) which enables any plan in which a Key Employee participates or participated to meet the requirements of Section 401(a)(4) or 410 of the Code. If two (2) or more defined benefit plans are included in the aggregation group, the same actuarial assumptions must be used with respect to all such plans in determining the Present Value of Accrued Benefits.
- (l) A "Super Top-Heavy Plan" means a Plan in which, for any Plan Year:
- (i) the Top-Heavy Ratio (as defined under subsection (o)) for the Plan exceeds ninety percent (90%) and the Plan is not part of any Required Aggregation Group (as defined under subsection (k)) or Permissive Aggregation Group (as defined under subsection (h)); or
  - (ii) the Plan is a part of a Required Aggregation Group (but is not part of a Permissive Aggregation Group) and the Top-Heavy Ratio for the group of plans exceeds ninety percent (90%); or
  - (iii) the Plan is a part of a Required Aggregation Group and part of a Permissive Aggregation Group and the Top-Heavy Ratio for the Permissive Aggregation Group exceeds ninety percent (90%).
- (m) "Top-Heavy Earnings" means, for any year, compensation as defined under Section 414(q)(7) of the Code, up to a maximum of \$200,000 adjusted as prescribed by the Secretary of the Treasury under Section 401(a)(17) of the Code. In determining Top-Heavy Earnings, the rules of Section 414(q)(6) of the Code shall apply except that the term "family" shall include only the Spouse and those lineal descendants of the Employee who have not attained age nineteen (19) before the close of the Plan Year.
- (n) A "Top-Heavy Plan" means a Plan in which, for any Plan Year:
- (i) the Top-Heavy Ratio (as defined under subsection (o)) for the Plan exceeds sixty percent (60%) and the Plan is not part of any Required Aggregation Group (as defined under subsection (k)) or Permissive Aggregation Group (as defined under subsection (h)); or
  - (ii) the Plan is a part of a Required Aggregation Group but is not part of a Permissive Aggregation Group and the Top-Heavy Ratio for the group of plans exceeds sixty percent (60%); or
  - (iii) the Plan is a part of a Required Aggregation Group and part of a Permissive Aggregation Group and the Top-Heavy Ratio for the Permissive Aggregation Group exceeds sixty percent (60%).

(o) "Top-Heavy Ratio" means:

- (i) if the Employer maintains one or more qualified defined contribution plans and the Employer has not maintained any qualified defined benefit plans which during the five (5) year period ending on the Determination Date have or have had accrued benefits, the Top-Heavy Ratio for the Plan alone or for the Required Aggregation Group or Permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the Account balances under the aggregated defined contribution plan or plans for all Key Employees as of the Determination Date, including any part of any Account balance distributed in the five (5) year period ending on the Determination Date but excluding distributions attributable to Related Rollover Contributions, if any, and the denominator of which is the sum of all Account balances under the aggregated qualified defined contribution plan or plans for all Participants as of the Determination Date, including any part of any Account balance distributed in the five (5) year period ending on the Determination Date but excluding distributions attributable to Related Rollover Contributions, if any, determined in accordance with Section 416 of the Code and the regulations thereunder.
- (ii) if the Employer maintains one or more qualified defined contribution plans and the Employer maintains or has maintained one or more qualified defined benefit plans which during the five (5) year period ending on the Determination Date have or have had any accrued benefits, the Top-Heavy Ratio for any Required Aggregation Group or Permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the Account balances under the aggregated qualified defined contribution plan or plans for all Key Employees, determined in accordance with (i) above, and the sum of the Present Value of Accrued Benefits under the aggregated qualified defined benefit plan or plans for all Key Employees as of the Determination Date, and the denominator of which is the sum of the Account balances under the aggregated qualified defined contribution plan or plans determined in accordance with (i) above, for all Participants and the sum of the Present Value of Accrued Benefits under the aggregated qualified defined benefit plan or plans for all Participants as of the Determination Date, all determined in accordance with Section 416 of the Code and the regulations thereunder. The accrued benefits under a qualified defined benefit plan in both the numerator and denominator of the Top-Heavy Ratio are adjusted for any distribution of an accrued benefit made in the five (5) year period ending on the Determination Date.
- (iii) For purposes of (i) and (ii) above, the value of Account balances and the Present Value of Accrued Benefits will be determined as of the most recent Valuation Date that falls within the twelve (12) month period ending on the Determination Date, except as provided in Section 416 of the Code and the regulations thereunder for the first and second Plan Years of a qualified defined benefit plan. The Account balances and

Present Value of Accrued Benefits of a Participant (A) who is a Non-Key Employee but who was a Key Employee in a prior year, or (B) who has not been credited with at least an Hour of Service with any employer maintaining the Plan at any time during the five (5) year period ending on the Determination Date will be disregarded. The calculation of the Top-Heavy Ratio, and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Section 416 of the Code and the regulations thereunder. When aggregating plans, the value of Account balances and the Present Value of Accrued Benefits will be calculated with reference to the Determination Date that falls within the same calendar year.

- (p) "Valuation Date", for the purpose of computing the Top-Heavy Ratio (as defined under subsection (o)) under subsections (l) and (n) means the last date of the Plan Year.

For purposes of subsections (h), (j) and (k), the rules of Sections 414(b), (c), (m) and (o) of the Code shall be applied in determining the meaning of the term "Employer".

### 12.3 LIMIT ON TOP-HEAVY EARNINGS

For any Plan Year in which the Plan is a Top-Heavy Plan, Top-Heavy Earnings taken into account for purposes of determining Employer contributions for such Plan Year on behalf of any Participant shall be limited to a maximum of \$200,000. This maximum shall be subject to annual cost-of-living adjustments prescribed by the Secretary of the Treasury or his delegate in accordance with regulations adopted by the Secretary for such purpose.

### 12.4 MINIMUM CONTRIBUTIONS

If the Plan becomes a Top-Heavy Plan, then any provision of Article III to the contrary notwithstanding, the following provisions shall apply:

- (a) Subject to subsection (b), the Employer shall contribute on behalf of each Participant who is employed by the Employer on the last day of the Plan Year and who is a Non-Key Employee an amount with respect to each Top-Heavy year which, when added to the amount of Matching Contributions and Special Contributions, made on behalf of such Participant, shall not be less than the lesser of: (i) three percent (3%) of such Participant's Section 415 Compensation (as defined under Section 3.11(a)(vii) of the Plan and modified by Section 401(a)(17) of the Code), or (ii) if the Employer has no defined benefit plan which is designated to satisfy Section 416 of the Code, the largest of Matching Contributions and Special Contributions, as a percentage of the first \$200,000 of Key Employees' Top-Heavy Earnings; provided, however, that in no event shall any contributions be made under this Section 12.4 in an amount which will cause the percentage of contributions made by the Employer on behalf of any Participant who is a Non-Key Employee to exceed the percentage at which contributions are made by the Employer on behalf of the Key Employee for

whom the percentage of Matching Contributions is highest in such Top-Heavy year. Any such contribution shall be allocated to the Matching Contribution Account of each such Participant and, for purposes of vesting and withdrawals only, shall be deemed to be a Matching Contribution.

- (b) Notwithstanding the foregoing, this Section 12.4 shall not apply to any Participant to the extent that such Participant is covered under any other plan or plans of the Employer (determined in accordance with Sections 414(b), (c), (m) and (o) of the Code) and such other plan provides that the minimum allocation or benefit requirement will be met by such other plan should this Plan become Top-Heavy.
- (c) For purposes of this Article XII, the following shall be considered as a contribution made by the Employer:
  - (i) Qualified Nonelective Contributions;
  - (ii) Matching Contributions made by the Employer on behalf of Key Employees; and
  - (iii) Basic Contributions made by the Employer on behalf of Key Employees.
- (d) Subject to the provisions of subsection (b), all Non-Key Employee Participants who are employed by the Employer on the last day of the Plan Year shall receive the defined contribution minimum provided under subsection (a). A Non-Key Employee may not fail to accrue a defined contribution minimum merely because such Employee was excluded from participation or failed to accrue a benefit because (i) his Compensation is less than a stated amount, or (ii) he failed to make Basic Contributions.

#### 12.5 IMPACT ON SECTION 415 MAXIMUM BENEFITS

For any Plan Year in which the Plan is a Super Top-Heavy Plan, Sections 3.11(a)(iv) and (v) shall be read by substituting the number 1.0 for the number 1.25 wherever it appears therein. For any Plan Year in which the Plan is a Top-Heavy Plan but not a Super Top-Heavy Plan, the Plan shall be treated as a Super Top-Heavy Plan under this Section 12.5, unless each Non-Key Employee who is entitled to a minimum contribution or benefit receives an additional minimum contribution or benefit. If the Non-Key Employee is entitled to a minimum contribution under Section 12.4(a), the Plan shall not be treated as a Super Top-Heavy Plan under this Section 12.5 if the minimum contribution satisfies Section 12.4(a) when four percent (4%) is substituted for three percent (3%) in Section 12.4(a)(i).

#### 12.6 VESTING

If the Plan becomes a Top-Heavy Plan, then, notwithstanding Section 4.1(c), the Vested Percentage of a Participant who has at least one (1) Hour of Service with the Employer after the Plan becomes Top-Heavy shall be equal to the following Vested Percentage of his accrued benefit, determined in accordance with the following table:

PERIOD OF SERVICE                      VESTED PERCENTAGE

|                         |      |
|-------------------------|------|
| Less than 2 years       | 0%   |
| 2 years but less than 3 | 20%  |
| 3 years but less than 4 | 40%  |
| 4 years but less than 5 | 60%  |
| 5 or more years         | 100% |

Notwithstanding the foregoing provision, each Participant with at least three (3) years of Vested Service with the Employer shall have his vested percentage computed under the greater of the provisions of this Section 12.6 or the provisions of Section 4.1(c).

For those Plan Years in which the Plan ceases to be a Top-Heavy Plan, the vesting schedule shall be determined in accordance with the provisions of Section 4.1(c), subject to the following conditions:

- (a) the vested percentage of a Participant's accrued benefit before the Plan ceased to be a Top-Heavy Plan shall not be reduced; and
- (b) after the Plan ceases to be a Top-Heavy Plan, each Participant with at least a three (3) year Period of Service with the Employer shall have his vested percentage computed under the greater of the provisions of this Section 12.6, or the vesting schedule set forth in Section 4.1(c).

ARTICLE XIII -  
Miscellaneous Provisions

13.1 NO RIGHT TO CONTINUED EMPLOYMENT

Neither the establishment of the Plan, nor any provisions of the Plan or of the Agreement establishing the Trust nor any action of any Named Fiduciary, Plan Administrator or the Employer, shall be held or construed to confer upon any Employee any right to a continuation of his employment by the Employer. The Employer reserves the right to dismiss any Employee or otherwise deal with any Employee to the same extent and in the same manner that it would if the Plan had not been adopted.

13.2 MERGER, CONSOLIDATION, OR TRANSFER

The Plan shall not be merged or consolidated with, nor transfer its assets or liabilities to, any other plan unless each Employee, Participant, Beneficiary and other person entitled to benefits under the Plan, would (if such other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive if the Plan had terminated immediately before the merger, consolidation or transfer.

13.3 NONALIENATION OF BENEFITS

Benefits payable under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, garnish, execute, levy or otherwise affect any right to benefits payable hereunder, shall be void. Notwithstanding the foregoing, the Plan shall permit the payment of benefits in accordance with a qualified domestic relations order as defined under Section 414(p) of the Code.

13.4 MISSING PAYEE

Any other provision in the Plan or Agreement to the contrary notwithstanding, if the Trustees are unable to make payment to any Employee, Participant, Beneficiary or other person to whom a payment is due ("Payee") under the Plan because the identity or whereabouts of such Payee cannot be ascertained after reasonable efforts have been made to identify or locate such person (including mailing a certified notice of the payment due to the last known address of such Payee as shown on the records of the Employer), such payment and all subsequent payments otherwise due to such Payee shall be forfeited twenty-four (24) months after the date such payment first became due. However, such payment and any subsequent payments shall be reinstated retroactively, without interest, no later than sixty (60) days after the date on which the Payee is identified and located.

### 13.5 AFFILIATED EMPLOYERS

All employees of all Affiliated Employers shall, for purposes of the limitations in Article XII and for measuring Hours of Service and Periods of Service, be treated as employed by a single employer. No employee of an Affiliated Employer shall become a Participant of this Plan unless employed by the Employer or an Affiliated Employer which has adopted the Plan.

### 13.6 SUCCESSOR EMPLOYER

In the event of the dissolution, merger, consolidation or reorganization of the Employer, the successor organization may, upon satisfying the provisions of the Agreement and the Plan, adopt and continue this Plan. Upon adoption, the successor organization shall be deemed the Employer with all its powers, duties and responsibilities and shall assume all Plan liabilities.

### 13.7 RETURN OF EMPLOYER CONTRIBUTIONS

Any other provision of the Plan or Agreement to the contrary notwithstanding, upon the Employer's request and with the consent of the Trustees, a contribution to the Plan by the Employer which was (a) made by mistake of fact, or (b) conditioned upon initial qualification of the Plan with the Internal Revenue Service, or (c) conditioned upon the deductibility by the Employer of such contributions under Section 404 of the Code, shall be returned to the Employer within one (1) year after: (i) the payment of a contribution made by mistake of fact, or (ii) the denial of such qualification or (iii) the disallowance of the deduction (to the extent disallowed), as the case may be.

Any such return shall not exceed the lesser of (A) the amount of such contributions (or, if applicable, the amount of such contribution with respect to which a deduction is denied or disallowed) or (B) the amount of such contributions net of a proportionate share of losses incurred by the Plan during the period commencing on the Valuation Date as of which such contributions are made and ending on the Valuation Date as of which such contributions are returned. All such refunds shall be limited in amount, circumstances and timing to the provisions of Section 403(c) of ERISA.

### 13.8 CONSTRUCTION OF LANGUAGE

Wherever appropriate in the Plan, words used in the singular may be read in the plural; words used in the plural may be read in the singular; and words importing the masculine gender shall be deemed equally to refer to the female gender. Any reference to a section number shall refer to a section of this Plan, unless otherwise indicated.

### 13.9 HEADINGS

The headings of articles and sections are included solely for convenience of reference, and if there be any conflict between such headings and the text of the Plan, the text shall control.

13.10 GOVERNING LAW

The Plan shall be governed by and construed and enforced in accordance with the laws of the State of New York, except to the extent that such laws are preempted by the Federal laws of the United States of America.

AMENDMENT NUMBER ONE

TO

FINANCIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

INCENTIVE SAVINGS PLAN

IN RSI RETIREMENT TRUST

Pursuant to Section 11.1 of Financial Federal Savings and Loan Association Incentive Savings Plan in RSI Retirement Trust ("Plan"), the Plan is amended as follows, effective as of the dates set forth herein:

1. ARTICLE I - Effective as of January 1, 1994, the third sentence of the definition of Actual Contribution Percentage, Section 1.2, shall be amended by substituting the word "compensation" for the word "Compensation".

2. ARTICLE I - Effective as of January 1, 1994, the third sentence of the definition of Actual Deferral Percentage, Section 1.3, shall be amended by substituting the word "compensation" for the word "Compensation".

3. ARTICLE I - Effective as of March 22, 1994, the definition of Investment Accounts, Section 1.31, shall be amended by adding the following sentence to the end thereof: Commencing March 22, 1994, Investment Accounts shall include any investment account established and governed pursuant to the pr

visions of the Separate Agreement entered into in connection with such account between the Employer and the Separate Agency elected as trustee for such investment account.

4. ARTICLE I - Effective as of March 22, 1994, the definition of Named Fiduciaries, Section 1.35, shall be amended in its entirety to read as follows:

1.35 Named Fiduciaries means the Trustees, the Committee and such other parties who are designated by the Employer to control and manage the operation and administration of the Plan.

5. ARTICLE I - Effective as of March 22, 1994, the definition of Plan, Section 1.43, shall be amended by adding the following sentence at the end thereof:

Commencing March 22, 1994, the Plan shall be a Plan of Partial Participation as defined in the Agreement.

6. ARTICLE I - Effective as of March 22, 1994, the definition of Plan Funds, Section 1.45 shall be amended by adding the words "and Separate Assets held under any Separate Agreement" immediately following the words "Trust Fund".

ARTICLE I - Effective as of March 22, 1994, Article I shall be amended by adding the following new definitions as Sections 1.54, 1.55 and 1.56 immediately following the definition of Rollover Contribution Account, Section 1.53, and the former Sections 1.54, 1.55 and 1.56 and all subsequent Sections of Article I and all cross-references thereto shall be renumbered accordingly:

1.54 Separate Agency means any trustee or insurance carrier holding Plan Funds under a Separate Agreement.

1.55 Separate Agreement means the trust agreement or insurance contract governing the investment and administration of any Separate Assets.1.56

Separate Assets means assets of the Plan as described in Section 5.6 which are held under an insurance contract issued to the Employer or held in a trust other than the Trust and which assets are not administered by the Trustees. Effective as of March 22, 1994, the Separate Assets shall consist exclusively of common stock of the Employer which shall be maintained in an Investment Account established for such purpose and shall be referred to herein as the Employer stock fund.

8. ARTICLE II - Effective as of March 22, 1994, Article II shall be amended by adding the following new Section as Section 2.6 and the Table of Contents shall be revised accordingly:

2.6 Eligibility Upon Reemployment of Employees Subject to Section 16(b) of the Securities Exchange Act of 1934 Notwithstanding anything contained in the Plan to the contrary, if an Employee subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934 incurs a Termination of Service and again performs an Hour of Service, such Employee shall not be eligible to participate in the Plan until the later of: (a) the date which is six (6) months from the date such Employee incurred a Termination of Service or (b) the date such Employee again performs an Hour of Service with the Employer; provided such Employee is not excluded from participating under the provisions of Section 2.2.

9. ARTICLE III - Effective as of March 22, 1994, Section 3.9 shall be amended in its entirety to read as follows and the Table of Contents shall be revised accordingly:

3.9 Payment of Contributions to the Trust and Separate Agency As soon as possible after each payroll period, but not less often than once a month, the Employer shall deliver (a) to the Trustees: (i) the Basic Contributions required to be made to the Trust during such payroll period under the applicable Compensation Reduction Agreements, and (ii) the amount of all Matching Contributions required to be made to the Trust for such payroll period and (b) to the Separate Agency: (i) the Basic Contributions required to be made to the Separate Agency during such payroll period under the applicable Compensation Reduction Agreements, and (ii) the amount of all Matching Contributions required to be made to the Separate Agency during such payroll period.

Special Contributions to the Trust and to the Separate Agency shall be forwarded by the Employer to the Trustees and to the Separate Agency no later than the time for filing the Employer's federal income tax return, plus any extensions thereon, for the Plan Year to which they are attributable.

10. ARTICLE V - Effective as of March 22, 1994, the title of Article V shall be amended as follows and the Table of Contents shall be revised accordingly:

#### Trust Fund, Investment Accounts and Voting Rights

11. ARTICLE V - Effective as of March 22, 1994, the first paragraph of Section 5.1 shall be amended in its entirety to read as follows:

The Employer has adopted the Agreement as the funding vehicle with respect to the Investment Accounts other than the Employer stock fund. Commencing March 22, 1994, the Employer has adopted the Separate Agreement as the funding vehicle with respect to the Employer stock fund.

12. ARTICLE V - Effective as of March 22, 1994, Section 5.1 shall be amended by adding the following as the third paragraph thereof and the former third paragraph and all subsequent paragraphs shall follow accordingly:

All contributions forwarded by the Employer to the Separate Agency pursuant to the Separate Agreement shall be held by them in trust in accordance with the terms and provisions of the Separate Agreement.

13. ARTICLE V - Effective as of March 22, 1994, the second sentence of the third paragraph of Section 5.1 prior to its renumbering hereunder shall be amended by deleting "and Trust" that appears at the end thereof and by adding ",Trust and Separate Agency" in lieu thereof.

14. ARTICLE V - Effective as of March 22, 1994, the third paragraph of Section 5.1 prior to its renumbering hereunder shall be amended by deleting the words "Trust Fund" and by inserting the words "Plan Funds" wherever such words appear.

15. ARTICLE V - Effective as of March 22, 1994, Section 5.1 shall be amended by adding the following as the last paragraph of such Section:

The Separate Agency shall invest the Separate Assets in accordance with, and shall be governed by, the terms and provisions of the Plan and the Separate Agreement.

16. ARTICLE V - Effective as of March 22, 1994, Section 5.3 shall be amended in its entirety to read as follows:

5.3 Account Values The Net Value of the Accounts of an Employee means the sum of the total Net Value of each Account maintained on behalf of the Employee in the Trust and Separate Agency as determined as of the Valuation Date coincident with or next following the event requiring the determination

of such Net Value. The assets of any Account shall consist of the Units credited to such Account. The applicable Units shall be valued from time to time by the Trustees and Separate Agency, respectively, in accordance with the Agreement and Separate Agreement, but not less often than monthly.

On the basis of such valuations, each Employee's Accounts shall be adjusted to reflect the effect of income collected and accrued, realized and unrealized profits and losses, expenses and all other transactions during the period ending on the applicable Valuation Date.

Upon receipt by the Trustees of Basic Contributions, Matching Contributions, and, if applicable, Rollover Contributions and Special Contributions, and upon receipt by a Separate Agency of any Basic Contributions, Matching Contributions and, if applicable, Rollover Contributions and Special Contributions such contributions shall be applied to purchase for such Employee's Account (a) Units other than Units of the Employer stock fund, using the value of such Units as of the close of business on the date received and (b) Units of the Employer stock fund using the value of such Units as of the preceding Valuation Date. Whenever a distribution is made to a Participant, Beneficiary or other person entitled to benefits, the appropriate number of Units credited to such Employee shall be reduced accordingly and each such distribution shall be charged against the Units of the Investment Account.

For the purposes of this Section 5.3, fractions of Units as well as whole Units may be purchased or redeemed for the Account of an Employee.

17. ARTICLE V - Effective as of March 22, 1994, Article V shall be amended by adding the following as Sections 5.4, 5.5, 5.6 and 5.7 and the Table of Contents shall be revised accordingly:

5.4 Voting Rights Each Participant with Units in the Employer stock fund shall have the right to participate confidentially in the exercise of voting rights appurtenant to shares held in such Investment Account, provided that such person had Units in such Account as of the most recent Valuation Date coincident with or preceding the applicable record date for which records are available. Such participation shall be achieved by completing and filing with the inspector of elections, or such other person who shall be independent of the issuer of shares as the Committee shall designate, at least ten (10) days prior to the date of the meeting of holders of shares at which such voting rights will be exercised, a written direction in the form and manner prescribed by the Committee. The inspector of elections, or other such person designated by the Committee shall tabulate the directions given on a strictly

(a) a number of affirmative votes shall be cast equal to the product of:

(i) the total number of shares held in the Employer stock fund as of the applicable record date; and (ii)

a fraction, the numerator of which is the aggregate value (as of the Valuation Date coincident with or immediately preceding the applicable record date) of the Units in the Employer stock fund of all persons directing that an affirmative vote be cast, and the denominator of which is the aggregate value (as of the Valuation Date coincident with or immediately preceding the applicable record date) of the Units in the Employer stock fund of all persons directing that an affirmative or negative vote be cast; and

(b) a number of negative votes shall be cast equal to the product of:

(i) the total number of shares held in the Employer stock fund as of the applicable record date; and (ii)

a fraction, the numerator of which is the aggregate value (as of the Valuation Date coincident with or immediately preceding the applicable record date) of the Units in the Employer stock fund of all persons directing that a negative vote be cast, and the denominator of which is the aggregate value (as of the Valuation Date coincident with or immediately preceding the applicable record date) of the Units in the Employer stock fund of all persons directing that an affirmative or negative vote be cast.

The Committee shall furnish, or cause to be furnished, to each person with Units in the Employer stock fund, all annual reports, proxy materials and other information known to have been furnished by the issuer of the shares or by any proxy solicitor, to the holders of shares.

5.5 Tender Offers and Other Offers Each Participant with Units in the Employer stock fund shall have the right to participate confidentially in the response to a tender offer, or any other offer, made to the holders of shares generally, to purchase, exchange, redeem or otherwise transfer shares;

provided that such person has Units in the Employer stock fund as of the Valuation Date coincident with or immediately preceding the first day for delivering shares or otherwise responding to such tender or other offer. Such participation shall be achieved by completing and filing with the inspector of elections, or such other person who shall be independent of the issuer of shares as the Committee shall designate, at least ten (10) days prior to the last day for delivering shares or otherwise responding to such tender or other offer, a written direction in the form and manner prescribed by the Committee. The inspector of election:

(a) the total number of shares held in the Employer stock fund; and (b) a fraction, the numerator of which is the aggregate value (as of the Valuation Date coincident with or immediately preceding the first day for delivering shares or otherwise responding to such tender or other offer) of the Units in the Employer stock fund of all persons directing that shares be delivered in response to such tender or other offer, and the denominator of which is the aggregate value (as of the Valuation Date coincident with or immediately preceding the first day for delivering shares or otherwise responding to such tender or other offer) of the Units in the Employer stock fund of all persons directing that shares be delivered or that the delivery of shares be withheld; shall be delivered in response to such tender or other offer. Delivery of the remaining shares then held in the Employer stock fund shall be withheld. The Committee shall furnish, or cause to be furnished, to each person whose Account is invested in whole or in part in the Employer stock fund, all information concerning such tender offer furnished by the issuer of shares, or information furnished by or on behalf of the person making the tender or such other offer.

5.6 Separate Assets Subject to the terms and conditions of the Agreement and upon approval by the Trustees, a designated portion of the assets of the Plan may be held as Separate Assets under the Separate Agreement. The Trustees shall have no responsibility or liability with respect to the management and control of any Separate Assets and shall have only those administrative duties with respect to such Separate Assets as are set forth in the Plan and the Agreement.

5.7 Power to Invest in Employer Securities

The Committee may direct the Separate Agency to acquire or hold any security issued by the Employer or any Affiliated Employer which is a "qualifying employer security" as such term is defined under ERISA and to invest that portion of the assets of the Plan Funds in such securities.

18. ARTICLE VI - Effective as of March 22, 1994, the first sentence of the first paragraph of Section 6.1 shall be amended in its entirety to read as follows:

Upon electing to participate, each Participant shall direct that the contributions made to his Accounts shall be applied to purchase Units in any one or more of the Investment Accounts of the Trust Fund and, commencing March 22, 1994, to purchase Units in the Employer stock fund.

19. ARTICLE VI - Effective as of March 22, 1994, Section 6.2 shall be amended by adding the following sentence immediately preceding the last sentence of such Section: Participants in the Plan on March 31, 1994, shall be permitted to make one (1) additional change in investment direction in order to invest in the Employer stock fund within sixty (60) days of such date and such additional election shall not count as one (1) of the changes in investment direction that are otherwise permitted to be made in any Plan Year.

20. ARTICLE VI - Effective as of March 22, 1994, Section 6.3 shall be amended by adding the following sentence immediately preceding the last sentence of such Section: Participants in the Plan on March 31, 1994, shall be permitted to make one (1) additional transfer in order to invest in the Employer stock fund within sixty (60) days of such date and such additional transfer shall not count as one (1) of the transfers that are otherwise permitted to be made in any Plan Year.

21. ARTICLE VI - Effective as of March 22, 1994, the first sentence of Section 6.4(a) shall be amended by adding ", and commencing March 31, 1994", to purchase Units in the Employer stock fund" immediately following the words "Investment Accounts".

22. ARTICLE VI - Effective as of March 22, 1994, Section 6.4(a) shall be amended by adding the following sentence immediately preceding the last sentence of such Section: Commencing on March 31, 1994, an Employee who is not a Participant shall be permitted to make one (1) additional transfer in order to invest in the Employer stock fund within sixty (60) days of such date and such additional transfer shall not count as one (1) of the transfers that are otherwise permitted to be made in any Plan Year.

23. ARTICLE VI - Effective as of March 22, 1994, Section 6.4(b) shall be amended by adding the following sentence immediately preceding the last sentence of such Section: Commencing March 31, 1994, an Employee who is not a Participant in the Plan shall be permitted to make one (1) additional transfer in order to invest in the Employer stock fund within sixty (60) days of such date and such additional transfer shall not count as one (1) of the transfers that are otherwise permitted to be made in any Plan Year.

24. ARTICLE VI - Effective as of March 22, 1994, Article VI shall be amended by adding the following as Section 6.5 and the Table of Contents shall be revised accordingly:

6.5 Restrictions on Investments in the Employer Stock Fund for Certain Participants Notwithstanding anything in the Plan to the contrary, any Participant subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934: (a) may direct that his Accounts be transferred into or out of the Employer stock fund, subject to the provisions of Section 6.3, only once during each quarter, during the period beginning on the third (3rd) business day following the date of release of the quarterly and annual statements of sales and earnings by the issuer of the shares, and ending on the twelfth (12th) business day following such date; and (b) may not make a transfer in accordance with the provisions of Section 6.3 within six (6) months of the next preceding transfer into or out of the Employer stock fund. In addition, any Participant subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934 who elects to receive a distribution of shares f

25. ARTICLE VII - Effective as of March 22, 1994, Section 7.2 shall be amended by adding the following as Section 7.2(c):

(c) Any withdrawals under this Section 7.2 shall be subject to the restrictions of Section 6.5.

26. ARTICLE VII - Effective as of March 22, 1994, Section 7.3 shall be amended by adding the following as Section 7.3(h):

(h) Any withdrawals under this Section 7.3 shall be subject to the restrictions of Section 6.5.

27. ARTICLE VII - Effective as of March 22, 1994, Section 7.4 shall be amended by adding the following as Section 7.4(d): (d)

An Employee's vested interest in the Net Value of his Accounts in the Employer stock fund shall be distributed to the Employee by the Separate Agency as soon as administratively possible following the date the Plan Sponsor is informed by the Trustees of the Participant's vested interest in such Investment Accounts. The distribution

shall be made in accordance with Section 7.10 and the terms and provisions of the Separate Agreement.

28. ARTICLE VII - Effective as of March 22, 1994, Article VII shall be amended by adding the following as Section 7.10 and the Table of Contents shall be revised accordingly:

7.10 Manner of Payment of Distributions from the Employer Stock Fund Distributions from the Employer stock fund shall be made to Participants and Beneficiaries in cash, unless the Participant or Beneficiary elects that such distributions may be made wholly or partially in shares. If the Participant or Beneficiary elects that such distributions may be made wholly or partially in shares, subject to such terms and conditions as may be established from time to time by the Committee, the maximum number of shares to be distributed shall be equal to the number of whole shares that could be purchased on the date of distribution based on the fair market value of shares determined as of the date of payment and on the fair market value of the Participant's Units in the Employer stock fund on the valuation date preceding the distribution. An amount of money equal to any remaining amount of the payment that is less than the fair market value of a whole Share s

29. ARTICLE VIII - Effective as of March 22, 1994, Section 8.4 shall be amended by adding the following as Section 8.4(g):

(g) Any loans under this Article VIII shall be subject to the restrictions of Section 6.5.

30. ARTICLE IX - Effective as of March 22, 1994, Section 9.2(a) shall be amended in its entirety to read as follows:

(a) The Employer shall designate the Trustees as a Named Fiduciary to perform those functions set forth in the Plan or the Agreement which are applicable to a Plan of Partial Participation.

31. ARTICLE IX - Effective as of March 22, 1994, Section 9.2(b) shall be amended by adding the phrase ", Separate Agreement" immediately following the word "Agreement".

32. ARTICLE IX - Effective as of March 22, 1994, Section 9.2(c) shall be amended by adding the phrase "and Separate Agreement" immediately following the words "under the Agreement" where they appear at the end of such section.

33. ARTICLE IX - Effective as of March 22, 1994 , Section 9.3 shall be amended in its entirety to read as follows:

#### 9.3 Responsibilities of Fiduciaries

The Named Fiduciaries and Plan Administrator shall have only those powers, duties, responsibilities and obligations that are specifically allocated to them under the Plan, the Agreement or the Separate Agreement. To the extent permitted by ERISA, each Named Fiduciary and Plan Administrator may rely upon any direction, information or action of another Named Fiduciary, Plan Administrator or the Employer as being proper under the Plan, the Agreement or the Separate Agreement and is not required to inquire into the propriety of any such direction, information or action and no Named Fiduciary or Plan Administrator shall be responsible for any act or failure to act of another Named Fiduciary, Plan Administrator or the Employer.

No Named Fiduciary, Plan Administrator or the Employer guarantees the Trust Fund or Separate Assets in any manner against investment loss or depreciation in asset value.

The allocation of responsibility between the Trustees and the Employer or between the Separate Agency and the Employer may be changed by written agreement. Such reallocation shall be evidenced by Employer Resolutions and shall not be deemed an amendment to the Plan. To the extent permitted by ERISA, the Trustees shall have no liability or responsibility with respect to the administration of any Separate Assets held outside the Trust except as specifically set forth in the Agreement. The authority and responsibility of the Trustees extend only to those Plan assets held in accordance with the Agreement.

34. ARTICLE IX - Effective as of March 22, 1994, the first paragraph of Section 9.4 shall be amended in its entirety to read as follows: The Employer shall designate the Trustees as the Trustee Administrator to perform those functions applicable to Plans of Partial Participation as set forth in the Agreement. The Employer shall also designate one or more persons to act as Plan Administrator and to perform those functions set forth in the Agreement, the Plan or the Separate Agreement that are assigned to the Plan Administrator.

35. ARTICLE IX - Effective as of March 22, 1994, Section 9.5 shall be amended by adding the words "and Separate Agency" immediately following the word "Trustees" wherever such word appears.

36. ARTICLE IX - Effective as of March 22, 1994, Section 9.6(c) shall be amended by deleting the phrase "Trust Fund" and inserting in its place the phrase "Plan Funds".

37. ARTICLE IX - Effective as of March 22, 1994, Section 9.8 shall be amended in its entirety to read as follows:

9.8 Authorization of Benefit Payments The Committee shall forward to the Trustees and, if applicable, any Separate Agency, any application for payment of benefits within a reasonable time after it has approved such application. The Trustees and Separate Agency may rely on any such information set forth in the approved application for the payment of benefits to the Participant, Beneficiary or any other person entitled to benefits.

38. ARTICLE IX - Effective as of March 22, 1994, Section 9.9 shall be amended by adding the words "and Separate Agency" immediately following the word "Trustees".

39. ARTICLE IX - Effective as of March 22, 1994, Section 9.11 shall be amended by adding the following paragraph to the end thereof:

Brokerage commissions incurred in connection with the Employer stock fund shall be paid by the Employer.

40. ARTICLE IX - Effective as of March 22, 1994, Article IX shall be amended by adding the following as Section 9.12 and the Table of Contents shall be revised accordingly:

9.12 Administration of Separate Assets The Committee and the Separate Agency shall be solely responsible for the administration of the Separate Assets, including the administration, collection and enforcement of any loans held therein. All contributions to and withdrawals or disbursements from the Separate Assets shall be made directly to or by the Separate Agency.

The Trustees may, as agreed upon with the Committee, provide such combined or coordinated Plan records and reports, which include the Separate Assets. The Trustees shall be fully protected in relying upon any information provided to them by the Committee or Separate Agency with respect to such Separate Assets. The inclusion of any information pertaining to

Separate Assets in such combined or coordinated Plan records and reports shall not increase the responsibility or liability of the Trustees with respect to the Separate Assets. If Plan Funds may be transferred between the Separate A

ssets and the other Investment Accounts, the manner in which such transfers may be made must be agreed to in a written instrument entered into among the Committee, the Trustees and the Separate Agency.

41. ARTICLE XI - Effective as of March 22, 1994, the second sentence of the first paragraph of Section 11.1 shall be amended by deleting the phrase "Trust Fund" and inserting in its place the phrase "Plan Funds".

42. ARTICLE XIII - Effective as of March 22, 1994, the first sentence of Section 13.1 shall be amended by deleting the phrase "of the Plan or of the Agreement" and by inserting the words "or of any Separate Agreement " immediately following the word "Trust".

43. ARTICLE XIII - Effective as of March 22, 1994, Section 13.4 shall be amended by adding the words "and, if appropriate, any Separate Agency" immediately following the words "the Trustees".

44. ARTICLE XIII - Effective as of March 22, 1994 , the first paragraph of Section 13.7 shall be amended by adding the words "and, if appropriate, any Separate Agency" immediately following the words "the Trustees".

AMENDEMENT NUMBER TWO

TO

FINANCIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

INCENTIVE SAVINGS PLAN

IN RSI RETIREMENT TRUST

Pursuant to Section 11.1 of the Financial Federal Savings and Loan Association Incentive Savings Plan in RSI Retirement Trust ("Plan"), the Plan is amended, effective as of January 1, 1994, unless otherwise indicated:

1. ARTICLE VI - Effective March 22, 1994, the sentence immediately preceding the last sentence of Section 6.4(a) shall be amended in its entirety to read as follows: Commencing on March 31, 1994, an Employee who is not a Participant shall be permitted to make one (1) additional change in investme

nt direction in order to invest in the Employer stock fund within sixty (60) days of such date and such additional election shall not count as one (1) of the changes in investment direction that are otherwise permitted to be made in any Plan Year.

2. ARTICLE VII - Effective January 1, 1994, Section 7.3(c) (i) (A) (2) shall be amended by substituting "and" for "or" at the end thereof.

3. ARTICLE XII - Effective January 1, 1994, Section 12.2(m) shall be amended by adding the following after the first sentence thereof and the former second sentence shall follow accordingly:

Commencing January 1, 1994, the maximum compensation taken into account for any year shall be \$150,000, adjusted in multiples of \$10,000 for increases in the cost-of-living as prescribed by the Secretary of the Treasury under Section 401(a)(17)(B) of the Code.

4. ARTICLE XII - Effective January 1, 1994, the first sentence of Section 12.3 shall be amended by adding "commencing prior to January 1, 1994" immediately following the phrase "For any Plan Year".

5. ARTICLE XII - Effective January 1, 1994, Section 12.4(a)(ii) shall be amended by deleting the words "first \$200,000 of" immediately preceding the words "Key Employees' Top-Heavy Earnings".

AMENDMENT NUMBER THREE

TO

FINANCIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

INCENTIVE SAVINGS PLAN

IN RSI RETIREMENT TRUST

Pursuant to Section 11.1 of the Financial Federal Savings and Loan Association Incentive Savings Plan in RSI Retirement Trust ("Plan"), the Plan is amended, effective as of November 7, 1994:

1. ARTICLE I - Effective November 7, 1994, the first paragraph of the definition of Compensation, Section 1.15 shall be amended by adding the following sentence at the end thereof:

Commencing November 7, 1994, Compensation shall exclude commissions received during a calendar year.

2. ARTICLE VIII - Effective November 7, 1994, Section 8.4(f) shall be amended by adding the following sentence at the end thereof.

Commencing November 7, 1994, a Borrower will be permitted more than one (1) outstanding loan at any given time.

FINANCIAL FEDERAL SAVINGS AND LOAN ASSOCIATION

EMPLOYEE STOCK OWNERSHIP PLAN

EFFECTIVE JANUARY 1, 1994, AS AMENDED AND RESTATED  
THROUGH JANUARY 19, 1999

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FORM OF  
FINANCIAL FEDERAL SAVINGS AND LOAN ASSOCIATION  
EMPLOYEE STOCK OWNERSHIP PLAN

SECTION 1. PLAN IDENTITY.

1.1 NAME. The name of this Plan is "Financial Federal Savings and Loan Association Employee Stock Ownership Plan."

1.2 PURPOSE. The purpose of this Plan is to describe the terms and conditions under which contributions made pursuant to the Plan will be credited and paid to the Participants and their Beneficiaries.

1.3 EFFECTIVE DATE. The Effective Date of this Plan is January 1, 1994.

1.4 FISCAL PERIOD. This Plan shall be operated on the basis of a January 1-December 31 fiscal year for the purpose of keeping the Plan's books and records and distributing or filing any reports or returns required by law.

1.5 SINGLE PLAN FOR ALL EMPLOYERS. This Plan shall be treated as a single plan with respect to all participating Employers for the purpose of crediting contributions and forfeitures and distributing benefits, determining whether there has been any termination of Service, and applying the limitations set forth in Section 5.

1.6 INTERPRETATION OF PROVISIONS. The Employers intend this Plan and the Trust to be a qualified stock bonus plan under Section 401(a) of the Code and an employee stock ownership plan within the meaning of Section 407(d)(6) of ERISA and Section 4975(e)(7) of the Code. The Plan is intended to have its assets invested primarily in qualifying employer securities of one or more Employers within the meaning of Section 407(d)(5) of ERISA, and to satisfy any requirement under ERISA or the Code applicable to such a plan. Accordingly, the Plan and Trust Agreement shall be interpreted and applied in a manner consistent with this intent and shall be administered at all times and in all respects in a nondiscriminatory manner.

SECTION 2. DEFINITIONS. The following capitalized words and phrases shall have the meanings specified when used in this Plan and in the Trust Agreement, unless the context clearly indicates otherwise:

"Account" means a Participant's interest in the assets accumulated under this Plan as expressed in terms of a separate account balance which is periodically adjusted to reflect his Employer's contributions, the Plan's investment experience, and distributions and forfeitures.

"Active Participant" means any Employee who has satisfied the eligibility requirements of Section 3 and who qualifies as an Active Participant for a particular Plan Year under Section 4.3.

"Association" means Financial Federal Savings and Loan Association, and any entity which succeeds to the business of the Association and adopts this Plan as its own pursuant to Section 13.2.

"Beneficiary" means the person or persons who are designated by a Participant to receive benefits payable under the Plan on the Participant's death. In the absence of any designation or if all the designated Beneficiaries shall die before the Participant dies or shall die before all benefits have been paid, the Participant's Beneficiary shall be his surviving spouse, if any, or his estate if he is not survived by a spouse. The Committee may rely upon the advice of the Participant's executor or administrator as to the identity of the Participant's spouse.

"Break in Service" means any five or more consecutive 12-month periods beginning January 1 in which an Employee has 500 or fewer Hours of Service per period. Solely for this purpose, an Employee shall be considered employed for his normal hours of paid employment during a Recognized Absence, unless he does not resume his Service at the end of the Recognized Absence. Further, if an Employee is absent for any period (i) by reason of the Employee's pregnancy, (ii) by reason of the birth of the Employee's child, (iii) by reason of the placement of a child with the Employee in connection with the Employee's adoption of the child, or (iv) for purposes of caring for such child for a period beginning immediately after such birth or placement, the Employee shall be credited with the Hours of Service which would normally have been credited but for such absence, up to a maximum of 501 Hours of Service, in the first 12-month period which would otherwise be counted toward a Break in Service.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the committee responsible for the administration of this Plan in accordance with Section 12.

"Disability" means a condition which renders the Participant totally and permanently disabled due to sickness or injury, such disability is likely to be continuous and permanent, and such disability renders the Participant unable to continue a like gainful occupation. In any event, the Committee's good faith decision as to whether a Participant's Service has been terminated by Disability shall be final and conclusive.

"Early Retirement" means retirement on or after a Participant's attainment of age 55 and the completion of ten years of service for an Employer.

"Effective Date" means January 1, 1994.

"Employee" means any individual who is or has been employed or self-employed by an Employer. "Employee" also means an individual employed by a leasing organization who, pursuant to an agreement between an Employer and the leasing organization, has performed services for the Employer and any related persons (within the meaning of Section 414(n)(6) of the Code) on a substantially full-time basis for more than one year, if such services are of a type historically performed by employees in the Employer's business field. However, such a "leased employee" shall not be considered an Employee if (i) he participates in a money purchase pension

plan sponsored by the leasing organization which provides for immediate participation, immediate full vesting, and an annual contribution of at least 10 percent of the Employee's Total Compensation, and (ii) leased employees do not constitute more than 20 percent of the Employer's total work force (including leased employees, but excluding Highly Paid Employees and any other employees who have not performed services for the Employer on a substantially full-time basis for at least one year).

"Employer" means the Association or any affiliate within the purview of section 414(b), (c) or (m) and 415(h) of the Code, any other corporation, partnership, or proprietorship which adopts this Plan with the Association's consent pursuant to Section 13.1, and any entity which succeeds to the business of any Employer and adopts the Plan pursuant to Section 13.2.

"Entry Date" means the Effective Date of the Plan and the first day of each July and January of each Plan Year thereafter.

"ERISA" means the Employee Retirement Income Security Act of 1974 (P.L. 93-406, as amended).

"Highly Paid Employee" for any Plan Year means an Employee who, during either of that or the immediately preceding Plan Year, (i) owned more than five percent of the outstanding equity interest or the outstanding voting interest in any Employer, (ii) had Total Compensation exceeding \$75,000 (as adjusted pursuant to section 415(d) of the Code), (iii) had Total Compensation exceeding \$50,000 (as adjusted pursuant to section 415(d) of the Code) and was among the most highly compensated one-fifth of all Employees, or (iv) was at any time an officer of an Employer and had Total Compensation exceeding \$45,000 (or 50 percent of the currently applicable dollar limit under Section 415(b)(1)(A) of the Code). For this purpose:

(a) "Total Compensation" shall include any amount which is excludable from the Employee's gross income for tax purposes pursuant to Sections 125, 402(e)(3), 402(h)(1)(B), or 403(b) of the Code.

(b) The number of Employees in "the most highly compensated one-fifth of all Employees" shall be determined by taking into account all individuals working for all related employer entities described in the definition of "Service", but excluding any individual who has not completed six months of Service, who normally works fewer than 17-1/2 hours per week or in fewer than six months per year, who has not reached age 21, whose employment is covered by a collective bargaining agreement, or who is a nonresident alien who receives no earned income from United States sources.

(c) The number of individuals counted as "officers" shall not be more than the lesser of (i) 50 individuals and (ii) the greater of 3 individuals or 10 percent of the total number of Employees. If no officer earns more than \$45,000 (or the adjusted limit), then the highest paid officer shall be a Highly Paid Employee.

(d) A former employee shall be treated as a highly compensated employee if such employee was a highly paid employee when such employee separated from service, or if such employee was a highly paid employee at any time after attaining age 55.

For Plan Years beginning after December 31, 1996, an Employee is a Highly Paid Employee if the Employee (i) was a 5-percent owner of the Employer at any time during the Plan Year or the preceding Plan Year, or (ii) had compensation for the preceding Plan Year in excess of \$80,000 (indexed for inflation) and, if the Employer elects, the Employee was in the top 20% of Employees by Total Compensation for such Plan Year.

"Holding Company" means Financial Bancorp, Inc., the holding company of Financial Federal Savings and Loan Association, and any entity which succeeds to the business of the Holding Company.

"Hours of Service" means hours to be credited to an Employee under the following rules:

(a) Each hour for which an Employee is paid or is entitled to be paid for services to an Employer is an Hour of Service.

(b) Each hour for which an Employee is directly or indirectly paid or is entitled to be paid for a period of vacation, holidays, illness, disability, lay-off, jury duty, temporary military duty, or leave of absence is an Hour of Service. However, except as otherwise specifically provided, no more than 501 Hours of Service shall be credited for any single continuous period in which an Employee performs no duties. Further, no Hours of Service shall be credited on account of payments made solely under a plan maintained to comply with worker's compensation, unemployment compensation, or disability insurance laws, or to reimburse an Employee for medical expenses.

(c) Each hour for which back pay (ignoring any mitigation of damages) is either awarded or agreed to by an Employer is an Hour of Service. However, no more than 501 Hours of Service shall be credited for any single continuous period during which an Employee would not have performed any duties.

(d) Hours of Service shall be credited in any one period only under one of the foregoing paragraphs (a), (b) and (c); an Employee may not get double credit for the same period.

(e) If an Employer finds it impractical to count the actual Hours of Service for any class or group of non-hourly Employees, each Employee in that class or group shall be credited with 45 Hours of Service for each weekly pay period in which he has at least one Hour of Service. However, an Employee shall be credited only for his normal working hours during a paid absence.

(f) Hours of Service to be credited on account of a payment to an Employee (including back pay) shall be recorded in the period of Service for which the payment was made. If the period overlaps two or more Plan Years, the Hours of Service credit shall be allocated in proportion to the respective portions of the period included in the several Plan Years. However,

in the case of periods of 31 days or less, the Administrator may apply a uniform policy of crediting the Hours of Service to either the first Plan Year or the second.

(g) In all respects an Employee's Hours of Service shall be counted as required by Section 2530.200b-2(b) and (c) of the Department of Labor's regulations under Title I of ERISA.

"Investment Fund" means that portion of the Trust Fund consisting of assets other than Stock.

"Normal Retirement Age" means a Participant's 65th birthday.

"Normal Retirement Date" means the first day of the month coincident with or next following attainment of Normal Retirement Age.

"Participant" means any Employee who is participating in the Plan, or who has previously participated in the Plan and still has a balance credited to his Account.

"Plan Year" means January 1, 1994 and ending December 31, 1994 and each period of 12 consecutive months beginning on January 1 of each succeeding year.

"Recognized Absence" means a period for which --

(a) an Employer grants an Employee a leave of absence for a limited period, but only if an Employer grants such leaves on a nondiscriminatory basis; or

(b) an Employee is temporarily laid off by an Employer because of a change in business conditions; or

(c) an Employee is on active military duty, but only to the extent that his employment rights are protected by the Military Selective Service Act of 1967 (38 U.S.C. sec. 2021).

"Service" means an Employee's period(s) of employment or self-employment with an Employer, excluding for initial eligibility purposes any period in which the individual was a nonresident alien and did not receive from an Employer any earned income which constituted income from sources within the United States. An Employee's Service shall include any service which constitutes service with a predecessor employer within the meaning of Section 414(a) of the Code. An Employee's Service shall also include any service with an entity which is not an Employer, but only either (i) for a period after 1975 in which the other entity is a member of a controlled group of corporations or is under common control with other trades and businesses within the meaning of Section 414(b) or 414(c) of the Code, and a member of the controlled group or one of the trades and businesses is an Employer, or (ii) for a period after 1979 in which the other entity is a member of an affiliated service group within the meaning of Section 414(m) of the Code, and a member of the affiliated service group is an Employer. Notwithstanding any provision of the Plan to the contrary, contributions, benefits and the calculation of Service with

respect to qualified military service  
will be provided in accordance with Section 414(u) of the Code.

"Spouse" means the individual, if any, to whom a Participant is lawfully married on the date benefit payments to the Participant are to begin, or on the date of the Participant's death, if earlier.

"Stock" means shares of the Association's voting common stock or preferred stock meeting the requirements of Section 409(e)(3) of the Code Issued by an Employer or an affiliated corporation.

"Stock Fund" means that portion of the Trust Fund consisting of Stock.

"Stock Obligation" means an indebtedness arising from any extension of credit to the Plan or the Trust which was obtained for the purpose of buying Stock and which satisfies the requirements set forth in Section 6.3.

"Total Compensation" means a Participant's wages, salary, overtime, bonuses, commissions, and any other amounts received for personal services rendered while in Service from any Employer or an affiliate (within the purview of Section 414(b), (c), and (m) of the Code), plus his earned income from any such entity as defined in Section 401(c)(2) of the Code if he is self-employed. "Total Compensation" shall include (i) severance payments and amounts paid as a result of termination, (ii) amounts excludable from gross income under Section 911 of the Code, (iii) amounts described in Sections 104(a)(3), 105(a), and 105(h) of the Code to the extent includable in gross income, (iv) amounts received from an Employer for moving expenses which are not deductible under Section 217 of the Code, (v) amounts includable in gross income in the year of, and on account of, the grant of a nonqualified stock option, (vi) amounts includable in gross income pursuant to Section 83(b) of the Code, and (vii) amounts includable in gross income under an unfunded nonqualified plan of deferred compensation, but shall exclude (viii) Employer contributions to or amounts received from a funded or qualified plan of deferred compensation, (ix) Employer contributions to a simplified employee pension account to the extent deductible under Section 219 of the Code, (x) Employer contributions to a Section 403(b) annuity contract, and (0) amounts includable in gross income pursuant to Section 83(a) of the Code, (xii) amounts includable in gross income upon the exercise of nonqualified stock option or upon the disposition of stock acquired under any stock option, and (xiii) any other amounts expended by the Employer on the Participant's behalf which are excludable from his income or which receive special tax benefits. A Participant's Total Compensation shall exclude any compensation in any limitation year in excess of the limit currently in effect under Section 401(a)(17) of the Code. In addition to other applicable limitations set forth in the Plan, and notwithstanding any provision of the Plan to the contrary, the annual compensation of each employee taken into account under the Plan shall not exceed the Omnibus Budget Reconciliation Act of 1993 ("OBRA 1993") annual compensation limit. The OBRA 1993 annual compensation limit is \$150,000, as adjusted by the Commissioner of the Internal Revenue Service for increases in the cost-of-living in accordance with Section 401(a)(17)(b) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (the "Determination Period") beginning in such calendar year. If a Determination Period consists of

fewer than 12 months, the OBRA 1993 annual compensation limitation will be multiplied by a fraction, the numerator of which is the number of months in the Determination Period, and the denominator of which is 12. For Plan Years beginning after December 31, 1997, for purposes of the Code Section 415(c) limit on contributions and benefits, Total Compensation will include (i) elective deferrals to 401(k) plans and similar arrangements, and (ii) salary reduction contributions to a cafeteria plan.

"Trust" or "Trust Fund" means the trust fund created under this Plan.

"Trust Agreement" means the agreement between the Association and the Trustee concerning the Trust Fund. If any assets of the Trust Fund are held in a co-mingled trust fund with assets of other qualified retirement plans, "Trust Agreement" shall be deemed to include the trust agreement governing that co-mingled trust fund. With respect to the allocation of investment responsibility for the assets of the Trust Fund, the provisions of the Trust Agreement are incorporated herein by reference.

"Trustee" means one or more corporate persons and individuals selected from time to time by the Association to serve as trustee or co-trustees of the Trust Fund.

"Unallocated Stock Fund" means that portion of the Stock Fund consisting of the Plan's holding of stock which have been acquired in exchange for one or more Stock Obligations and which have not yet been allocated to the Participant's Accounts in accordance with Section 4.2.

"Valuation Date" means the last day of the Plan Year and each other date as of which the committee shall determine the investment experience of the Investment Fund and adjust the Participants' accounts accordingly.

"Valuation Period" means the period following a Valuation Date and ending with the next Valuation Date.

"Vesting Year" means a unit of Service credited to a Participant pursuant to Section 9.2 for purposes of determining his vested interest in his Account.

### SECTION 3. ELIGIBILITY FOR PARTICIPATION.

3.1 INITIAL ELIGIBILITY. An Employee shall enter the Plan as of the Entry Date coinciding with or next following the later of the following dates:

(a) the date an Employee completes twelve consecutive calendar months of employment with the Employer, commencing with the day on which the Employee first completes an Hour of Service, during which the Employee completes at least 1,000 hours of service for the Employer, and

(b) attainment by the Employee of age 21. However, if an Employee is not in active Service with an Employer on the date he would otherwise first enter the Plan, his entry shall be deferred until the next day he is in Service.

3.2 TERMINATED EMPLOYEES. No Employee shall have any interest or rights under this Plan if he is never in active Service with an Employer on or after the Effective Date.

1.1

3.3 CERTAIN EMPLOYEES INELIGIBLE. No Employee shall participate in the Plan while his Service is covered by a collective bargaining agreement between an Employer and the Employee's collective bargaining representative if (i) retirement benefits have been the subject of good faith bargaining between the Employer and the representative and (ii) the collective bargaining agreement does not provide for the Employee's participation in the Plan. No Employee shall participate in the Plan while he is actually employed by a leasing organization rather than an Employer.

3.4 PARTICIPATION AND REPARTICIPATION. Subject to the satisfaction of the foregoing requirements, an Employee shall participate in the Plan during each period of his Service from his Entry Date until his Break in Service. For this purpose, an Employee returning after a Break in Service, who previously satisfied the initial eligibility requirements, shall re-enter the Plan as of the date of his reemployment.

#### SECTION 4. EMPLOYER CONTRIBUTIONS AND CREDITS.

4.1 DISCRETIONARY CONTRIBUTIONS. Each Employer shall from time to time contribute, with respect to a Plan Year, such amounts as it may determine from time to time. An Employer shall have no obligation to contribute any amount under this Plan except as so determined in its sole discretion. The Employers' contributions and available forfeitures for a Plan Year shall be credited as of the last day of the year to the Accounts of the Active Participants in proportion to their amounts of Cash Compensation.

4.2 CONTRIBUTIONS FOR STOCK OBLIGATIONS. If the Trustee, upon instructions from the Committee, incurs any Stock Obligation upon the purchase of Stock, the Employer shall, subject to the provisions of the Association's Plan of Conversion and any regulatory prohibitions, contribute for each Plan Year an amount sufficient to cover all payments of principal and interest as they come due under the terms of the Stock Obligation. If there is more than one Stock Obligation, the Employers shall designate the one to which any contribution is to be applied. The Employer's obligation to make contributions under this Section 4.2 shall be reduced to the extent of any investment earnings realized on such contributions and any dividends paid by the Employers on Stock held in the Unallocated Stock Account, which earnings and dividends shall be applied to the Stock Obligation related to that Stock.

In each Plan Year in which Employer contributions, earnings on contributions, or dividends on unallocated Stock are used as payments under a Stock Obligation, a certain number of shares of the Stock acquired with that Stock Obligation which is then held in the Unallocated Stock Fund shall be released for allocation among the Participants. The number of shares released shall bear the same ratio to the total number of those shares then held in the Unallocated Stock Fund (prior to the release) as (i) the principal and interest payments made on the Stock Obligation in the current Plan Year bears to (ii) the sum of (i) above, and the remaining principal

and interest payments required (or projected to be required on the basis of the interest rate in effect at the end of the Plan Year) to satisfy the Stock Obligation.

At the direction of the Committee, the current and projected payments of interest under a Stock Obligation may be ignored in calculating the number of shares to be released in each year if (i) the Stock Obligation provides for annual payments of principal and interest at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for 10 years, (ii) the interest included in any payment is ignored only to the extent that it would be determined to be interest under standard loan amortization tables, and (iii) the term of the Stock Obligation, by reason of renewal, extension, or refinancing, has not exceeded 10 years from the original acquisition of the Stock.

For these purposes, each Stock Obligation, the Stock purchased with it, and any dividends on such Stock, shall be considered separately. The Stock released from the Unallocated Stock Fund in any Plan Year shall be credited as of the last day of the year to the Accounts of the Active Participants in proportion to their amounts of Cash Compensation.

4.3 DEFINITIONS RELATED TO CONTRIBUTIONS. For the purposes of this Plan, the following terms have the meanings specified:

"Active Participant" means a Participant who has satisfied the eligibility requirements under Section 3 and who has completed at least 1,000 Hours of Service during the Plan Year. However, a Participant shall not qualify as an Active Participant unless (i) he is in active Service with an Employer as of the last day of the Plan Year, or (ii) he is on a Recognized Absence as of that date, or (iii) his Service terminated during the Plan Year by reason of Normal Retirement, Early Retirement, Disability or death.

"Cash Compensation" means the Participant's compensation as reported on Form W-2, including overtime but excluding commissions and taxable fringe benefits. A Participant's Cash Compensation shall exclude any compensation in excess of the limit currently in effect under Section 401(a)(17) of the Code. In addition to other applicable limitations set forth in the Plan, and notwithstanding any provision of the Plan to the contrary, the annual compensation of each employee taken into account under the Plan shall not exceed the Omnibus Budget Reconciliation Act of 1993 ("OBRA 1993") annual compensation limit. The OBRA 1993 annual compensation limit is \$150,000 as adjusted by the Commissioner of the Internal Revenue Service for increases in the cost-of-living in accordance with Section 401(a)(17)(b) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (the "Determination Period") beginning in such calendar year. If a Determination Period consists of fewer than 12 months, the OBRA 1993 annual compensation limitation will be multiplied by a fraction, the numerator of which is the number of months in the Determination Period, and the denominator of which is 12. For plan years commencing January 1, 1997 or later, the Family Member aggregation rules of Code Section 414(q)(6) shall not apply.

4.4 CONDITIONS AS TO CONTRIBUTIONS. Employers' contributions shall in any event be subject to the limitation set forth in Section 5. Contributions may be made in the form of cash, or

securities and other property to the extent permissible under ERISA, including Stock, and shall be held by the Trustee in accordance with the Trust Agreement. In addition to the provisions of Section 13.3 for the return of an Employer's contributions in connection with a failure of the Plan to qualify initially under the Code, any amount contributed by an Employer due to a good faith mistake of fact, or based upon a good faith but erroneous determination of its deductibility under Section 404 of the Code, shall be returned to the Employer within one year after the date on which the contribution was originally made, or within one year after its nondeductibility has been finally determined. Notwithstanding the preceding sentence, any contribution made incident to initial qualification must be returned within one year after the date initial qualification is denied, but only if application for initial qualification is made by the time prescribed by law for the filing of the Employer's federal tax return for the taxable year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe. However, the amount to be returned shall be reduced to take account of any adverse investment experience within the Trust Fund in order that the balance credited to each Participant's Account is not less than it would have been if the contribution had never been made.

#### SECTION 5. LIMITATIONS ON CONTRIBUTIONS AND ALLOCATIONS

5.1 Notwithstanding the provisions of Section 4, the maximum "annual additions" credited to a Participant's Accounts for any "limitation year" shall equal the lesser of (1) \$30,000 (or, if greater, one-fourth of the dollar limitation in effect under Code Section 415(b)(1)(A), except that this alternative limitation will not apply for any plan years commencing after December 31, 1996), or (2) twenty-five percent (25%) of the Participant's "415 Compensation" for such "limitation year".

For purposes of this Section 5.1 and the following Section 5.2, the "annual addition" to a Participant's accounts means the sum of (i) the Employer contributions and Employee forfeitures credited to a Participant's accounts with respect to a limitation year, plus (ii) the Participant's total voluntary contributions for that year. The \$30,000 Section 415(b)(1)(A) limitations referred to shall, for each limitation year, be automatically adjusted to the new dollar limitations determined by the Commissioner of Internal Revenue for the calendar year beginning in that limitation year, Notwithstanding the foregoing, if the special limitations on annual additions described in section 415(c)(6) of the Code applies, the limitations described in this section shall be adjusted accordingly. A "limitation year" means each 12 consecutive month period beginning January 1.

5.2 COORDINATED LIMITATION WITH OTHER PLANS. Aside from the limitation prescribed by Section 5.1 with respect to the annual addition to a Participant's accounts for any single limitation year, if a Participant has ever participated in one or more defined benefit plans maintained by an Employer or an affiliate, then the benefits provided under the defined benefit plan on his account shall be limited on a cumulative basis so that the sum of his defined contribution plan fraction and his defined benefit plan fraction does not exceed one. In addition, any reduction in contributions to a defined contribution plan shall first be made from defined contribution plans other than this plan. For this purpose:

5.2-1 A Participant's defined contribution plan fraction with respect to a Plan Year shall be a fraction, (i) the numerator of which is the sum of the annual

additions to his accounts under all defined contribution plans (whether or not terminated) maintained by the Employer for the current year and all prior limitation years (including) annual additions of the Participant's nondeductible employee contributions to all defined benefit plans, whether or not terminated, maintained by an Employer, and the annual additions attributable to all welfare benefit plans, individual medical accounts, and simplified employee pensions maintained by the Employer), and (ii) the denominator of which is the sum of the lesser of the following amounts -A- and -B- determined for the current limitation year and each prior limitation year of Service with an Employer: -A- is 1.25 times the dollar limitation determined under Section 415(c)(1)(A) of the Code, or 1.0 times such dollar limitation if the Plan is top-heavy, and -B- is 35 percent of the Participant's Total Compensation for such year. If the Employee was a Participant as of the end of the first limitation year beginning after December 31, 1986 in one or more defined contribution plans maintained by an Employer which plan(s) were in existence on May 6, 1986, and if the sum of this fraction and the defined benefit fraction (described below) would otherwise exceed 1.0 under the terms of this Plan, the numerator of this fraction will be adjusted. To affect this adjustment, an amount equal to the product of the excess of the sum of the fractions over 1.0, multiplied by the denominator of this fraction shall be permanently subtracted from the numerator of this fraction. This adjustment shall be calculated using the fractions as they would be computed as of the end of the last limitation year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the limitation applicable under Section 415 of the Code for the first limitation year beginning on or after January 1, 1987.

5.2-2 A Participant's defined benefit plan fraction with respect to a limitation year shall be a fraction, (i) the numerator of which is his projected annual benefit payable at normal retirement under the Employers' defined benefit plans, and (ii) the denominator of which is the lesser of (a) 1.25 times \$90,000, or 1.0 times such dollar limitation if the Plan is top-heavy, and (b) 1.4 times the Participant's average Total Compensation during his highest-paid three consecutive limitation years.

5.3 EFFECT OF LIMITATIONS. The Committee shall take whatever action may be necessary from time to time to assure compliance with the limitations set forth in Section 5.1 and 5.2. Specifically, the Committee shall see that each Employer restrict its contributions for any Plan year to an amount which, taking into account the amount of available forfeitures, may be completely allocated to the Participants consistent with those limitations. Where the limitations would otherwise be exceeded by any Participant, further allocations to the Participant shall be curtailed to the extent necessary to satisfy the limitations. Where an excessive amount is contributed on account of a mistake as to one or more Participants' compensation, or there is an amount of forfeitures which may not be credited in the Plan Year in which it becomes available, the amount shall be held in a suspense account to be allocated in lieu of any Employer contributions in future years until it is eliminated, and to be returned to the Employer if it cannot be credited consistent with these limitations upon the termination of the Plan.

5.4 LIMITATIONS AS TO CERTAIN PARTICIPANTS. Aside from the limitations set forth in Section 5.1 and 5.2, if the Plan acquires any Stock in a transaction as to which a selling shareholder or the estate of a deceased shareholder is claiming the benefit of Section 1042 of the Code, the Committee shall see that none of such Stock, and no other assets in lieu of such Stock, are allocated to the Accounts of certain Participants in order to comply with Section 409(n) of the Code.

This restriction shall apply at all times to a Participant who owns (taking into account the attribution rules under Section 318(a) of the Code, without regard to the exception for employee plan trusts in Section 318(a)(2)(B)(i) more than 25 percent of any class of stock of a corporation which issued the Stock acquired by the Plan, or another corporation within the same controlled group, as defined in Section 409(l)(4) of the Code (any such class of stock hereafter called a "Related Class"). For this purpose, a Participant who owns more than 25 percent of any Related Class at any time within the one year preceding the Plan's purchase of the Stock shall be subject to the restriction as to all allocations of the Stock, but any other Participant shall be subject to the restriction only as to allocations which occur at a time when he owns more than 25 percent of any Related Class.

Further, this restriction shall apply to the selling shareholder claiming the benefit of Section 1042 and any other Participant who is related to such a shareholder within the meaning of Section 267(b) of the Code, during the period beginning on the date on which the Plan purchases the Stock and ending 10 years after the later of (i) the date of such purchase, and (ii) the date of the allocation under Section 4.2 attributable to the final payment on whatever Stock Obligations were incurred with the purchase.

This restriction shall not apply to any Participant who is a lineal descendant of a selling shareholder if the aggregate amounts allocated under the Plan for the benefit of all such descendants do not exceed five percent of the Stock acquired from the shareholder.

#### SECTION 6. TRUST FUND AND ITS INVESTMENT FUND.

6.1 CREATION OF TRUST FUND. All amounts received under the Plan from the Employer and investments shall be held as the Trust Fund pursuant to the terms of this Plan and of the Trust Agreement between the Association and the Trustee. The benefits described in this Plan shall be payable only from the assets of the Trust Fund, and none of the Association, any other Employer, its board of directors or trustees, its stockholders, its officers, its employees, the Committee, and the Trustee shall be liable for payment of any benefit under this Plan except from the Trust Fund.

6.2 STOCK FUND AND INVESTMENT FUND. The Trust Fund held by the Trustee shall be divided into the Stock Fund, consisting entirely of Stock, and the Investment Fund, consisting of all assets of the Trust other than Stock. The Trustee shall have no investment responsibility for the Stock Fund, but shall accept any Employer contributions made in the form of Stock, and shall acquire, sell, exchange, distribute, and otherwise deal with and dispose of Stock in accordance with the instructions of the Committee. The Trustee shall have full responsibility for the investment of the Investment Fund, except to the extent such responsibility may be delegated from time to time to one or more investment managers pursuant to the Trust Agreement.

6.3 ACQUISITION OF STOCK. From time to time the Committee may, in its sole discretion, direct the Trustee to acquire Stock from the issuing Employer or from shareholders, including shareholders who are or have been Employees, Participants, or fiduciaries with respect to the Plan. The Trustee shall pay for such Stock no more than its fair market value, which shall be determined conclusively by the Committee pursuant to Section 12-4. The Committee may direct the Trustee to finance the acquisition of Stock by incurring or assuming indebtedness to the seller or another party which indebtedness shall be called a "Stock Obligation". Any Stock Obligation shall be subject to the following conditions and limitations:

6.3-1 A Stock Obligation shall be for a specific term, shall not be payable on demand except in the event of default, and shall bear a reasonable rate of interest.

6.3-2 A Stock Obligation may, but need not, be secured by a collateral pledge of either the Stock acquired in exchange for the Stock Obligation, or the Stock previously pledged in connection with a prior Stock Obligation which is being repaid with the proceeds of the current Stock Obligation. No other assets of the Plan and Trust may be used as collateral for a Stock Obligation, and no creditor under a Stock Obligation shall have any right or recourse to any Plan and Trust assets other than Stock remaining subject to a collateral pledge.

6.3-3 Any pledge of Stock to secure a Stock Obligation must provide for the release of pledged Stock in connection with payments on the Stock Obligations in the ratio prescribed in Section 4.2.

6.3-4 Repayments of principal and interest on any Stock Obligation generally shall be made by the Trustee from cash contributions designated for such payments, from earnings on such contributions, and from cash dividends received on Stock held in the Unallocated Stock Fund.

6.4 PARTICIPANTS' OPTION TO DIVERSIFY'. The Committee shall provide for a procedure under which each Participant may, during the first five years of a certain six-year period, elect to have up to 25 percent of the value of his Account committed to alternative investment options within the Investment Fund. For the sixth year in this period, the Participant may elect to have up to 50 percent of the value of his Account committed to other investments. The six-year period shall begin with the Plan Year following the first Plan Year in which the Participant has both reached aged 55 and completed 10 years of participation in the Plan; a Participant's election to diversify his Account must be made within the 90-day period immediately following the last day of each of the six Plan Years. The Committee shall see that the Investment Fund includes a sufficient number of investment options to comply with Section 401(a)(28)(B) of the Code. The Trustee shall comply with any investment directions received from Participants in accordance with the procedures adopted from time to time by the Committee under this Section 6.4.

SECTION 7. VOTING RIGHTS AND DIVIDENDS ON STOCK.

7.1 VOTING AND TENDERING OF STOCK. The Trustee generally shall vote all shares of Stock held under the Plan. However, if any Employer has registration-type class of securities within the meaning of Section 409(e)(4) of the Code, or if a matter submitted to the holders of the Stock involves a merger, consolidation, recapitalization, reclassification, liquidation, dissolution, or sale of substantially all assets of an entity, then (i) the shares of Stock which have been allocated to Participants' Accounts shall be voted by the Trustee in accordance with the Participants' written instructions, and (ii) the Trustee shall vote any shares of Stock which have been allocated to Participants' Accounts but for which no written instructions have been received and any unallocated Stock in a manner calculated to most accurately reflect the instructions it has received from Participants regarding the allocated Stock. In the event no shares of Stock have been allocated to Participants' Accounts at the time Stock is to be voted, each Participant shall be deemed to have one share of Stock allocated to his or her account for the sole purpose of providing the Trustee with voting instructions. Notwithstanding any provision hereunder to the contrary, all shares of Stock which have been allocated to Participants' Accounts and for which the Trustee has received no written instructions and all unallocated shares of Stock must be voted by the Trustee in a manner determined by the Trustee to be solely in the interest of the Participants and Beneficiaries. Whenever such voting rights are to be exercised, the Employers, the Committee, and the Trustee shall see that all Participants and Beneficiaries are provided with the same notices and other materials as are provided to other holders of the Stock, and are provided with adequate opportunity to deliver their instructions to the Trustee regarding the voting of Stock allocated to their Accounts. The instructions of the Participants' with respect to the voting of allocated shares hereunder shall be confidential.

7.1-1 In the event of a tender offer, Stock shall be tendered by the Trustee in the same manner as set forth above with respect to the voting of Stock. Notwithstanding any provision hereunder to the contrary, Stock must be tendered by the Trustee in a manner determined by the Trustee to be solely in the interest of the Participants and Beneficiaries.

7.1-2. In connection with the merger of the Holding Company with and into Dime, contemplated by the Agreement and Plan of Merger between the Holding Company and Dime, dated as of July 18, 1998, pursuant to which, at the election of the holders thereof, the common stock of the Holding Company is to be converted into either cash or common stock of Dime, (i) elections with respect to the shares of Stock which have been allocated to Participants' Accounts shall be made by the Trustee in accordance with the Participants' written instructions and (ii) elections with respect to the shares of Stock which have been allocated to Participants' Accounts for which no instructions have been received shall be made in accordance with the instructions of the Holding Company.

7.2 DIVIDENDS ON STOCK. Dividends on Stock which are received by the Trustee in the form of additional Stock shall be retained in the Stock Fund, and shall be allocated among the Participant's Accounts and the Unallocated Stock Fund in accordance with their holdings of the Stock on which the dividends have been paid. Dividends on Stock credited to Participants' Accounts which are received by the Trustee in the form of cash shall, at the direction of the Association paying the dividends, either (i) be credited to the Accounts in accordance with

Section 8.3 and invested as part of the Investment Fund, (ii) be distributed immediately to the Participants in proportion with the Participants' Account balance; (iii) be distributed to the Participants within 90 days of the close of the Plan Year in which paid in proportion with the Participants' Account balance; or (iv) be used to repay principal and interest on the Stock Obligation used to acquire Stock on which the dividends were paid. Dividends on Stock held in the Unallocated Stock Fund which are received by the Trustee in the form of cash shall be applied as soon as practicable to payments of principal and interest under the Stock Obligation incurred with the purchase of the Stock.

#### SECTION 8. ADJUSTMENTS TO ACCOUNTS

8.1 ADJUSTMENTS FOR TRANSACTIONS. An Employer contribution pursuant to Section 4.1 shall be credited to the Participants' Accounts as of the last day of the Plan Year for which it is contributed. Stock released from the Unallocated Stock Fund upon the Trust's repayment of a Stock Obligation pursuant to Section 4.2 shall be credited to the Participants' Accounts as of the last day of the Plan Year in which the repayment occurred. Any excess amounts remaining from the use of proceeds of a sale of Stock from the Unallocated Stock Fund to repay a Stock Obligation shall be allocated as of the last day of the Plan Year in which the repayment occurred among the Participants' Accounts in proportion to the opening balance in each Account. Any benefit which is paid to a Participant or Beneficiary pursuant to Section 10 shall be charged to the Participant's Account as of the first day of the Valuation Period in which it is paid. Any forfeiture or restoral shall be charged or credited to the Participant's Account as of the first day of the Valuation Period in which the forfeiture or restoral occurs pursuant to Section 9.6.

8.2 VALUATION OF INVESTMENT FUND. As of each Valuation Date, the Trustee shall prepare a balance sheet of the Investment Fund, recording each asset (including any contribution receivable from an Employer) and liability at its fair market value. Any liability with respect to short positions or options and any item of accrued income or expense and unrealized appreciation or depreciation shall be included; provided, however, that such an item may be estimated or excluded if it is not readily ascertainable unless estimating or excluding it would result in a material distortion. The Committee shall then determine the net gain or loss of the Investment Fund since the preceding Valuation Date, which shall mean the entire income of the Investment Fund, including realized and unrealized capital gains and losses, net of any expenses to be charged to the general Investment Fund and excluding any contributions by the Employer. The determination of gain or loss shall be consistent with the balance sheets of the Investment Fund for the current and preceding Valuation Dates.

8.3 ADJUSTMENTS FOR INVESTMENT EXPERIENCE. Any net gain or loss of the Investment Fund during a Valuation Period, as determined pursuant to Section 8.2, shall be allocated as of the last day of the Valuation Period among the Participants' Accounts in proportion to the opening balance in each Account, as adjusted for benefit payments and forfeitures during the Valuation Period, without regard to whatever Stock may be credited to an Account.

8.4 ADJUSTMENTS FOR CAPITAL CHANGES. In the event of any change in the outstanding shares of Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares, or

other similar corporate change, or other increase or decrease in such shares effected without receipt or payment of consideration by the bank issuing the Stock, the Committee shall adjust the number of shares of Stock allocated to the Participants' Accounts to prevent dilution or enlargement of such Accounts.

SECTION 9. VESTING OF PARTICIPANTS' INTERESTS.

9.1 DEFERRED VESTING IN ACCOUNTS. A Participant's vested interest in his Account shall be based on his Vesting Years in accordance with the following Table, subject to the balance of this Section 9:

| Vesting Years | Percentage of Interest Vested |
|---------------|-------------------------------|
| fewer than 3  | 0%                            |
| 3             | 20%                           |
| 4             | 40%                           |
| 5             | 60%                           |
| 6             | 80%                           |
| 7 or more     | 100%                          |

9.2 COMPUTATION OF VESTING YEARS. For purposes of this Plan, a "Vesting Year" means each 12-consecutive month period in which an Employee has at least 1,000 Hours of Service, beginning with his initial Service with the Employer. However, a Participant's Vesting Years shall be computed subject to the following conditions and qualifications:

(a) A Participant's vested interest in his Account accumulated before a Break in Service shall be determined without regard to any Service after the Break. Further, if a Participant has a Break in Service before his interest in his Account has become vested to some extent, he shall lose credit for any Vesting Year before the Break.

(b) Unless otherwise specifically excluded, a Participant's Vesting Years shall include any period of active military duty to the extent required by the Military Selective Service Act of 1967 (38 U.S.C. Section 2021).

9.3 FULL VESTING UPON CERTAIN EVENTS. Notwithstanding Section 9.1, a Participant's interest in his Account shall fully vest on the Participant's Normal Retirement Date, provided the Participant is in Service on or after that date. The Participant's interest shall also fully vest in the event that his Service is terminated, by Early Retirement, Disability or by death.

9.4 FULL VESTING UPON PLAN TERMINATION. Notwithstanding Section 9.1, a Participant's interest in his Account shall fully vest if he is in active Service upon termination of this Plan or upon the permanent and complete discontinuance of contributions by his Employer. In the event

of a partial termination, the interest of each Participant who is in Service shall fully vest with respect to that part of the Plan which is terminated.

9.5 FORFEITURE, REPAYMENT, AND RESTORAL, REPAYMENT, AND RESTORAL, REPAYMENT, AND RESTORAL. If a Participant's Service terminates before his interest in his Account is fully vested, that portion which has not vested shall be forfeited if he either (i) receives a distribution of his entire vested benefit, or (ii) has a Break in Service. If a Participant who has received his entire vested interest returns to Service before he has a Break in Service, he may repay to the Trustee an amount equal to the distribution. The Participant may repay such amount at any time within five years after he has returned to Service. The amount shall be credited to his Account as of the last day of the Plan Year in which it is repaid; an additional amount equal to the portion of his Account which was previously forfeited shall be restored to his Account at the same time from other Employees' forfeitures and, if such forfeitures are insufficient, from a special contribution by his Employer for that year. In the case of a terminated Participant who does not receive a distribution of his entire vested interest and whose Service resumes after a Break in Service, any undistributed balance from his prior participation which was not forfeited shall be maintained as a fully vested subaccount with his Account. If a portion of a Participant's Account is forfeited, assets other than Stock must be forfeited before any Stock may be forfeited. In the case of a Participant who has incurred a Break in Service and then returns to Service, all years of Service after the Break in Service will be disregarded for the purpose of vesting his Account accrued before the Break in Service, but both pre-Break and post-Break Service will count for the purpose of vesting the Participant's Account that accrues after the Break in Service. If a Participant's Service terminates prior to his Account having become vested to any extent, such Participant shall be deemed to have received a distribution of his entire vested interest as of the Valuation Date next following his termination of Service.

9.6 ACCOUNTING FOR FORFEITURES. A forfeiture shall be charged to the Participant's Account as of the first day of the first Valuation Period in which the forfeiture becomes certain pursuant to Section 9.5. Except as otherwise provided in that Section, a forfeiture shall be added to the contributions of the terminated Participant's Employer which are to be credited to other Participants pursuant to Section 4.1 as of the last day of the Plan Year in which the forfeiture becomes certain.

9.7 VESTING AND NONFORFEITABILITY. A Participant's interest in his Account which has become vested shall be nonforfeitable for any reason.

#### SECTION 10. PAYMENT OF BENEFITS.

10.1 BENEFITS FOR PARTICIPANTS. A Participant whose Service ends for any reason shall receive the vested portion of his Account in a single payment on a date selected by the Committee. That date shall be on or before the 60th day after the end of the Plan Year in which his Service ends. Notwithstanding the foregoing, if the balance credited to his Account exceeds \$3,500 (\$5,000 for all Plan Years commencing after August 5, 1997), his benefits shall not be paid before the latest of his 65th birthday or the tenth anniversary of the year in which he commenced participation in the Plan unless he elects an early payment date in a written election filed with the Committee. A Participant may modify such an election at any time, provided any

new benefit payment date is at least 30 days after a modified election is delivered to the Committee. Such an election is not valid unless it is made after the Participant has received the required notice under Section 1.411 (a)-11(c) of the Income Tax Regulations that provides a general description of the material features of a lump sum distribution and the Participant's right to defer receipt of his benefit. The Notice shall be provided no less than 30 days and no more than 90 days before the first day on which all events have occurred which entitle the Participant to such benefit. Written consent of the Participant to the distribution generally may not be made within 30 days of the date the Participant receives the notice and shall not be made more than 90 days from the date the Participant receives the notice. However, a distribution may be made less than 30 days after the notice provided under Section 1.411(a)-11(c) of the Income Tax Regulations is given, if:

(a) the Committee clearly informs the Participant that he has a right to period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and if applicable, a particular distribution option), and

(b) the Participant, after receiving the notice, affirmatively elects a distribution.

A Participant may modify such an election at any time, provided in all events, a Participant's benefits shall be paid by April 1st of the calendar year in which he reaches age 71-1/2. A Participant's benefits from that portion of his Account committed to the Investment Fund shall be calculated on the basis of the most recent Valuation Date before the day of payment.

For Plan Years beginning after December 31, 1996, distributions to Participants who are not "five percent owners" will not be required to be distributed until April 1 of the calendar year following the later of either (i) the calendar year in which the Participant reaches age 70 1/2, or (ii) the calendar year in which the Participant retires.

Participants who attained age 70 1/2 in any year prior to 1999 and who are not "five percent owners" shall be offered the choice of receiving distributions pursuant to this section or electing to delay receiving distributions until they retire. If distributions under this section have already commenced prior to 1999 to any Participant who is not a "five percent owner", the Participant shall be offered the choice of continuing the distributions or terminating the distributions until he retires.

10.2 BENEFITS ON A PARTICIPANT'S DEATH. If a Participant dies before his benefits are paid pursuant to Section 10.1, the balance credited to his Account shall be paid to his Beneficiary in a single distribution on or before the 60th day after the end of the Plan Year in which he died. The benefits from that portion of the Account committed to the Investment Fund shall be calculated on the basis of the most recent Valuation Date before the date of payment.

If a married Participant dies before his benefit payments begin, than unless he has specifically elected otherwise the Committee shall cause the balance in his Account to be paid to his Spouse. No election by a married Participant of a different Beneficiary shall be valid unless

the election is accompanied by the Spouse's written consent, which (i) must acknowledge the effect of the election, (ii) must explicitly provide either that the designated Beneficiary may not subsequently be changed by the Participant without the Spouse's further consent, or that it may be changed without such consent, and (iii) must be witnessed by the Committee, its representative, or a notary public. This requirement shall not apply if the Participant establishes to the Committee's satisfaction that the Spouse may not be located.

10.3 MARITAL STATUS. The Committee shall from time to time take whatever steps it deems appropriate to keep informed of each Participant's marital status. Each Employer shall provide the Committee with the most reliable information in the Employer's possession regarding its Participants' marital status, and the Committee may, in its discretion, require a notarized affidavit from any Participant as to his marital status. The Committee, the Plan, the Trustee, and the Employers shall be fully protected and discharged from any liability to the extent of any benefit payments made as a result of the Committee's good faith and reasonable reliance upon information obtained from a Participant and his Employer as to his marital status.

10.4 DELAY IN BENEFIT DETERMINATION. If the Committee is unable to determine the benefits payable to a Participant or Beneficiary on or before the latest date prescribed for payment pursuant to Section 10.1 or 10.2, the benefits shall in any event be paid within 60 days after they can first be determined, with whatever makeup payments may be appropriate in view of the delay.

10.5 ACCOUNTING FOR BENEFIT PAYMENTS. Any benefit payment shall be charged to the Participant's Account as of the first day of the Valuation Period in which the payment is made.

10.6 OPTIONS TO RECEIVE AND SELL STOCK. A terminated Participant or the Beneficiary of a deceased Participant may instruct the Committee to distribute the Participant's entire vested interest in his Account in the form of Stock or cash. Notwithstanding the foregoing, such terminated Participant or Beneficiary of a deceased Participant may not elect to receive such distribution in the form of Stock, if, at the time of his election, ownership of virtually all Stock is restricted to active Employees and qualified retirement plans for the benefit of Employees pursuant to the certificates of incorporation or by-laws of the Employers issuing Stock. In the event that a terminated Participant or the Beneficiary of a deceased Participant instructs the Committee to distribute the Participant's entire vested interest in his Account in Stock, the Committee shall apply the Participant's vested interest in the Investment Fund to purchase sufficient Stock from the Stock Fund or from any owner of Stock to make the required distribution.

Any Participant who receives Stock pursuant to Section 10.1, and any person who has received Stock from the Plan or from such a Participant by reason of the Participant's death or incompetency, by reason of divorce or separation from the Participant, or by reason of a rollover contribution described in Section 402(c) of the Code, shall have the right to require the Employer which issued the Stock to purchase the Stock for its current fair market value (hereinafter referred to as the "put right"). The put right shall be exercisable by written notice to the Committee during the first 60 days after the Stock is distributed by the Plan, and, if not exercised in that period, during the first 60 days in the following Plan Year after the Committee has communicated to the Participant its determination as to the Stock's current fair market value. However, the put

right shall not apply to the extent that the Stock, at the time the put right would otherwise be exercisable, may be sold on an established market in accordance with federal and state securities laws and regulations. If the put right is exercised, the Trustee may, if so directed by the Committee in its sole discretion, assume the Employer's rights and obligations with respect to purchasing the Stock.

The Employer or the Trustee, as the case may be, may elect to pay for the Stock in equal periodic installments, not less frequently than annually, over a period not longer than five years from the 30th day after the put right is exercised, with adequate security and interest at a reasonable rate on the unpaid balance, all such terms to be set forth in a promissory note delivered to the seller with normal terms as to acceleration upon any uncured default.

Nothing contained herein shall be deemed to obligate any Employer to register any Stock under any federal or state securities law or to create or maintain a public market to facilitate the transfer or disposition of any Stock. The put right described herein may only be exercised by a person described in the second preceding paragraph, and may not be transferred with any Stock to any other person. As to all Stock purchased by the Plan in exchange for any Stock Obligation, the put right be nonterminable. The put right for Stock acquired through a Stock Obligation shall continue with respect to such Stock after the Stock Obligation is repaid or the Plan ceases to be an employee stock ownership plan.

10.7 RESTRICTIONS ON DISPOSITION OF STOCK. Except in the case of Stock which is traded on an established market, a Participant who receives Stock pursuant to Section 10.1, and any person who has received Stock from the Plan or from such a Participant by reason of the Participant's death or incompetency, by reason of divorce or separation from the Participant, or by reason of a rollover contribution described in Section 402(c) of the Code, shall, prior to any sale or other transfer of the Stock to any other person, first offer the Stock to the issuing Employer and to the Plan at its current fair market value. This restriction shall apply to any transfer, whether voluntary, involuntary, or by operation of law, and whether for consideration or gratuitous. Either the Employer or the Trustee may accept the offer within 14 days after it is delivered. Any Stock distributed by the Plan shall bear a conspicuous legend describing the right of first refusal under this Section 10.7, as well as any other restrictions upon the transfer of the Stock imposed by federal and state securities laws and regulations.

10.8 DIRECT TRANSFER OF ELIGIBLE PLAN DISTRIBUTIONS. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a "Distributee's" (as defined below) election under this section, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an "Eligible rollover distribution" (as defined below) paid directly to an eligible retirement plan in a "Direct Rollover" (as defined below).

Definitions:

(a) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life

expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specific period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Stock).

(b) Eligible retirement plan: An eligible retirement plan is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(c) Distributee: A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(d) Direct Rollover: A direct rollover is a payment by the plan to the eligible retirement plan specified by the distributee.

#### SECTION 11. RULES GOVERNING BENEFIT CLAIMS AND REVIEW OF APPEALS.

11.1 CLAIM FOR BENEFITS. Any Participant or Beneficiary who qualifies for the payment of benefits shall file a claim for his benefits with the Committee on a form provided by the Committee. The claim, including any election of an alternative benefit form, shall be filed at least 30 days before the date on which the benefits are to begin. If a Participant or Beneficiary fails to file a claim by the 30th day before the date on which benefits become payable, he shall be presumed to have filed a claim for payment for the Participant's benefits in the standard form prescribed by Sections 10.1 or 10.2.

11.2 NOTIFICATION BY COMMITTEE. Within 90 days after receiving a claim for benefits (or within 180 days, if special circumstances require an extension of time and written notice of the extension is given to the Participant or Beneficiary within 90 days after receiving the claim for benefits), the Committee shall notify the Participant or Beneficiary whether the claim has been approved or denied. If the Committee denies a claim in any respect, the Committee shall set forth in a written notice to the Participant or Beneficiary:

- (i) each specific reason for the denial;
- (ii) specific references to the pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information which could be submitted by the Participant or Beneficiary to support his claim, with an explanation of the relevance of such information; and

(iv) an explanation of the claims review procedures set forth in Section 11.3.

11.3 CLAIMS REVIEW PROCEDURE. Within 60 days after a Participant or Beneficiary receives notice from the Committee that his claim for benefits has been denied in any respect, he may file with the Committee a written notice of appeal setting forth his reasons for disputing the Committee's determination. In connection with his appeal the Participant or Beneficiary or his representative may inspect or purchase copies of pertinent documents and records to the extent not inconsistent with other Participants' and Beneficiaries' rights of privacy. Within 60 days after receiving a notice of appeal from a prior determination (or within 120 days, if special circumstances require an extension of time and written notice of the extension is given to the Participant or Beneficiary and his representative within 60 days after receiving the notice of appeal), the Committee shall furnish to the Participant or Beneficiary and his representative, if any, a written statement of the Committee's final decision with respect to his claim, including the reasons for such decision and the particular Plan provisions upon which it is based.

## SECTION 12. THE COMMITTEE AND ITS FUNCTIONS.

12.1 AUTHORITY OF COMMITTEE. The Committee shall be the "plan administrator" within the meaning of ERISA and shall have exclusive responsibility and authority to control and manage the operation and administration of the Plan, including the interpretation and application of its provisions, except to the extent such responsibility and authority are otherwise specifically (i) allocated to the Association, the Employers, or the Trustee under the Plan and Trust Agreement, (ii) delegated in writing to other persons by the Association, the Employers, the Committee, or the Trustee, or (iii) allocated to other parties by operation of law. The Committee shall have exclusive responsibility regarding decisions concerning the payment of benefits under the Plan. The Committee shall have no investment responsibility with respect to the Investment Fund except to the extent, if any, specifically provided in the Trust Agreement. In the discharge of its duties, the Committee may employ accountants, actuaries, legal counsel, and other agents (who also may be employed by an Employer or the Trustee in the same or some other capacity) and may pay their reasonable expenses and compensation.

12.2 IDENTITY OF COMMITTEE. The Committee shall consist of three or more individuals selected by the Association. Any individual, including a director, trustee, shareholder, officer, or employee of an Employer, shall be eligible to service as a member of the Committee. The Association shall have the power to remove any individual serving on the Committee at any time without cause upon 10 days written notice, and any individual may resign from the Committee at any time upon 10 days written notice to the Association. The Association shall notify the Trustee of any change in membership of the Committee.

12.3 DUTIES OF COMMITTEE. The Committee shall keep whatever records may be necessary to implement the Plan and shall furnish whatever reports may be required from time to

time by the Association. The Committee shall furnish to the Trustee whatever information may be necessary to properly administer the Trust. The Committee shall see to the filing with the appropriate government agencies of all reports and returns required of the plan Committee under ERISA and other laws.

Further, the Committee shall have exclusive responsibility and authority with respect to the Plan's holdings of Stock and shall direct the Trustee in all respects regarding the purchase, retention, sale, exchange, and pledge of Stock and the creation and satisfaction of Stock Obligations. The Committee shall at all times act consistently with the Association's long-term intention that the Plan, as an employee stock ownership plan, be invested primarily in Stock. Subject to the direction of the Committee with respect to Stock Obligations pursuant to the provision of Section 4.2, and subject to the provisions of Sections 6.4 and 10.6 as to Participants' rights under certain circumstances to have their Accounts invested in Stock or in assets other than Stock, the Committee shall determine in its sole discretion the extent to which assets of the Trust shall be used to repay Stock Obligations, to purchase Stock, or to invest in other assets to be selected by the Trustee or an investment manager. No provision of the Plan relating to the allocation or vesting of any interests in the Stock Fund or the Investment Fund shall restrict the Committee from changing any holdings of the Trust, whether the changes involve an increase or a decrease in the Stock or other assets credited to Participants' Accounts. In determining the proper extent of the Trust's investment in Stock, the Committee shall be authorized to employ investment counsel, legal counsel, appraisers, and other agents to pay their reasonable expenses and compensation.

12.4 VALUATION OF STOCK. If the valuation of any Stock is not established by reported trading on a generally recognized public market, the Committee shall have the exclusive authority and responsibility to determine its value for all purposes under the Plan. Such value shall be determined as of each Valuation Date, and on any other date as of which the Plan purchases or sells such Stock. The Committee shall use generally accepted methods of valuing stock of similar corporations for purposes of arm's length business and investment transactions, and in this connection the Committee shall obtain, and shall be protected in relying upon, the valuation of such Stock as determined by an independent appraiser experienced in preparing valuations of similar businesses.

12.5 COMPLIANCE WITH ERISA. The Committee shall perform all acts necessary to comply with ERISA. Each individual member or employee of the Committee shall discharge his duties in good faith and in accordance with the applicable requirements of ERISA.

12.6 ACTION BY COMMITTEE. All actions of the Committee shall be governed by the affirmative vote of a number of members which is a majority of the total number of members currently appointed, including vacancies. The members of the Committee may meet informally and may take any action without meeting as a group.

12.7 EXECUTION OF DOCUMENTATION. Any instrument executed by the Committee shall be signed by any member or employee of the Committee.

12.8 ADOPTION OF RULES. The Committee shall adopt such rules and regulations of uniform applicability as it deems necessary or appropriate for the proper administration and interpretation of the Plan.

12.9 RESPONSIBILITIES TO PARTICIPANTS. The Committee shall determine which Employees qualify to enter the Plan. The Committee shall furnish to each eligible Employee whatever summary plan descriptions, summary annual reports, and other notices and information may be required under ERISA. The Committee also shall determine when a Participant or his Beneficiary qualifies for the payment of benefits under the Plan. The Committee shall furnish to each such Participant or Beneficiary whatever information is required under ERISA (or is otherwise appropriate) to enable the Participant or Beneficiary to make whatever elections may be available pursuant to Sections 6 and 10, and the Committee shall provide for the payment of benefits in the proper form and amount from the assets of the Trust Fund. The Committee may decide in its sole discretion to permit modifications of elections and to defer or accelerate benefits to the extent consistent with applicable law and the best interests of the individuals concerned.

12.10 ALTERNATIVE PAYEES IN EVENT OF INCAPACITY. If the Committee finds at any time that an individual qualifying for benefits under this Plan is a minor or is incompetent, the Committee may direct the benefits to be paid, in the case of a minor, to his parents, his legal guardian, a custodian for him under the Uniform Transfers to Minors Act, or the person having actual custody of him, or, in the case of an incompetent, to his spouse, his legal guardian, or the person having actual custody of him, the payments to be used for the individual's benefit. The Committee and the Trustee shall not be obligated to inquire as to the actual use of the funds by the person receiving them under this Section 12.10, and any such payment shall completely discharge the obligations of the Plan, the Trustee, the Committee, and the Employers to the extent of the payment.

12.11 INDEMNIFICATION BY EMPLOYERS. Except as separately agreed in writing, the Committee, and any member or employee of the Committee, shall be indemnified and held harmless by the Employers, jointly and severally, to the fullest extent permitted by law against any and all cost, damages, expenses, and liabilities reasonably incurred by or imposed upon it or him in connection with any claim made against it or him or in which it or he may be involved by reason of its or his being, or having been, the Committee, or a member or employee of the Committee, to the extent such amounts are not paid by insurance.

12.12 NONPARTICIPATION BY INTERESTED MEMBER. Any member of the Committee who also is a Participant in the Plan shall take no part in any determination specifically relating to his own participation or benefits, unless his abstention would leave the Committee incapable of acting on the matter.

#### SECTION 13. ADOPTION, AMENDMENT, OR TERMINATION OF THE PLAN.

13.1 ADOPTION OF PLAN BY OTHER EMPLOYERS. With the consent of the Association, any entity may become a participating Employer under the Plan by (i) taking such action as shall be necessary to adopt the Plan, (ii) becoming a party to the Trust Agreement establishing the Trust

Fund,  
and (iii) executing and delivering such instruments and taking such other action as may be necessary or desirable to put the Plan into effect with respect to the entity's Employees.

13.2 ADOPTION OF PLAN BY SUCCESSOR OF PLAN. In the event that any Employer shall be reorganized by way of merger, consolidation, transfer of assets or otherwise, so that an entity other than an Employer shall succeed to all or substantially all of the Employer's business, the successor entity may be substituted for the Employer under the Plan by adopting the Plan and becoming a party to the Trust Agreement. Contributions by the Employer shall be automatically suspended from the effective date of any such reorganization until the date upon which the substitution of the successor entity for the Employer under the Plan becomes effective. If, within 90 days following the effective date of any such reorganization, the successor entity shall not have elected to become a party to the Plan, or if the Employer shall adopt a plan of complete liquidation other than in connection with a reorganization, the Plan shall be automatically terminated with respect to Employees of the Employer as of the close of business on the 90th day following the effective date of the reorganization, or as of the close of business on the date of adoption of a plan of complete liquidation, as the case may be.

13.3 PLAN ADOPTION SUBJECT TO QUALIFICATION. Notwithstanding any other provision of the Plan, the adoption of the Plan and the execution of the Trust Agreement are conditioned upon their being determined initially by the Internal Revenue Service to meet the qualification requirements of Section 401(a) of the Code, so that the Employers may deduct currently for federal income tax purposes their contributions to the Trust and so that the Participants may exclude the contributions from their gross income and recognize income only when they receive benefits. In the event that this Plan is held by the Internal Revenue Service not to qualify initially under Section 401(a), the Plan, may be amended retroactively to the earliest date permitted by U.S. Treasury Regulations in order to secure qualification under Section 401(a). If this Plan is held by the Internal Revenue Service not to qualify initially under Section 401(a) either as originally adopted or as amended, each Employer's contributions to the Trust under this Plan (including any earnings thereon) shall be returned to it and this Plan shall be terminated provided however any contribution made incident to initial qualification must be returned within one year after the date initial qualification is denied, but only if application for initial qualification is made by the time prescribed by law for the filing of the Employer's federal tax return for the taxable year in which the Plan is adopted, or such late date as the Secretary of the Treasury may prescribe. In the event that this Plan is amended after its initial qualification and the Plan as amended is held by the Internal Revenue Service not to qualify under Section 401(a), the amendment may be modified retroactively to the earliest date permitted by U.S. Treasury Regulations in order to secure approval of the amendment under Section 401(a).

13.4 RIGHT TO AMEND OR TERMINATE. The Association intends to continue this Plan as a permanent program. However, each participating Employer separately reserves the right to suspend, supersede, or terminate the Plan at any time and for any reason, as it applies to that Employer's Employees, and the Association reserves the right to amend, suspend, supersede, merge, consolidate, or terminate the Plan at any time and for any reason, as it applies to the Employees of all Employers. No amendment, suspension, supersession, merger, consolidation, or termination of the Plan shall reduce any Participant's or Beneficiary's proportionate interest in the Trust Fund, or shall divert any portion of the Trust Fund to purposes other than the exclusive

benefit of the Participants and their Beneficiaries prior to the satisfaction of all liabilities under the Plan. Except as is required for purposes of compliance with the Code or ERISA, each as amended from time to time, neither the provisions of Section 4.1 and 4.2 relating to the crediting of contributions, forfeitures and shares of Stock released from the Unallocated Stock Fund, nor any other provision of the Plan relating to the allocation of benefits to Participants, may be amended more frequently than once every six months. Moreover, there shall not be any transfer of assets to a successor plan or merger or consolidation with another plan unless, in the event of the termination of the successor plan or the surviving plan immediately following such transfer, merger, or consolidation, each participant or beneficiary would be entitled to a benefit equal to or greater than the benefit he would have been entitled to if the plan in which he was previously a participant or beneficiary had terminated immediately prior to such transfer, merger, or consolidation. Following a termination of this Plan by the Association, the trustee shall continue to administer the Trust and pay benefits in accordance with the Plan as amended from time to time and the Committee's instructions.

#### SECTION 14. MISCELLANEOUS PROVISIONS.

14.1 PLAN CREATES NO EMPLOYMENT RIGHTS. Nothing in this Plan shall be interpreted as giving any Employee the right to be retained as an Employee by an Employer, or as limiting or affecting the rights of an Employer to control its Employees or to terminate the Service of any Employee at any time and for any reason, subject to any applicable employment or collective bargaining agreements.

14.2 NONASSIGNABILITY OF BENEFITS. No assignment, pledge, or other anticipation of benefits from the Plan will be permitted or recognized by the Employers, the Committee, or the Trustee. Moreover, benefits from the Plan shall not be subject to attachment, garnishment, or other legal process for debts or liabilities of any Participant or Beneficiary, to the extent permitted by law. This prohibition on assignment or alienation shall apply to any judgment, decree, or order (including approval of a property settlement agreement) which relates to the provision of child support, alimony, or property rights to a present or former spouse, child or other dependent of a Participant pursuant to a State domestic relations or community property law, unless the judgment, decree, or order is determined by the Committee to be a qualified domestic relations order within the meaning of Section 414(p) of the Code.

14.3 LIMIT OF EMPLOYER LIABILITY. The liability of the Employers with respect to Participants under this Plan shall be limited to making contributions to the Trust from time to time, in accordance with Section 4.

14.4 TREATMENT OF EXPENSES. All expenses incurred by the Committee and the Trustee in connection with administering this Plan and Trust Fund shall be paid by the Trustee from the Trust Fund to the extent the expenses have not been paid or assumed by the Employers or by the Trustee.

14.5 NUMBER AND GENDER. Any use of the singular shall be interpreted to include the plural, and the plural the singular. Any use of the masculine, feminine, or neuter shall be interpreted to include the masculine, feminine, or neuter, as the context shall require.

14.6 NONDIVERSION OF ASSETS. Except as provided in Sections 5.3 and 13.3, under no circumstances shall any portion of the Trust Fund be diverted to or used for any purpose other than the exclusive benefit of the Participants and their Beneficiaries prior to the satisfaction of all liabilities under the Plan.

14.7 SEPARABILITY OF PROVISIONS. If any provision of this Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected but shall be applied as if the invalid or unenforceable provision had not been included in the Plan.

14.8 SERVICE OF PROCESS. The agent for the service of process upon the Plan shall be the president of the Association, or such other person as may be designated from time to time by the Association.

14.9 GOVERNING STATE LAW. This Plan shall be interpreted in accordance with the laws of the State of New York to the extent those laws are applicable under the provisions of ERISA.

14.10 SPECIAL RULES FOR PERSONS -SUBJECT TO SECTION 16(B) REQUIREMENTS. Notwithstanding anything herein to the contrary, any former Participant who is subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934, who becomes eligible to again participate in the Plan, may not become a Participant prior to the date that is six months from the date such former Participant terminated participation in the Plan.

In addition, any person subject to the provisions of Section 16(b) of the 1934 Act receiving a distribution of Stock from the Plan must hold such Stock for a period of six months commencing with the date of distribution. However, this restriction will not apply to Stock distributions made in connection with death, retirement, disability of termination of employment or made pursuant to the terms of a qualified domestic relations order.

#### SECTION 15. TOP HEAVY PROVISIONS.

15.1 DETERMINATION OF TOP-HEAVY STATUS. The Committee shall determine on a regular basis whether each Plan Year is or is not a "Top-Heavy Year" for purposes of implementing the provisions of Sections 15.2, 15.3, 15.4, and 5.2 which apply only to the extent the Plan is top-heavy or super top-heavy within the meaning of Section 416 and the Treasury Regulations promulgated thereunder. In making this determination, the Committee shall use the following definitions and principles:

15.1-1 The "Employer" includes all business entities which are considered commonly controlled or affiliated within the meaning of Sections 414(b), 414(c), and 414(m) of the Code.

15.1-2 The "plan aggregation group" includes each qualified retirement plan maintained by the Employer (i) in which a Key Employee is a Participant during the Plan Year, (ii) which enables any plan described in clause (i) to satisfy the requirements of Section 401(a)(4) or 410 of the Code, or (iii) which provides

contributions or benefits comparable to those of the plans described in clauses (i) and (ii) and which is designated by the Committee as part of the plan aggregation group.

15.1-3 The "determination date," with respect to the first Plan Year of any plan, means the last day of that Plan Year, and with respect to each subsequent Plan Year, means the last day of the preceding Plan Year. If any other plan has a determination date which differs from this Plan's determination date, the top-heaviness of this Plan shall be determined on the basis of the other plan's determination date falling within the same calendar years as this Plan's determination date.

15.1-4 A "Key Employee," with respect to a Plan Year, means an Employee who at any time during the five years ending on the top-heavy determination date for the Plan Year has received compensation from an Employer and has been (i) an officer of the Employer having Total Compensation greater than 50 percent of the limit then in effect under Section 415(b)(1)(A) of the Code, (ii) one of the 10 Employees owning the largest interests in the Employer having Total Compensation greater than the limit then in effect under Section 415(c)(1)(A), (iii) an owner of more than five percent of the outstanding equity interest or the outstanding voting interest in any Employer, or (iv) an owner of more than one percent of the outstanding equity interest or the outstanding voting interest in an Employer whose Total Compensation exceeds \$150,000. In determining which individuals are Key Employees, the rules of Section 415(i) of the Code and Treasury Regulations promulgated thereunder shall apply. The Beneficiary of a Key Employee shall also be considered a Key Employee.

15.1-5 A "Non-key Employee" means an Employee who at any time during the five years ending on the top-heavy determination date for the Plan Year has received compensation from an Employer and who has never been a Key Employee, and the Beneficiary of any such Employee.

15.1-6 The "aggregated benefits" for any Plan Year means (i) the adjusted account balances in defined contribution plans on the determination date, plus (ii) the adjusted value of accrued benefits in defined benefit plans, calculated as of the annual valuation date coinciding with or next preceding the determination date, with respect to Key Employees and Non-key Employees under all plans within the plan aggregation group which includes this Plan. For this purpose, the "adjusted account balance" for and the "adjusted value of accrued benefit" for any Employee shall be increased by all plan distributions made with respect to the Employee during the five years ending on the determination date. Further, the adjusted account balance under a plan shall not include any amount attributable to a rollover contribution or similar transfer to the plan initiated by an Employee and made after 1983, unless both plans involved are maintained by the Employer, in which event the transferred amount shall be counted in the transferee plan and ignored for all purposes in the transferor plan. Finally, the adjusted value of accrued benefits

under any defined Benefit plan shall be determined by assuming whichever actuarial assumptions were applied by the Pension Benefit Guaranty Corporation to determine the sufficiency of plan assets for plans terminating on the valuation date.

15.1-7 This Plan shall be "top-heavy" for any Plan Year in which the aggregated benefits of the Key Employees exceed 60 percent of the total aggregated benefits for both Key Employees and Non-key Employees.

15.1-8 This Plan shall be "super top-heavy" for any Plan Year in which the aggregated benefits of the Key Employees exceed 90 percent of the total aggregated benefits for both Key Employees and Non-key Employees.

15.1-9 A "Top-Heavy Year" means a Plan Year in which the Plan is top-heavy.

15.2 MINIMUM CONTRIBUTIONS. For any Top-Heavy Year, each Employer shall make a special contribution on behalf of each Participant to the extent that the total allocations to his Account pursuant to Section 4 is less than the lesser of (i) four percent of his Total Compensation for that year, or (ii) the highest ratio of such allocation to Total Compensation received by any Key Employee for that year. For purposes of the special contribution of this Section 15.2, a Key Employee's Total Compensation shall include amounts the Key Employee elected to defer under a qualified 401(k) arrangement. Such a special contribution shall be made on behalf of each Participant who is employed by an Employer on the last day of the Plan Year, regardless of the number of his Hours of Service, and shall be allocated to his Account.

For any Plan Year when (1) the Plan is top-heavy and (2) a Non-key Employee is a Participant in both this Plan and a defined benefit plan included in the plan aggregation group which is top heavy, the sum of the Employer contributions and forfeitures allocated to the Account of each such Non-key Employee shall be equal to at least five percent (5%) of such Non-key Employee's Total Compensation for that year.

15.3 MINIMUM VESTING. If a Participant's vested interest in his Account is to be determined in a Top-Heavy Year, it shall be based on the following "top-heavy table":

| Vesting Years | Percentage of Interest Vested |
|---------------|-------------------------------|
| fewer than 3  | 0%                            |
| 3 or more     | 100%                          |

Section 16.

16.1 Pursuant to the authority granted in Section 13.4 of the Plan, the Plan shall be terminated as of the Closing Date, as defined in the Merger Agreement between the Holding Company and Dime, dated as of July 18, 1998. Such termination shall be subject to the

submission of an application to receive a favorable determination letter from the Internal Revenue Service with respect to the qualified status of the Plan as of its termination. There shall be no further benefit accrual to any Participant in the Plan after the Closing Date.

16.2 The Holding Company shall (i) use its best efforts to cause the Trustee to make such elections under Sections 1.4 and 1.5 of the Merger Agreement with respect to the Unallocated Stock Fund as are necessary to obtain cash at least equal to all remaining Stock Obligations and (ii) cause the Trustee to use such cash to repay in full all such Stock Obligations.

16.3 Notwithstanding any other provision of Section 9 of the Plan, each Participant's interest in his Account shall become a fully vested and nonforfeitable on the Closing Date.

16.4 Following satisfaction by the Trustee of the Stock Obligations, any cash or shares of Stock remaining the Unallocated Stock Fund shall be allocated, as of the Closing Date, to the Account of each Participant who has an interest in an Account of the Closing Date. Such allocation shall be made among the Participants' Accounts in proportion to the balance in each Account as of the Closing Date.

16.5 The balance of each Participant's Account shall be distributed to such Participant in the form of a lump sum (or transferred in accordance with Section 401(a)(31) of the Code) as soon as practicable following the later of (i) the Closing Date or (ii) the receipt by the Association of a favorable determination letter from the Internal Revenue Service regarding the qualified status of the Plan upon its termination.





This Option Conversion Certificate sets forth the terms and conditions on which options to purchase common stock of Financial Bancorp, Inc. ("FIBC Options") granted to the Continuing Option Holder named above by Financial Bancorp, Inc. ("FIBC") and outstanding at the Effective Time of the merger of FIBC into Dime Community Bancshares, Inc. ("DCB") have been converted into options to purchase common stock of DCB ("Converted Options") pursuant to section 1.6(b) of the Agreement and Plan of Merger dated as of July 18, 1998, by and between DCB and FIBC (the "Merger Agreement"). Below are specific terms and conditions applicable to this Converted Option. Attached as Exhibit A are its general terms and conditions.

(A)

FIBC OPTION  
Grant Date: 1/26/95  
Class of Optioned Shares Common  
No. of Shares 10,925  
Exercise Price Per Share \$9.44  
Option Type (ISO or NQSO) NQSO

Plan (Employee or Director) Director  
Option Expiration Date 1/26/05

CONVERTED OPTION  
Class of Optioned Shares\* Common  
No. of Shares\* 19,973  
Exercise Price Per Share\* \$5.17  
Option Type (ISO or NQSO) NQSO  
Option Expiration Date 1/26/05

\*Subject to adjustment as provided in the General Terms and Conditions.

By signing where indicated below, DCB grants this Converted Option upon the specified terms and conditions, and the Option Holder (1) acknowledges receipt of this Option Conversion Certificate, including Exhibit A and Appendices A and B thereto, and agrees to observe and be bound by the terms and conditions set forth herein, (2) acknowledges receipt of the Prospectus dated January 21, 1999 pursuant to which shares of common stock of DCB which may be acquired upon exercise of Converted Options are being offered and (3) agrees that this Option Conversion Certificate and the attached Exhibit A (and Appendices A and B attached thereto) supersede, in their entirety, any and all prior terms and conditions, agreements, understandings and arrangements, whether or not in writing, with respect to his or her FIBC Options.

Dime Community Bancshares, Inc. Option Holder

By  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_





Dime Community Bancshares, Inc.

Stock Options Assumed Pursuant to section 1.6(b) of the Agreement and Plan of Merger Dated July 18, 1998 by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc.

Option Conversion Certificate

P. James O'Gorman Name of Option Holder ###-##-#### Social Security Number

331 Deer Track Lane Street Address

Valley Cottage NY 10989 City State ZIP Code

This Option Conversion Certificate sets forth the terms and conditions on which options to purchase common stock of Financial Bancorp, Inc. ("FIBC Options") granted to the Continuing Option Holder named above by Financial Bancorp, Inc. ("FIBC") and outstanding at the Effective Time of the merger of FIBC into Dime Community Bancshares, Inc. ("DCB") have been converted into options to purchase common stock of DCB ("Converted Options") pursuant to section 1.6(b) of the Agreement and Plan of Merger dated as of July 18, 1998, by and between DCB and FIBC (the "Merger Agreement"). Below are specific terms and conditions applicable to this Converted Option. Attached as Exhibit A are its general terms and conditions.

Table with 4 columns: (A), (B), (C), and an unlabeled column. Rows include FIBC OPTION Grant Date, Class of Optioned Shares, No. of Shares, Exercise Price Per Share, Option Type, Plan (Employee or Director), and Option Expiration Date.

Table with 4 columns: (A), (B), (C), and an unlabeled column. Rows include CONVERTED OPTION Class of Optioned Shares, No. of Shares, Exercise Price Per Share, Option Type, and Option Expiration Date.

\*Subject to adjustment as provided in the General Terms and Conditions.

By signing where indicated below, DCB grants this Converted Option upon the specified terms and conditions, and the Option Holder (1) acknowledges receipt of this Option Conversion Certificate, including Exhibit A and Appendices A and B thereto, and agrees to observe and be bound by the terms and conditions set forth herein, (2) acknowledges receipt of the Prospectus dated January 21, 1999 pursuant to which shares of common stock of DCB which may be acquired upon exercise of Converted Options are being offered and (3) agrees that this Option Conversion Certificate and the attached Exhibit A (and Appendices A and B attached thereto) supersede, in their entirety, any and all prior terms and conditions, agreements, understandings and arrangements, whether or not in writing, with respect to his or her FIBC Options.

Dime Community Bancshares, Inc. Option Holder

By Name: Title:



EXHIBIT A

Dime Community Bancshares, Inc.

Stock Options Granted Pursuant to section 1.6(b)

of the Agreement and Plan of Merger, dated July 18, 1998

By and Between Dime Community Bancshares, Inc. and Financial Bancorp, Inc.

General Terms and Conditions

Section 1. Applicability.

This Exhibit A establishes the general terms and conditions applicable to all options to purchase Common Stock, par value \$.01 per share, of Dime Community Bancshares, Inc. ("DCB Common Stock") that have been granted by Dime Community Bancshares, Inc. ("DCB") pursuant to section 1.6(b) of the Agreement and Plan of Merger, dated July 18, 1998, by and between DCB and Financial Bancorp, Inc. (the "Merger Agreement") in substitution for options to purchase common stock of Financial Bancorp, Inc. ("FIBC Common Stock") outstanding under the Financial Bancorp, Inc. 1995 Incentive Stock Option Plan (the "FIBC ISO Plan"), as amended, or the Financial Bancorp, Inc. 1995 Stock Option Plan for Outside Directors (the "FIBC Outside Directors Plan"), as amended, at the Effective Time of the merger of Financial Bancorp, Inc. ("FIBC") with and into DCB pursuant to the Merger Agreement (the "Effective Time"). For purposes of this Exhibit A and the Option Conversion Certificate to which it is attached, options to purchase FIBC Common Stock that are outstanding at the Effective Time are referred to as "FIBC Options," the options to purchase DCB Common Stock that are granted in substitution therefor are referred to as "Converted Options," and the undersigned individual shall be referred to as the "Option Holder." This Exhibit A, together with the Option Conversion Certificate to which it is attached, constitute an Option Conversion Agreement containing all of the terms and conditions of the Converted Options and supersede in their entirety all of the terms and conditions of the FIBC ISO Plan or the FIBC Outside Directors Plan, as the case may be, and any other agreements, understandings or arrangements, whether or not in writing, evidencing or pertaining to any FIBC Option.

Section 2. DCB Common Stock Subject to Converted Option.

The maximum number of shares of DCB Common Stock which may be purchased upon exercise of a Converted Option is the number shown on the Continuing Option Holder's Option Conversion Certificate. The number of shares of DCB Common Stock which may be purchased upon exercise of the Converted Option at any time is the maximum number shown on the Continuing Option Holder's Option Conversion Certificate reduced by one share for each share of DCB Common Stock as to which the Converted Option has previously been exercised.

Section 3. Incentive Stock Option Treatment - Options Under the FIBC ISO Plan.

The FIBC Options granted under the FIBC ISO Plan, designated as "incentive stock options" ("ISOs") on the Option Holder's Stock Option Certificate, were intended be ISOs

within the meaning of section 422 of the Internal Revenue Code of 1986 ("Code") to be the maximum permissible extent. The Option Holder acknowledges that if his or her FIBC Option was designated as an ISO, as a result of the conversion of the FIBC Option and the terms and conditions herein, the Converted Option may not be an ISO and may be treated as a non-qualified stock option under the Code after the date of this Agreement, including for purposes of income tax withholding, and that he is aware of the tax consequences.

Section 4. Option Period.

The Options shall expire one hundred and twenty (120) months following the date of grant unless sooner exercised.

Section 5. Exercise Price.

During the Option Period, the Option Holder shall have the right to purchase all or any portion of the DCB Common Stock then available for purchase upon exercise of the Converted Option at the Exercise Price per Share specified for the Converted Option on the Stock Option Certificate.

Section 6. Method of Exercise.

(a) The Option Holder may, at any time during the Option Period, exercise his or her right to purchase all or any part of the optioned DCB Common Stock. The Option Holder shall exercise such right by:

(i) giving written notice to DCB, in the form attached hereto as Appendix A; and

(ii) delivering to DCB full payment of the Exercise Price for the Common Stock to be purchased, with such payment made in cash or by check, or in whole or in part, through the surrender of shares of Common Stock, which shares will be valued at Fair Market Value (as defined below) on the date of the exercise of the Option.

(b) Fair Market Value, when used in connection with Common Stock on a certain date, shall mean:

(i) the final reported sales price on the date in question (or if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) as reported in the principal consolidated reporting system with respect to securities listed or admitted to trading on the principal United States securities exchange on which the Shares are listed or admitted to trading; or

(ii) if the Shares are not listed or admitted to trading on any such exchange, the closing bid quotation with respect to a Share on such date on the National Association of Securities Dealers Automated Quotations System, or, if

no such quotation is provided, on another similar system, selected by the Committee, then in use; or

(iii) if subsections (a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

(c) The exercise price, upon the election of the Option Holder, may be paid by such Option Holder's broker-dealer if such broker-dealer is to be repaid with the proceeds of the sale of a portion of the shares of Common Stock underlying the exercised options as permitted under Rule 16b-6(b) of the Securities Exchange Act of 1934, as amended ("Cashless Exercise").

(d) The Option Holder shall not be entitled to any rights as a stockholder with respect to shares of Common Stock being acquired pursuant to the exercise of the Option unless and until certificates evidencing such Common Stock are issued. No adjustments shall be made for dividends or distributions or other rights for which the record date is prior to the date such certificates are issued except as provided in Section 8.

#### Section 7. Stock Appreciation Rights.

The Option Holder shall have no right to receive from DCB any cash payment in full or partial settlement of his rights in, to or under a Converted Option.

#### Section 8. Dilution and Other Adjustments.

In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares, or other similar corporate change, proportionate and equitable adjustments to the Option shall be made to the number of shares of Common Stock covered by the Option and to the Exercise Price per share covered by the Option to prevent dilution or enlargement of the rights of the Option Holder.

#### Section 9. Delivery and Registration of DCB Common Stock.

The obligation of DCB to deliver DCB Common Stock pursuant to any Converted Option shall, if the Compensation Committee of Dime Community Bancorp, Inc. (the "DCB Committee") so requests, be conditioned upon the receipt of a representation as to the investment intention of the person to whom such DCB Common Stock is to be delivered, in such form as the DCB Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the DCB Common Stock or upon the occurrence of any other event eliminating the necessity of such representation. DCB shall not be required to deliver any DCB Common Stock under this Agreement prior to (a) the admission of such DCB Common Stock to listing on any stock exchange on which DCB Common Stock may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the DCB Committee shall determine to be necessary or advisable.

#### Section 10. Administration.

(a) Each Converted Option shall be administered by the members of the DCB Committee.

(b) The DCB Committee is authorized to construe and interpret the Converted Option and this Option Conversion Agreement to promulgate, amend and rescind rules and regulations relating to the implementation, administration and maintenance of the Converted Options. Subject to the terms and conditions hereof, the DCB Committee shall make all determinations necessary or advisable for the implementation, administration and maintenance of the Converted Options including, without limitation, correcting any technical defect(s) or technical omission(s), or reconciling any technical inconsistency(ies), in the Converted Options and/or the terms and conditions contained in this Option Conversion Agreement. The DCB Committee may designate persons other than members of the DCB Committee to carry out the day-to-day ministerial administration of the Converted Options under such conditions and limitations as it may prescribe. The DCB Committee's determinations need not be uniform and may be made selectively among Option Holders, whether or not such Option Holders are similarly situated. Any determination, decision or action of the DCB Committee in connection with the construction, interpretation, administration, implementation or maintenance of any Converted Option shall be final, conclusive and binding upon all Option Holders and any person(s) claiming under or through any Option Holders.

Section 11. No Right to Continued Service.

Nothing herein nor any action of the Board of Directors of DCB or of the DCB Committee with respect to a Converted Option shall be held or construed to confer upon the Option Holder any right to a continuation of service by DCB or any direct or indirect subsidiary thereof. The Option Holder may be dismissed or otherwise dealt with as though this Converted Option or the related FIBC Option did not exist.

Section 12. Taxes.

Where any person is entitled to receive shares of DCB Common Stock pursuant to the exercise of the Converted Option granted hereunder, DCB shall have the right to require such person to pay to DCB the amount of any tax which DCB is required to withhold with respect to such shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of shares of DCB Common Stock to cover the amount required to be withheld.

Section 13. Notices.

All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (with confirmation), mailed by registered or certified mail (return receipt requested) or delivered by an express courier (with confirmation) to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

(a) If to DCB:

Dime Community Bancshares, Inc.  
209 Havermeyer Street  
Brooklyn, NY 11211  
Attention: President

(b) If to the Option Holder, to the Option Holder's address as shown on the Stock Option Certificate or specified in any subsequent notice to DCB.

Section 14. Restrictions on Transfer.

The right to receive a benefit under the Plan shall not be subject in any manner to anticipation, alienation or assignment, nor shall such right be liable for or subject to debts, contracts, liabilities, engagements or torts.

Section 15. Successors and Assigns.

The Option Conversion Agreement shall inure to the benefit of and shall be binding upon DCB and the Option Holder and their respective heirs, successors and assigns.

Section 16. Construction of Language.

Whenever appropriate in the Exhibit A, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a section shall be a reference to a section of this Exhibit A, unless the context clearly indicates otherwise.

Section 17. Governing Law.

This Agreement shall be governed and construed in accordance with the laws of the State of New York, without regard to any applicable conflicts of law.

Section 18. Amendment.

This instrument contains the entire agreement of the parties relating to the subject matter hereof, and supercedes in its entirety any and all prior agreements, understandings or representations relating to the subject matter hereof. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto.

Appendix A to Option Conversion Agreement

Stock Options Granted Pursuant to section 1.6(b)

of the Agreement and Plan of Merger, dated as of the 18th day of July, 1998

By and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc.

Notice of Exercise of Stock Option

Use this Notice to inform the DCB Committee administering the Stock Options granted pursuant to section 1.6(b) of the Agreement and Plan of Merger dated as of the 18th day of July, 1998 by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc. that you are exercising your right to purchase shares of Common Stock of Dime Community Bancshares, Inc. ("DCB") pursuant to an option ("Converted Option") granted under the FIBC ISO Plan or the FIBC Outside Directors Plan. If you are not the person to whom the Option was granted ("Option Recipient"), you must attach to this Notice proof of your right to exercise the Option granted under the Option Conversion Agreement entered into by DCB and the Option Recipient ("Option Conversion Agreement"). This Notice should be personally delivered or mailed by certified mail, return receipt requested to: Dime Community Bancshares, Inc., 209 Havemeyer Street, Brooklyn, NY 11211, Attention: President. The effective date of the exercise of the Option shall be the earliest date practicable following the date this properly completed Notice is received by DCB, but in no event more than three business days after such date ("Effective Date"). Except as specifically provided to the contrary herein, capitalized terms shall have the meanings assigned to them under the Option Conversion Agreement. This Notice is subject to all of the terms and conditions of the Option Conversion Agreement.

OPTION INFORMATION Identify below the Option that you are exercising by providing the following information from the Option Conversion Agreement.

Name of Option Holder: \_\_\_\_\_

Option Grant Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_ Exercise Price per share: \$ \_\_\_\_\_.  
(Month and Day) (Year)

EXERCISE PRICE Compute the Exercise Price below and select a method of payment.

Total Exercise Price \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_  
(No. of Shares) (Exercise Price) Total Exercise Price

Method of Payment [check and complete one or more; you may select (a) or (b), or a combination thereof, or (c). If you choose to pay the exercise price with a combination of (a) and (b), the sum of the amounts shown in (a) and (b) must equal the total Exercise Price shown above]

(a)  
o  
I enclose a certified check, money order, or bank draft payable to the order of Dime Community Bancshares, Inc. in the amount of the Total Exercise Price.  
\$

(b)  
o  
I enclose Shares of Common Stock already owned by the Option Holder duly endorsed for transfer to Dime Community Bancshares, Inc. with all necessary stock transfer stamps attached and having a Fair Market Value of  
\$

(c)  
o  
I authorize \_\_\_\_\_ [enter name of brokerage firm] to sell, pursuant to a "cashless exercise," such Shares subject to the Option having a Fair Market Value of  
\$

ISSUANCE OF CERTIFICATES

I hereby direct that the stock certificates representing the shares of DCB Common Stock purchased pursuant to section 2 above be issued to the following person(s) in the amount specified below:

Name and Address  
Social Security No.  
No. of Shares

WITHHOLDING ELECTIONS For Employee Option Recipients only. Beneficiaries and Outside Directors should not complete.

I understand that I am responsible for the amount of federal, state and local taxes required to be withheld with respect to the shares of DCB Common Stock to be issued to me pursuant to this Notice, but that I may request DCB to retain or sell a sufficient number of such shares to cover the amount to be withheld. I hereby request that any taxes required to be withheld be paid in the following manner [check one]:

With a certified or bank check that I will deliver to DCB on or before the Effective Date of my Option exercise.

With the proceeds from a sale of Shares of DCB Common Stock that would otherwise be distributed to me.

Retain Shares of DCB Common Stock that would otherwise be distributed to me.

I understand that the withholding elections I have made on this form are not binding on the DCB Committee, and that the DCB Committee will decide the amount to be withheld and the method of withholding and advise me of its decision prior to the Effective Date. I further understand that the DCB Committee may request additional information or assurances regarding the manner and time at which I will report the income attributable to the distribution to be made to me.

I further understand that if I have elected to have shares of DCB Common Stock sold to satisfy tax withholding, I may be asked to pay a minimal amount of such taxes in cash in order to avoid the sale of more shares of DCB Common Stock than are necessary.

COMPLIANCE WITH TAX AND SECURITIES LAWS

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I understand that I must rely on, and consult with, my own tax and legal counsel (and not Dime Community Bancshares, Inc.) regarding the application of all laws -- particularly tax and securities laws -- to the transactions to be effected pursuant to my Option and this Notice. I understand that I will be responsible for paying any federal, state and local taxes that may become due upon the sale (including a sale pursuant to a "cashless exercise") or other disposition of shares of DCB Common Stock issued pursuant to this Notice and that I must consult with my own tax advisor regarding how and when such income will be reportable.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Address  
Internal Use Only

Dime Community Bancshares, Inc.

Received [check one]:       By Hand                       By Mail Post Marked

\_\_\_\_\_  
Date of Post Mark

By  
\_\_\_\_\_  
Authorized Signature      Date of Receipt

Appendix B to Stock Option Conversion Agreement  
Stock Options Granted Pursuant to section 1.6(b)  
of the Agreement and Plan of Merger, Dated as of the 18th Day of  
July, 1998  
By and Between Dime Community Bancshares, Inc. and Financial  
Bancorp, Inc.  
Beneficiary Designation Form

GENERAL  
INFORMATION

Use this form to designate the Beneficiary(ies) who may exercise Converted Options outstanding to you at the time of your death under the Option Conversion Agreement dated January 21, 1999 between Dime Community Bancshares, Inc. and the Option Holder named below.

Name of Person  
Making Designation

Social Security Number \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Name of  
Option Holder

Social Security Number \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

BENEFICIARY  
DESIGNATION

Complete sections A and B. If no percentage shares are specified, each Beneficiary in the same class (primary or contingent) shall have an equal share. If any designated Beneficiary predeceases you, the shares of each remaining Beneficiary in the same class (primary or contingent) shall be increased proportionately.

A PRIMARY BENEFICIARY(IES). I hereby designate the following person(s) as my primary Beneficiary(ies) under the Option Conversion Agreement, reserving the right to change or revoke this designation at any time prior to my death:

Name  
Address  
Relationship  
Birthdate  
Share

%

%

%

Total = 100%

B CONTINGENT BENEFICIARY(IES). I hereby designate the following person(s) as my contingent Beneficiary(ies) under the Option Conversion Agreement to receive benefits only if all of my primary Beneficiaries should predecease me, reserving the right to change or revoke this designation at any time prior to my death as to all outstanding Converted Options:

Name  
Address  
Relationship  
Birthdate  
Share

%

%

Total = 100%

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I understand that this Beneficiary Designation shall be effective only if properly completed and received by the Corporate Secretary of Dime Community Bancshares, Inc. prior to my death, and that it is subject to all of the terms and conditions of the Option Conversion Agreement. I also understand that an effective Beneficiary designation revokes my prior designation(s) with respect to all outstanding Converted Options.

Your Signature

Date

Internal Use Only

This Beneficiary Designation was received by Dime Community Bancshares, Inc. on the date indicated.

By  
Authorized Signature      Date

Comments



DIME COMMUNITY BANCORP, INC. AND SUBSIDIARY  
 STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS  
 (In Thousands)

| Fiscal Year Ended June 30,  | 1999     | 1998     | 1997     |
|---|----------|----------|----------|
| -----   |          |          |          |
| NUMERATOR:  |          |          |          |
| Net Income  | \$19,861 | \$13,098 | \$12,316 |
| -----   |          |          |          |
| DENOMINATOR:  |          |          |          |
| Average shares outstanding utilized in the calculation of<br>basic earnings per share   | 10,951   | 11,001   | 12,898   |
| -----   |          |          |          |
| Unvested shares of Recognition and Retention Plan                                       | 372      | 517      | 36       |
| Common stock equivalents due to the dilutive effect of<br>stock options                 | 528      | 523      | 47       |
| -----   |          |          |          |
| Average shares outstanding utilized in the calculation of<br>diluted earnings per share | 11,851   | 12,041   | 12,981   |
| -----   |          |          |          |
| EARNINGS PER SHARE:   |          |          |          |
| BASIC   | \$1.81   | \$1.19   | \$0.95   |
| -----   |          |          |          |
| DILUTED   | \$1.68   | \$1.09   | \$0.95   |
| -----   |          |          |          |

FINANCIAL HIGHLIGHTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected consolidated financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto. Earnings per share information for the Company for the fiscal years ended June 30, 1996 and prior are not meaningful since the sale of the Company's common stock and the merger of Conestoga Bancorp, Inc. into the Bank occurred on June 26, 1996. Financial Bancorp, Inc. was merged into the Company on January 21, 1999.

| At or for the fiscal years ended June 30,  | 1999        | 1998        | 1997        | 1996        | 1995      |
|--|-------------|-------------|-------------|-------------|-----------|
| <b>SELECTED FINANCIAL CONDITION DATA:</b>  |             |             |             |             |           |
| Total assets   | \$2,247,615 | \$1,623,926 | \$1,315,026 | \$1,371,821 | \$662,739 |
| Loans, net   | 1,368,260   | 938,046     | 739,858     | 575,874     | 424,680   |
| Mortgage-backed securities   | 525,667     | 410,589     | 308,525     | 209,941     | 91,548    |
| Investment securities  | 206,611     | 174,551     | 168,596     | 392,450     | 101,695   |
| Federal funds sold   | 11,011      | 9,329       | 18,902      | 115,130     | 17,809    |
| Goodwill   | 64,871      | 24,028      | 26,433      | 28,438      | -         |
| Deposits   | 1,247,061   | 1,038,342   | 963,395     | 950,114     | 554,841   |
| Borrowings   | 731,660     | 360,106     | 139,543     | 27,708      | 17,820    |
| Stockholders' equity   | 211,695     | 186,349     | 190,889     | 213,071     | 77,067    |
| Tangible stockholders' equity  | 145,562     | 159,558     | 162,361     | 184,188     | 76,321    |
| <b>SELECTED OPERATING DATA:</b>  |             |             |             |             |           |
| Interest income  | \$133,912   | \$106,464   | \$89,030    | \$52,619    | \$49,223  |
| Interest expense on deposits and borrowings  | 77,219      | 56,935      | 41,564      | 23,516      | 18,946    |
| Net interest income  | 56,693      | 49,529      | 47,466      | 29,103      | 30,277    |
| Provision for losses   | 240         | 1,635       | 4,200       | 2,979       | 2,950     |
| Net interest income after provision for loan losses  | 56,453      | 47,894      | 43,266      | 26,124      | 27,327    |
| Non-interest income  | 7,916       | 7,007       | 4,133       | 1,375       | 1,773     |
| Non-interest expense   | 30,493      | 29,937      | 27,492      | 14,021      | 14,053    |
| Income before income tax expense and cumulative effect of changes in accounting principle  | 33,876      | 24,964      | 19,907      | 13,478      | 15,047    |
| Income tax expense   | 14,015      | 11,866      | 7,591       | 6,181       | 6,621     |
| Income before cumulative effect of changes in accounting principle   | 19,861      | 13,098      | 12,316      | 7,297       | 8,426     |
| Cumulative effect on prior years of changing to a different method of accounting for:<br>Postretirement benefits other than pensions | -           | -           | -           | (1,032)     | -         |
| Net income   | \$19,861    | \$13,098    | \$12,316    | \$6,265     | \$8,426   |

Loans, net, represents gross loans less net deferred loan fees and allowance for loan losses.

Amount includes investment in Federal Home Loan Bank of New York ("FHLBNY") capital stock.

Excluding a non-recurring charge of \$2.0 million related to the recapitalization of the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC"), non-interest expense was \$25.5 million during the year ended June 30, 1997.

Excluding non-recurring New York State and New York City income tax recoveries of \$1.9 million and \$1.0 million, respectively, income tax expense was \$10.5 million during the fiscal year ended June 30, 1997.

The Bank adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106") effective July 1, 1995. The Bank elected to record the full accumulated post retirement benefit obligation upon adoption. This resulted in a cumulative effect adjustment of \$1,032,000 (after reduction for income taxes of \$879,000) to apply retroactively to previous years the new method of accounting, which is shown in the consolidated statement of income for the year ended June 30, 1996.

Excluding a non-recurring charge of \$2.0 million relating to recapitalization of the SAIF and the recovery of New York State and City deferred income taxes previously provided, net income would have been \$10.5 million, and the return on average assets, return on average stockholders' equity, return on average tangible stockholders' equity, non-interest expense to average assets, the efficiency ratio, and earnings per share would have been 0.86%, 5.08%, 5.85%, 2.07%, 50.30% and \$0.81, respectively, for the year ended June 30, 1997.

With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods. Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.

Income before cumulative effect of changes in accounting principles is used to calculate return on average assets and return on average equity ratios.

NOTES CONTINUED ON NEXT PAGE

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 SELECTED FINANCIAL RATIOS AND OTHER DATA :

FINANCIAL AND PERFORMANCE RATIOS:

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Return on average assets  | 1.02%  | 0.90%  | 1.00%  | 1.07%  | 1.33%  |
| Return on average stockholders' equity                                  | 10.34  | 7.06   | 5.94   | 9.07   | 11.50  |
| Return on average tangible stockholders' equity                         | 13.50  | 8.24   | 6.84   | 11.84  | 11.53  |
| Stockholders' equity to total assets at end of period                   | 9.42   | 11.48  | 14.52  | 15.53  | 11.63  |
| Tangible equity to tangible assets at end of period                     | 6.67   | 9.99   | 12.62  | 13.72  | 11.53  |
| Loans to deposits at end of period                                      | 110.93 | 91.50  | 77.91  | 61.43  | 77.47  |
| Average interest rate spread  | 2.61   | 2.97   | 3.38   | 3.85   | 4.51   |
| Net interest margin   | 3.06   | 3.56   | 4.07   | 4.41   | 4.91   |
| Average interest earning assets to average interest bearing liabilities | 111.03 | 114.38 | 119.33 | 115.68 | 113.15 |
| Non-interest expense to average assets                                  | 1.57   | 2.05   | 2.24   | 2.06   | 2.21   |
| Core non-interest expense to average assets                             | 1.37   | 1.73   | 1.87   | 2.06   | 2.21   |
| Efficiency ratio  | 47.84  | 56.09  | 54.32  | 45.98  | 44.11  |
| Core efficiency ratio   | 41.96  | 47.39  | 45.55  | 45.98  | 44.11  |
| Dividend payout ration  | 30.36% | 21.10% | 0.05%  | N/A    | N/A    |

PER SHARE DATA:

|                               |        |        |        |       |     |
|-------------------------------|--------|--------|--------|-------|-----|
| Diluted Earnings per share    | \$1.68 | \$1.09 | \$0.95 | N/A   | N/A |
| Cash dividends per share      | 0.51   | 0.23   | 0.045  | \$-   | N/A |
| Book value per share          | 16.57  | 15.30  | 14.58  | 14.65 | N/A |
| Tangible book value per share | 11.39  | 13.10  | 12.40  | 12.66 | N/A |

CASH EARNINGS INFORMATION:

|  |        |        |        |       |       |
|--|--------|--------|--------|-------|-------|
| Cash return on average assets                        | 1.49   | 1.44%  | 1.45%  | 1.07% | 1.33% |
| Cash return on average stockholders' equity          | 15.05  | 11.34  | 8.61   | 9.07  | 11.50 |
| Cash return on average tangible stockholders' equity | 19.64  | 13.23  | 9.91   | 9.07  | 11.50 |
| Cash earnings per share                              | \$2.44 | \$1.75 | \$1.37 | N/A   | N/A   |

ASSET QUALITY RATIOS AND OTHER DATA:

|  |         |       |         |         |         |
|--|---------|-------|---------|---------|---------|
| Total non-performing loans                                 | \$3,001 | \$884 | \$3,190 | \$6,551 | \$5,073 |
| Other real estate owned, net                               | 866     | 825   | 1,697   | 1,946   | 4,466   |
| Ratios:  |         |       |         |         |         |
| Non-performing loans to total loans                        | 0.22%   | 0.09% | 0.43%   | 1.12%   | 1.18%   |
| Non-performing loans and real estate owned to total assets | 0.17    | 0.11  | 0.37    | 0.62    | 1.44    |

ALLOWANCE FOR LOAN LOSSES TO:

|                      |         |           |         |         |         |
|----------------------|---------|-----------|---------|---------|---------|
| Non-performing loans | 502.53% | 1,365.95% | 336.24% | 119.25% | 101.99% |
| Total loans          | 1.09    | 1.27      | 1.43    | 1.34    | 1.20    |

REGULATORY CAPITAL RATIOS: (Bank only)

|                       |       |       |       |       |        |
|-----------------------|-------|-------|-------|-------|--------|
| Tangible capital      | 5.83% | 8.32% | 9.86% | 9.49% | 11.53% |
| Core capital          | 5.83  | 8.32  | 9.87  | 9.50  | 11.56  |
| Risk-based capital    | 11.45 | 16.58 | 19.99 | 21.24 | 22.18  |
| FULL SERVICE BRANCHES | 19    | 14    | 15    | 15    | 7      |

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

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

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

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

In calculating these ratios, non-interest expense excludes expenses such as goodwill amortization and compensation expense related to the Company's stock benefit plans which are accretive to book value. Excluding the effects of the SAIF Special Assessment and the recovery of New York State and City deferred income taxes previously provided, cash return on average assets, cash return on average stockholders' equity, cash return on average tangible stockholders' equity, and cash earnings per share would have been 1.31%, 7.75%, 8.29%, and \$1.29 for the year ended June 30, 1997.

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

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

General

The primary business of the Company is the operation of its wholly owned subsidiary, the Bank.

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

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

Management Strategy

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

Franchise Expansion. On January 21, 1999, the Company completed the acquisition of Financial Bancorp, Inc. ("FIBC"), the holding company for Financial Federal Savings Bank, F.S.B. ("FFSB") (the "FIBC Acquisition"). At the time of the acquisition, FIBC's assets and liabilities totaled \$326.1 million and \$301.1 million, respectively. Based upon the closing price of the Company's common stock on January 21, 1999 of \$21.25 per share, the total consideration paid to FIBC stockholders, in the form of cash or the Company's common stock, was \$66.8 million and was comprised of \$34.5 million in cash and 1,504,704 shares of the Company's common stock. The Company's operating results for the fiscal year ended June 30, 1999 reflect the addition of earnings from the acquisition of FIBC for the period January 22, 1999 through June 30, 1999. The FIBC Acquisition was accounted for as a purchase transaction, and goodwill of \$44.2 million generated from the transaction is being amortized on a straight-line basis over 20 years.

On June 26, 1996 the Company completed the acquisition of Conestoga Bancorp, Inc. ("Conestoga") resulting in the merger of Conestoga's wholly owned subsidiary, Pioneer Savings Bank, F.S.B. ("Pioneer") with and into the Bank, with the Bank as the resulting financial institution (the "Conestoga Acquisition"). The Conestoga Acquisition was accounted for in the financial statements using the purchase method of accounting. Shareholders of Conestoga were paid approximately \$101.3 million in cash. Since the Conestoga Acquisition occurred on June 26, 1996, its impact upon the Company's consolidated results of operations for the fiscal year ended June 30, 1996 was minimal.

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

Loan Originations with an Emphasis on Multi-family Lending. Management believes that multi-family loans provide advantages as portfolio investments. First, they provide a higher yield than single-family loans or investment

securities

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

Capital Leverage Strategy. As a result of the initial public offering in June 1996, the Bank's capital level significantly exceeded all regulatory requirements. A portion of the "excess" capital generated by the initial public offering has been deployed through the use of a capital leverage strategy whereby the Bank invests in high quality mortgage-backed securities ("leverage assets") funded by short-term borrowings from various third party lenders. The capital leverage strategy generates additional earnings for the Company by virtue of a positive interest rate spread between the yield on the leverage assets and the cost of the borrowings. Since the average term to maturity of the leverage assets exceeds that of the borrowings used to fund their purchase, the net interest income earned on the leverage strategy would be expected to decline in a rising interest rate environment. See "Market Risk." To date, the capital leverage strategy has been undertaken in accordance with limits established by the Board of Directors, aimed at enhancing profitability under moderate levels of interest rate exposure. The assets under the capital leverage program approximate \$489.6 million, \$282.9 million and \$96.3 million, respectively, at June 30, 1999, 1998 and 1997.

In addition to the capital leverage strategy, the Bank undertook additional medium-term borrowings of \$146.5 million and \$40.3 million from the FHLBNY during the years ended June 30, 1999 and 1998 in order to fund multi-family and underlying cooperative loan originations and other operations. The Bank earns a net interest rate spread between the yield on the multi-family and underlying cooperative loans and the cost of the borrowings. In addition, the short- and medium-term maturities on the underlying borrowings have helped the Bank reduce its exposure to interest rate risk.

#### Liquidity and Capital Resources

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

The primary investing activities of the Bank are the origination of multi-family and single-family mortgage loans, and the purchase of mortgage-backed and other securities. During the year ended June 30, 1999, the Bank's loan originations totaled \$478.1 million compared to \$326.3 million for the year ended June 30, 1998. Purchases of mortgage-backed and other securities totaled \$410.4 million for the year ended June 30, 1999 compared to \$432.6 million for the year ended June 30, 1998. These activities were funded primarily by principal repayments on loans and mortgage-backed securities, maturities of investment securities, and borrowings by means of repurchase agreements and FHLB Advances. Principal repayments on real estate loans and mortgage-backed securities totaled \$315.6 million during the year ended June 30, 1999, compared to \$210.9 million for the year ended June 30, 1998. Maturities of investment securities totaled \$90.8 million and \$73.4 million, respectively, during the fiscal years ended June 30, 1999 and 1998. Loan and security sales, which totaled \$16.9 million and \$116.9 million, respectively, during the fiscal years ended June 30, 1999 and 1998, provided some additional cash flows.

Deposits increased \$208.7 million and \$74.9 million during the fiscal years ended June 30, 1999 and 1998, respectively. The increase in deposits during the fiscal year ended June 30, 1999 resulted primarily from the acquisition of \$230.7 million in deposits from FIBC. Deposit flows are affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors. Certificates of deposit which are scheduled to mature in one year or less from June 30, 1999 totaled \$551.8 million. Based upon the Company's current pricing strategy and deposit retention experience, management believes that a significant portion of such deposits will remain with the Company. Net borrowings increased \$371.6 million during the fiscal year ended June 30, 1999, with the majority of this growth experienced in securities sold under agreement to repurchase ("Repo") transactions, consistent with the Company's capital leverage strategy.

On July 9, 1999, the Company announced that it had entered into a definitive agreement with The Roslyn Savings Bank ("Roslyn"), whereby Roslyn will acquire all of the deposit liabilities of the Bank's retail branch located at 1012 Gates Avenue, Brooklyn, which totaled approximately \$19.5 million at June 30, 1999. This transaction, which is subject to regulatory approval, is expected to close during the fourth calendar quarter of 1999.

Stockholders' equity increased \$25.3 million during the year ended June 30, 1999. This increase resulted primarily from the addition of \$34.7 million in equity resulting from the FIBC acquisition and net income of \$19.9 million. Offsetting these increases were repurchases of common stock into treasury of \$21.2 million, cash dividends paid of \$5.9 million and change in accumulated other comprehensive loss of \$6.1 million due to unrealized losses on available for sale securities.

In June 1997, the Company commenced payment of regular quarterly cash dividends, the per share amount of which has been increased for each successive dividend payment to date. During the year ended June 30, 1998, the Company declared and paid three cash dividends totaling \$2.6 million, or \$0.23 per outstanding common share on the respective dates of record. During the year ended June 30, 1999, the Company paid four cash dividends totaling \$5.9 million, or \$0.51 per outstanding common share on the respective dates of record. On July 15, 1999, the Company declared a cash dividend of \$0.15 per common share to all shareholders of record on July 30, 1999. This dividend was paid on August 11, 1999.

The Bank is required to maintain a minimum average daily balance of liquid assets as a percentage of net withdrawable deposit accounts plus short-term borrowings by the Office of Thrift Supervision ("OTS") regulations. The minimum required liquidity ratio is currently 4.0%. At June 30, 1999, the Bank's liquidity ratio was 10.0%. The levels of the Bank's short-term liquid assets are dependent on the Bank's operating, financing and investing activities during any given period.

The Bank monitors its liquidity position on a daily basis. Excess short-term liquidity is invested in overnight federal funds sales and various money market investments. In the event that the Bank should require funds beyond its ability to generate them internally, additional sources of funds are available through the use of the Bank's \$547.2 million borrowing limit at the FHLBNY. At June 30, 1999, the Bank had \$257.5 million in short- and medium-term advances outstanding at the FHLBNY.

The Bank is subject to minimum regulatory requirements imposed by the OTS, which requirements are, as a general matter, based on the amount and composition of an institution's assets. At June 30, 1999, the Bank was in compliance with all applicable regulatory capital requirements. Tangible capital totaled \$123.8 million, or 5.83% of total tangible assets, compared to a 1.50% regulatory requirement; leverage capital, at 5.83% of adjusted assets, exceeded the required 3.0% regulatory minimum, and total risk-based capital, at 11.45% of risk weighted assets, exceeded the 8.0% regulatory minimum. In addition, at June 30, 1999, the Bank was considered "well-capitalized" for all regulatory purposes.

#### Discussion of Market Risk

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets, other than those which possess a short term to maturity. During the years ended June 30, 1999 and 1998, the Company operated under a "flat yield curve" interest rate environment, which features little discrepancy in rates offered on short-term and long-term investments. Under a flat yield curve environment, financial institutions often experience both increased interest rate competition related to loan originations, and above-average prepayment activities related to mortgage-backed investments, both of which adversely impact long-term profitability. The flat yield curve environment experienced during the 1998 and 1999 fiscal years was a primary factor in the reduction of the Company's interest rate spread compared to the fiscal year ended June 30, 1997.

Since a substantial majority of the Company's interest-earning assets and interest-bearing liabilities are located at the Bank, virtually all of the Company's interest rate risk exposure lies at the Bank level. As a result, all significant interest rate risk management procedures are performed at the Bank level. Based upon the Bank's nature of operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank's real estate loan portfolio, concentrated primarily within New York City, is subject to risks associated with the local economy. See "Asset Quality." The Company does not own any trading assets. The Company did not engage in any hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) during the fiscal year ended June 30, 1999, and did not have any such hedging transactions in place at June 30, 1999. In the future, the Company may, with Board approval, engage in hedging transactions utilizing derivative instruments.

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

**Assets.** The Bank's largest single asset type is the multi-family real estate loan. Multi-family loans typically carry a shorter average term to maturity than one-to-four family residential loans, thus significantly reducing the overall level of interest rate risk. In addition, in order to manage interest rate risk, management emphasizes origination of adjustable rate multi-family loans. Approximately 75% of multi-family loans originated during the year ended June 30, 1999, were adjustable rate, with repricing typically occurring after five or seven years, compared to 60% during the previous year. In addition, management has sought to include various types of adjustable-rate single-family (including cooperative apartment) whole loans and adjustable and floating-rate investment securities in its portfolio, which generally have repricing terms of three years or less. At June 30, 1999, adjustable-rate whole loans totaled \$821.3 million, or 36.5% of total assets, and adjustable-rate investment securities (CMO's, REMIC's, mortgage-backed securities issued by GSEs and other securities) totaled \$149.3 million, or 6.6% of total assets. At June 30, 1998, adjustable-rate whole loans totaled \$617.2 million, or 38.0% of total assets, and adjustable-rate securities totaled \$125.3 million, or 7.7% of total assets.

**Deposit Liabilities.** The Bank, a traditional community-based savings bank, is largely dependent upon its base of competitively priced core deposits (consisting of all deposits except certificates of deposit) to provide stability on the liability side of the balance sheet. The Bank has retained many loyal customers over the years through a combination of quality service, convenience, and a stable and experienced staff. Core deposits, at June 30, 1999, were \$543.8 million, or 43.6% of total deposits. The balance of certificates of deposit as of June 30, 1999 was \$703.3 million, or 56.4% of total deposits, of which \$551.8 million, or 78.5% of total certificates of deposits, mature within one year. Depending on market conditions, management prices its certificates of deposit in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year. During the fiscal year ended June 30, 1999, the Bank experienced a decrease of \$118.0 million in higher-cost certificate of deposit accounts which related to specific rate promotions offered in previous periods which the Bank elected not to match during the most recent fiscal year. Excluding this decrease, the Bank experienced a strong retention rate on maturing certificates of deposit during the fiscal year ended June 30, 1999.

**Wholesale Funds.** The Bank does not accept brokered deposits as a source of funds and has no plans to do so in the future. However, the Bank is a member of the FHLBNY which provides it with a borrowing line equal to \$547.2 million. From time to time, the Bank will borrow from the FHLBNY for various purposes. At June 30, 1999, the Bank had outstanding advances of \$257.5 million with the FHLBNY.

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

#### GAP Analysis

The following table sets forth the amounts of the Company's consolidated interest-earning assets and interest-bearing liabilities, outstanding at June 30, 1999, which are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown which reprice or mature during a particular period were determined based on the earlier of term to repricing or the term to repayment of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at June 30, 1999 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For purposes of presentation in the following table, the Bank utilized the Bank's historical deposit decay rate experience, which for savings accounts was 13% in the one year or less category. For NOW and Super NOW accounts and money market accounts, the Bank utilized the most recent decay rates published by the OTS, which, in the one year or less category, were 37% and 79%, respectively. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated early payoffs of adjustable- and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. The amounts attributable to mortgage-backed securities reflect principal balances expected to be redeployed and/or repriced as a result of anticipated principal repayments, and as a result of contractual rate adjustments on adjustable-rate mortgage-backed securities.

| At June 30, 1999  | 3 Months<br>or Less | 3 Months<br>to 6 Months | More than<br>6 Months to<br>1 Year | More than<br>1 Year to<br>3 Years | More than<br>3 Years to<br>5 Years to | More than<br>5 Years | Non-<br>interest<br>bearing | Total              |
|---|---------------------|-------------------------|------------------------------------|-----------------------------------|---------------------------------------|----------------------|-----------------------------|--------------------|
| (DOLLARS IN THOUSANDS)  |                     |                         |                                    |                                   |                                       |                      |                             |                    |
| <b>INTEREST-EARNING ASSETS</b>  |                     |                         |                                    |                                   |                                       |                      |                             |                    |
| Mortgages and other loans   | \$56,161            | \$56,161                | \$112,322                          | \$344,314                         | \$246,872                             | \$567,511            | \$-                         | \$1,383,341        |
| Investment securities   | 12,881              | -                       | 5,800                              | 47,690                            | 103,484                               | 8,475                | -                           | 178,330            |
| Mortgage-backed securities  | 67,648              | 59,634                  | 111,646                            | 137,216                           | 65,708                                | 83,815               | -                           | 525,667            |
| Federal funds sold  | 11,011              | -                       | -                                  | -                                 | -                                     | -                    | -                           | 11,011             |
| FHLB capital stock  | 28,281              | -                       | -                                  | -                                 | -                                     | -                    | -                           | 28,281             |
| <b>Total interest earning assets</b>  | <b>175,982</b>      | <b>115,795</b>          | <b>229,768</b>                     | <b>529,220</b>                    | <b>416,064</b>                        | <b>659,801</b>       | <b>-</b>                    | <b>2,126,630</b>   |
| <b>LESS:</b>  |                     |                         |                                    |                                   |                                       |                      |                             |                    |
| Allowance for loan losses   | -                   | -                       | -                                  | -                                 | -                                     | -                    | (15,081)                    | (15,081)           |
| <b>Net interest-earning assets</b>  | <b>175,982</b>      | <b>115,795</b>          | <b>229,768</b>                     | <b>529,220</b>                    | <b>416,064</b>                        | <b>659,801</b>       | <b>(15,081)</b>             | <b>2,111,549</b>   |
| <b>Non-interest-earning assets</b>  | <b>-</b>            | <b>-</b>                | <b>-</b>                           | <b>-</b>                          | <b>-</b>                              | <b>-</b>             | <b>136,066</b>              | <b>136,066</b>     |
| <b>Total assets</b>   | <b>\$175,982</b>    | <b>\$115,795</b>        | <b>\$229,768</b>                   | <b>\$529,220</b>                  | <b>\$416,064</b>                      | <b>\$659,801</b>     | <b>\$120,985</b>            | <b>\$2,247,615</b> |
| <b>INTEREST-BEARING LIABILITIES:</b>  |                     |                         |                                    |                                   |                                       |                      |                             |                    |
| Savings Accounts NOW and Super NOW accounts   | \$13,499            | \$13,051                | \$24,816                           | \$84,086                          | \$64,182                              | \$206,968            | \$-                         | \$406,602          |
| Money market accounts   | 2,376               | 2,156                   | 3,733                              | 8,481                             | 2,624                                 | 6,317                | -                           | 25,687             |
| Certificates of Deposit   | 10,463              | 8,397                   | 12,147                             | 10,448                            | 5,480                                 | 6,044                | -                           | 52,979             |
| Borrowed funds  | 221,368             | 137,654                 | 192,749                            | 125,847                           | 25,182                                | 451                  | -                           | 703,251            |
| Interest-bearing escrow   | 215,779             | 4,985                   | 25,131                             | 259,942                           | 127,025                               | 98,798               | -                           | 731,660            |
|   | -                   | -                       | -                                  | -                                 | -                                     | 4,385                | -                           | 4,385              |
| <b>Total interest-bearing liabilities</b>   | <b>463,485</b>      | <b>166,243</b>          | <b>258,576</b>                     | <b>488,804</b>                    | <b>224,493</b>                        | <b>322,963</b>       | <b>-</b>                    | <b>1,924,564</b>   |
| Checking accounts   | -                   | -                       | -                                  | -                                 | -                                     | -                    | 58,542                      | 58,542             |
| Other non-interest bearing liabilities  | -                   | -                       | -                                  | -                                 | -                                     | -                    | 52,814                      | 52,814             |
| Stockholders' equity  | -                   | -                       | -                                  | -                                 | -                                     | -                    | 211,695                     | 211,695            |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$463,485</b>    | <b>\$166,243</b>        | <b>\$258,576</b>                   | <b>\$488,804</b>                  | <b>\$224,493</b>                      | <b>\$322,963</b>     | <b>\$323,051</b>            | <b>\$2,247,615</b> |
| <b>Interest sensitivity gap per period</b>  | <b>\$(287,503)</b>  | <b>\$(50,448)</b>       | <b>\$(28,808)</b>                  | <b>\$40,416</b>                   | <b>\$191,571</b>                      | <b>\$336,838</b>     | <b>-</b>                    |                    |
| <b>Cumulative interest sensitivity gap</b>  | <b>\$(287,503)</b>  | <b>\$(337,951)</b>      | <b>\$(366,759)</b>                 | <b>\$(326,343)</b>                | <b>\$(134,772)</b>                    | <b>\$202,066</b>     | <b>-</b>                    |                    |
| <b>Cumulative interest sensitivity gap as a percent of total assets</b>                                       | <b>(12.79)%</b>     | <b>(15.04)%</b>         | <b>(16.32)%</b>                    | <b>(14.52)%</b>                   | <b>(6.00)%</b>                        | <b>8.99%</b>         | <b>-</b>                    |                    |
| <b>Cumulative total interest-earning assets as a percent of cumulative total interest bearing liabilities</b> | <b>37.97%</b>       | <b>46.33%</b>           | <b>58.71%</b>                      | <b>76.30%</b>                     | <b>91.59%</b>                         | <b>110.50%</b>       | <b>-</b>                    |                    |

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

Based upon historical repayment experience.

The Bank's balance sheet is primarily comprised of assets which mature or reprice within five years, with a significant portion maturing or repricing within one year. In addition, the Bank's deposit base is comprised primarily of savings accounts, and certificates of deposit with maturities of three years or less, representing 10.9% and 54.3%, respectively, of total deposits at June 30, 1999. At June 30, 1999, the Bank's interest-bearing liabilities maturing or repricing within one year totaled \$888.3 million, while interest-earning assets maturing or repricing within one year totaled \$521.5 million, resulting in a negative one-year interest sensitivity gap of \$366.8 million, or 16.3% of total assets. The increase in the level of the negative one-year interest sensitivity gap resulted from an increase in the proportion of certificates of deposit and borrowings maturing within one year or less, as a result of continued growth in shorter-term Repo borrowings and deposit pricing strategies. In comparison, at June 30, 1998, the Bank had a negative one-year interest sensitivity gap of \$201.2 million, or 12.4% of total assets.



estimate of repricing liabilities for selected deposit types which do not carry contractual maturities, such as savings accounts, is based upon the Bank's historical deposit decay rate experience.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features, like annual and lifetime rate caps, which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in the table. Finally, the ability of certain borrowers to make scheduled payments on their adjustable-rate loans may decrease in the event of an interest rate increase.

Under interest rate scenarios other than that which existed on June 30, 1999, the gap ratio for the Bank's assets and liabilities could differ substantially based upon different assumptions about how core deposit decay rates and loan prepayments would change. For example, the Bank's interest rate risk management model assumes that in a rising rate scenario, by paying competitive rates on non-core deposits, a large share of core deposits will transfer to certificates of deposit and be retained, although at higher cost to the Bank. Also, loan and mortgage-backed security prepayment rates would be expected to slow, as borrowers postpone property sales or loan refinancings until rates again decline.

Interest Rate Risk Exposure Compliance

Increases in the level of interest rates also may adversely affect the fair value of the Company's securities and other earning assets. Generally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Company's interest-earning assets, which could adversely affect the Company's results of operations if sold, or, in the case of interest-earning assets classified as available for sale, the Company's stockholders' equity, if retained. Under Generally Accepted Accounting Principles ("GAAP"), changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale will be reflected in the Company's stockholders' equity. As of June 30, 1999, the Company's securities portfolio included \$649.5 million in securities classified as available for sale. Accordingly, due to the magnitude of the Company's holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in the stockholders' equity of the Company. The Company does not own any trading assets.

On a quarterly basis, an interest rate risk exposure compliance report is prepared and presented to the Company's Board of Directors. This report, prepared in accordance with Thrift Bulletin #13a issued by the OTS, presents an analysis of the net portfolio value resulting from an increase or decrease in the level of interest rates. The calculated estimates of net portfolio value are compared to current limits established by management and approved by the Board of Directors. The following is a summary of the Company's interest rate exposure report as of June 30, 1999:

| PROJECTED NET PORTFOLIO VALUE |       |                                |
|-------------------------------|-------|--------------------------------|
| CHANGE IN INTEREST RATE       | LIMIT | CALCULATED AS OF JUNE 30, 1999 |
| - -300 Basis Points           | 7.00% | 10.12%                         |
| - -200 Basis Points           | 6.50  | 9.77                           |
| - -100 Basis Points           | 6.00  | 9.45                           |
| Flat Rate                     | 5.50  | 9.05                           |
| +100 Basis Points             | 5.00  | 8.13                           |
| +200 Basis Points             | 4.50  | 6.90                           |
| +300 Basis Points             | 4.00  | 5.43                           |

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

necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change.

#### Asset Quality

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

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

Non-performing loans totaled \$3.0 million at June 30, 1999, as compared to \$884,000 at June 30, 1998. Of the \$3.0 million non-performing loans at June 30, 1999, \$1.8 million were acquired from FIBC consisting of 13 one-to-four family residential loans. Otherwise, non-performing loans increased approximately \$300,000 due primarily to the addition of one multi-family and underlying cooperative loan with an aggregate principal amount of \$657,000 during the fiscal year ended June 30, 1999, and for which the Company recorded a charge-off of \$92,000 during the fiscal year ended June 30, 1999. The Company had 23 loans totaling \$819,000 delinquent 60-89 days at June 30, 1999, as compared to 35 such delinquent loans totaling \$328,000 at June 30, 1998. The Company has experienced a shift in the composition of its 60-89 delinquencies from its conventional mortgage portfolio, which loans typically carry larger average balances, to smaller balance FHA/VA insured and consumer loans. Under GAAP, the Company is required to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a debt constitutes a troubled-debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The Company had two loans classified as troubled-debt restructurings at June 30, 1999, totaling \$1.3 million, both of which are on accrual status as they have been performing in accordance with the restructuring terms for over one year. The current regulations of the Office of Thrift Supervision require that troubled-debt restructurings remain classified as such until either the loan is repaid or returns to its original terms. The Company did not have any new troubled-debt restructurings during the fiscal year ended June 30, 1999. Troubled-debt restructurings totaled \$4.0 million at June 30, 1998, consisting of three loans. One troubled-debt restructuring totaling \$2.8 million was paid-in-full during the fiscal year ended June 30, 1999.

Pursuant to Company guidelines for determining and measuring impairment in loans within the meaning of SFAS 114, in the event the carrying balance of the loan, including all accrued interest, exceeds the estimate of fair value, the loan is considered to be impaired and a reserve is established. Generally, the Company considers non-performing loans to be impaired loans. The recorded investment in loans deemed impaired was approximately \$1.6 million as of June 30, 1999, consisting of six loans, compared to \$3.1 million at June 30, 1998, consisting of three loans, and the average balance of impaired loans was \$2.3 million for the year ended June 30, 1999 compared to \$3.8 million for the year ended June 30, 1998. At June 30, 1999, reserves have been provided for all impaired loans within reserves totaling \$62,000 allocated within the allowance for loan losses. At June 30, 1999, \$1.4 million of one-to-four family, cooperative apartment and consumer loans on nonaccrual status are not deemed impaired. All of these loans have outstanding balances less than \$227,000, and are considered a homogeneous loan

pool which are not required to be evaluated for impairment. See "Notes to Consolidated Financial Statements" for a further discussion of impaired loans.

The balance of other real estate owned ("OREO") was \$866,000, consisting of 13 properties, at June 30, 1999 compared to \$825,000 million, consisting of 14 properties, at June 30, 1998. During the year ended June 30, 1999, total additions to OREO were \$644,000, of which \$302,000 were acquired from FIBC. Offsetting this addition, were OREO sales and charge-offs of \$618,000 during the year ended June 30, 1999, of which \$204,000 were related to OREO acquired from FIBC. All charge-offs were recorded against the allowance for losses on real estate owned, which was \$149,000 as of June 30, 1999.

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

| At June 30,  | 1999    | 1998    | 1997    | 1996     | 1995     |
|--|---------|---------|---------|----------|----------|
| (Dollars In Thousands)   |         |         |         |          |          |
| Non-performing loans:  |         |         |         |          |          |
| One-to-four family   | \$1,577 | \$471   | \$1,123 | \$1,149  | \$572    |
| Multi-family and underlying cooperative                                      | 1,248   | 236     | 1,613   | 4,734    | 3,978    |
| Cooperative apartment  | 133     | 133     | 415     | 668      | 523      |
| Other loans  | 43      | 44      | 39      | -        | -        |
| Total non-performing loans   | 3,001   | 884     | 3,190   | 6,551    | 5,073    |
| Total Other Real Estate Owned  | 866     | 825     | 1,697   | 1,946    | 4,466    |
| Total non-performing assets  | \$3,867 | \$1,709 | \$4,887 | \$8,497  | \$9,539  |
| Troubled-debt restructurings   | \$1,290 | \$3,971 | \$4,671 | \$4,671  | \$7,651  |
| Total non-performing assets and troubled-debt restructurings                 | \$5,157 | \$5,680 | \$9,558 | \$13,168 | \$17,190 |
| Impaired loans   | \$1,563 | \$3,136 | \$4,294 | \$7,419  | N/A      |
| Total non-performing loans to total loans                                    | 0.22%   | 0.09%   | 0.43%   | 1.12%    | 1.18%    |
| Total non-performing loans and troubled-debt restructurings to total loans   | 0.31    | 0.51    | 1.05    | 1.92     | 2.96     |
| Total non-performing assets to total assets                                  | 0.17    | 0.11    | 0.37    | 0.62     | 1.44     |
| Total non-performing assets and troubled-debt restructurings to total assets | 0.23    | 0.35    | 0.73    | 0.96     | 2.59     |

The Bank adopted SFAS 114 effective July 1, 1995. Impaired loans were not measured prior to this date.

#### Analysis of Net Interest Income

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

The following table sets forth certain information relating to the Company's consolidated statements of operations for the years ended June 30, 1999, 1998 and 1997, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields.

| For the years ended June 30,  | 1999               |                  |                           | 1998               |                  |                           | 1997               |                 |                           |
|---|--------------------|------------------|---------------------------|--------------------|------------------|---------------------------|--------------------|-----------------|---------------------------|
|   | AVERAGE<br>BALANCE | INTEREST         | AVERAGE<br>YIELD/<br>COST | Average<br>Balance | Interest         | Average<br>Yield/<br>Cost | Average<br>Balance | Interest        | Average<br>Yield/<br>Cost |
| (Dollars In Thousands)  |                    |                  |                           |                    |                  |                           |                    |                 |                           |
| <b>ASSETS:</b>  |                    |                  |                           |                    |                  |                           |                    |                 |                           |
| Interest-earning assets   |                    |                  |                           |                    |                  |                           |                    |                 |                           |
| Real estate loans   | \$1,158,549        | \$91,569         | 7.90%                     | \$837,755          | \$69,824         | 8.33%                     | \$642,913          | \$54,965        | 8.55%                     |
| Other loans   | 6,433              | 558              | 8.67                      | 5,393              | 487              | 9.03                      | 5,444              | 460             | 8.45                      |
| Investment securities   | 176,205            | 10,654           | 6.05                      | 164,265            | 10,798           | 6.57                      | 215,809            | 13,654          | 6.33                      |
| Mortgage-backed securities  | 478,166            | 29,683           | 6.21                      | 349,910            | 23,463           | 6.71                      | 261,275            | 17,704          | 6.78                      |
| Federal funds sold  | 31,353             | 1,448            | 4.62                      | 35,540             | 1,892            | 5.32                      | 40,349             | 2,247           | 5.57                      |
| <b>Total interest-earning assets</b>                                    | <b>1,850,706</b>   | <b>\$133,912</b> | <b>7.24%</b>              | <b>1,392,863</b>   | <b>\$106,464</b> | <b>7.64%</b>              | <b>1,165,790</b>   | <b>\$89,030</b> | <b>7.64%</b>              |
| Non-interest earning assets   |                    |                  |                           |                    |                  |                           |                    |                 |                           |
|   | 95,172             |                  |                           | 66,008             |                  |                           | 64,148             |                 |                           |
| <b>Total assets</b>   | <b>\$1,945,878</b> |                  |                           | <b>\$1,458,871</b> |                  |                           | <b>\$1,229,938</b> |                 |                           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                             |                    |                  |                           |                    |                  |                           |                    |                 |                           |
| Interest bearing liabilities:   |                    |                  |                           |                    |                  |                           |                    |                 |                           |
| NOW, Super NOW and Money market accounts                                |                    |                  |                           |                    |                  |                           |                    |                 |                           |
|   | \$62,463           | \$1,542          | 2.47%                     | \$48,556           | \$1,131          | 2.33%                     | \$55,327           | \$1,404         | 2.54%                     |
| Savings accounts  | 366,947            | 7,712            | 2.10                      | 338,062            | 7,628            | 2.26                      | 349,821            | 8,192           | 2.34                      |
| Certificates of deposit   | 648,776            | 35,061           | 5.40                      | 594,098            | 34,174           | 5.75                      | 515,542            | 28,869          | 5.60                      |
| Mortgagors' escrow  | 5,103              | 102              | 2.00                      | 4,700              | 94               | 2.00                      | 3,792              | 79              | 2.08                      |
| Borrowed funds  | 583,490            | 32,802           | 5.62                      | 232,385            | 13,908           | 5.98                      | 52,495             | 3,020           | 5.75                      |
| <b>Total interest-bearing liabilities</b>                               | <b>1,666,779</b>   | <b>\$77,219</b>  | <b>4.63%</b>              | <b>1,217,801</b>   | <b>\$56,935</b>  | <b>4.68%</b>              | <b>976,977</b>     | <b>\$41,564</b> | <b>4.26%</b>              |
| Other non-interest-bearing liabilities                                  |                    |                  |                           |                    |                  |                           |                    |                 |                           |
| Checking accounts   | 51,496             |                  |                           | 31,457             |                  |                           | 27,653             |                 |                           |
|   | 35,603             |                  |                           | 24,097             |                  |                           | 18,131             |                 |                           |
| <b>Total liabilities</b>  | <b>1,753,878</b>   |                  |                           | <b>1,273,355</b>   |                  |                           | <b>1,022,761</b>   |                 |                           |
| Stockholders' equity  | 192,000            |                  |                           | 185,516            |                  |                           | 207,177            |                 |                           |
| <b>Total liabilities and stockholders' equity</b>                       | <b>\$1,945,878</b> |                  |                           | <b>\$1,458,871</b> |                  |                           | <b>\$1,229,938</b> |                 |                           |
| <b>Net interest income/interest rate spread</b>                         |                    |                  |                           |                    |                  |                           |                    |                 |                           |
|   |                    | \$56,693         | 2.61                      |                    | \$49,529         | 2.97%                     |                    | \$47,466        | 3.38%                     |
| <b>Net interest-earning assets/net interest margin</b>                  |                    |                  |                           |                    |                  |                           |                    |                 |                           |
|   | \$183,927          |                  | 3.06                      | \$175,062          |                  | 3.56%                     | \$188,813          |                 | 4.07%                     |
| <b>Ratio of interest-earning assets to interest-bearing liabilities</b> |                    |                  |                           |                    |                  |                           |                    |                 |                           |
|   |                    |                  | 111.03%                   |                    |                  | 114.38%                   |                    |                 | 119.33%                   |

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

Includes interest bearing deposits in other banks and FHLB stock.

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

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

## RATE/VOLUME ANALYSIS

Net interest income can also be analyzed in terms of the impact of changing interest rates on interest-earning assets and interest-bearing liabilities and changing the volume or amount of these assets and liabilities. The following table represents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (change in volume multiplied by prior rate), (ii) changes attributable to rate (changes in rate multiplied by prior volume), and (iii) the net change. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to the volume and the changes due to rate.

|  | YEAR ENDED<br>JUNE 30, 1999<br>COMPARED TO<br>YEAR ENDED<br>JUNE 30, 1998<br>INCREASE/(DECREASE)<br>DUE TO |            |          | Year Ended<br>June 30, 1998<br>Compared to<br>Year Ended<br>June 30, 1997<br>Increase/(Decrease)<br>Due to |            |          | Year Ended<br>June 30, 1997<br>Compared to<br>Year Ended<br>June 30, 1996<br>Increase/(Decrease)<br>Due to |            |          |
|--|--|------------|----------|--|------------|----------|--|------------|----------|
|  | VOLUME   | RATE       | NET      | Volume   | Rate       | Net      | Volume   | Rate       | Net      |
| (Dollars in Thousands)                   |  |            |          |  |            |          |  |            |          |
| INTEREST-EARNING ASSETS:                 |  |            |          |  |            |          |  |            |          |
| Real estate loans                        | \$26,042   | \$ (4,297) | \$21,745 | \$16,466   | \$ (1,607) | \$14,859 | \$18,182   | \$ (2,531) | \$15,651 |
| Other loans                              | 92   | (21)       | 71       | (5)  | 32         | 27       | 177  | (57)       | 120      |
| Investment securities                    | 748  | (892)      | (144)    | (3,318)  | 462        | (2,856)  | 6,339  | 1,577      | 7,916    |
| Mortgage-backed securities               | 8,285  | (2,065)    | 6,220    | 5,974  | (215)      | 5,759    | 11,571   | 206        | 11,777   |
| Federal funds sold                       | (209)  | (235)      | (444)    | (261)  | (94)       | (355)    | 905  | 42         | 947      |
| Total                                    | \$34,958   | \$ (7,510) | \$27,448 | \$18,856   | \$ (1,422) | \$17,434 | \$37,174   | \$ (763)   | \$36,411 |
| INTEREST-BEARING LIABILITIES             |  |            |          |  |            |          |  |            |          |
| NOW, Super NOW and Money market accounts | \$ 333   | 78         | 411      | \$ (164)   | \$ (109)   | \$ (273) | \$565  | \$205      | \$770    |
| Savings accounts                         | 639  | (555)      | 84       | (280)  | (284)      | (564)    | 2,834  | (431)      | 2,403    |
| Certificates of deposit                  | 3,056  | (2,169)    | 887      | 4,465  | 840        | 5,305    | 12,893   | (37)       | 12,856   |
| Mortgagors' escrow                       | 8  | -          | 8        | 19   | (4)        | 15       | 9  | (2)        | 7        |
| Borrowed funds                           | 20,372   | (1,478)    | 18,894   | 10,558   | 330        | 10,888   | 1,975  | 37         | 2,012    |
| Total                                    | 24,408   | (4,124)    | 20,284   | 14,598   | 773        | 15,371   | 18,276   | (228)      | 18,048   |
| Net change in net interest income        | \$10,550   | \$ (3,386) | \$7,164  | \$4,258  | \$ (2,195) | \$2,063  | \$18,898   | \$ (535)   | \$18,363 |

## Comparison of Financial Condition at June 30, 1999 and June 30, 1998

Assets. The Company's assets totaled \$2.25 billion at June 30, 1999, an increase of \$623.7 million from total assets of \$1.62 billion at June 30, 1998. The growth in assets was experienced primarily in real estate loans and mortgage-backed securities available for sale, which increased \$431.6 million and \$139.0 million, respectively.

The increase in real estate loans resulted primarily from originations of \$471.5 million during the fiscal year ended June 30, 1999, of which \$452.6 million were multi-family and underlying cooperative and non-residential loans. The increased loan originations resulted from both an active local real estate market and a continuation of local competition for interest rates on new loan originations throughout the year. The increase in real estate loans also resulted from the acquisition of \$192.3 million of such loans from FIBC. The increase in mortgage-backed securities available for sale resulted from purchases of \$263.6 million during the year ended June 30, 1999, primarily attributable to the capital leverage program, and \$37.8 million of mortgage-backed securities

acquired from FIBC. See "Management Strategy." These purchases were partially offset by principal repayments of \$155.6 million on these securities. Investment securities available for sale and goodwill increased \$58.5 million and \$40.8 million due primarily to the acquisition of \$43.5 million in such securities and the addition of \$44.2 million in goodwill from the FIBC acquisition which is being amortized over a 20-year period. Offsetting these increases, investment securities and mortgage-backed securities held-to-maturity declined \$46.4 million and \$23.9 million, respectively, as proceeds from sales, calls, maturities and principal repayments on these securities were utilized to fund loan originations and purchases of mortgage-backed securities available for sale.

Liabilities. Liabilities increased \$598.3 million during the fiscal year ended June 30, 1999. The largest components of this increase were deposits, FHLB NY advances and securities sold under agreement to repurchase, which increased \$208.7 million, \$146.5 million, and \$225.1 million, respectively. The acquisition of FIBC resulted in the addition of \$230.7 million in deposits and \$42.0 million in securities sold under agreements to repurchase. The growth in FHLB NY advances of \$146.5 million during the fiscal year ended June 30, 1999, was utilized to fund both loan originations and a significant portion of the cash consideration related to the FIBC acquisition. The increase in securities sold under agreement to repurchase of \$183.0 million, exclusive of the FIBC acquisition, was utilized primarily to fund purchases of mortgage-backed securities available for sale. Deposits, excluding the effects of the FIBC acquisition, decreased \$21.9 million during the fiscal year ended June 30, 1999, due primarily to the cessation of a deposit rate promotion that the Company maintained from July 1997 to June 1998.

Stockholders' Equity. Stockholders' equity increased \$25.3 million during the fiscal year ended June 30, 1999. This increase resulted primarily from the addition of \$34.7 million in equity resulting from the FIBC acquisition and net income of \$19.9 million. Offsetting these increases, were repurchases of common stock into treasury of \$21.2 million and cash dividends paid of \$5.9 million, and a decline of \$6.1 million in accumulated other comprehensive income related to the net unrealized gain or loss on securities available-for-sale.

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

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

The increase in real estate loans resulted primarily from originations of \$321.2 million during the fiscal year ended June 30, 1998, of which \$308.4 million were multi-family and underlying cooperative and non-residential loans. The increased loan originations resulted from both an active local real estate market and a decline throughout the year of medium- and long-term market interest rates throughout the year. The increase in mortgage-backed securities available for sale resulted from purchases of \$290.6 million during the year ended June 30, 1998, primarily attributable to the capital leverage program. See "Management Strategy." These purchases were partially offset by sales and calls of \$92.8 million and principal repayments of \$64.5 million on these securities. Mortgage-backed securities held-to-maturity declined \$31.7 million, as proceeds from sales and principal repayments on these securities were utilized to fund loan originations and purchases of mortgage-backed securities available for sale.

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

As of June 30, 1998, assets were increased by \$18.0 million due to unsettled sales of mortgage-backed securities, and liabilities were increased by \$12.1 million, respectively, due to unsettled purchases of investment and mortgage-backed securities.

Stockholders' Equity. Stockholders' equity declined \$4.6 million to \$186.3 million at June 30, 1998, from \$190.9 million at June 30, 1997. During the fiscal year ended June 30, 1998, the Company purchased 919,837 shares of its common stock into treasury at an aggregate cost of \$20.8 million. Offsetting the share repurchases was retained net income of \$13.1 million, amortization of the Company's ESOP and Recognition and Retention Plan ("RRP") of \$5.4

million, and an increase of \$732,000 of the unrealized gain on investment and mortgage-backed securities available for sale. Also contributing to the decline on stockholders' equity during the year ended June 30, 1998 were cash dividends declared and paid totaling \$2.6 million.

Comparison of the Operating Results for the Fiscal Year Ended June 30, 1999 and 1998

General. Net income for the fiscal year ended June 30, 1999, totaled \$19.9 million compared to \$13.1 million for the fiscal year ended June 30, 1998. The increase in net income resulted primarily from an increase of \$7.2 million in net interest income, a decline of \$1.4 million in the provision for loan losses, and an increase of \$909,000 in non-interest income.

Net Interest Income. Net interest income for the fiscal year ended June 30, 1999 increased \$7.2 million to \$56.7 million from \$49.5 million during the fiscal year ended June 30, 1998. The increase was attributable primarily to an increase of \$457.8 million in average interest-earning assets, offset by a decline in the net interest rate spread of 36 basis points. The net interest margin declined 50 basis points from 3.56% for the fiscal year ended June 30, 1998 to 3.06% for the fiscal year ended June 30, 1999.

The narrowing interest rate spread and margin reflect, in part, the Company's exposure to interest rate risk resulting from certain changes in the shape of the yield curve (particularly a flattening or inverting of the yield curve) and to differing indices upon which the yield on the Company's interest-earning assets and the cost of its interest-bearing liabilities are based. For example, over the past two years the market has experienced a more significant reduction in interest rates on long-term instruments as compared to the reduction in interest rates on short-term instruments resulting in rates on long-term instruments approximating (and in some cases, going below) the rates on short-term instruments. More importantly, the spreads earned on the rate differential between assets and the liabilities funding such assets have narrowed more with respect to long-term assets as compared to short-term assets. Since a larger percentage of the Company's assets are longer term, the Company has experienced a continuous narrowing of spreads as well as a negative impact on net interest income that has been more than offset by the Company's growth in interest-earning assets. The narrowing of the spread and margin also reflects the continued activities of the capital leverage program, as the interest rate spread between assets and underlying liabilities under the capital leverage program are significantly less than the interest rate spread between the Company's other interest-earning assets and interest-bearing liabilities.

Interest Income. Interest income for the fiscal year ended June 30, 1999, was \$133.9 million, an increase of \$27.4 million from \$106.5 million during the fiscal year ended June 30, 1998. The increase in interest income was attributable to increased interest income on real estate loans and mortgage-backed securities of \$21.7 million and \$6.2 million, respectively. The increase in interest income on real estate loans was attributable primarily to an increase of \$320.8 million in the average balance of real estate loans, resulting from both \$471.5 million of real estate loans originated during the fiscal year ended June 30, 1999, and \$192.3 million of real estate loans acquired from FIBC on January 21, 1999. The increase in interest income on mortgage-backed securities was also attributable primarily to an increase in the average balance of \$313.9 million, resulting from mortgage-backed securities purchased in accordance with the Company's capital leverage program during the fiscal year ended June 30, 1999, and \$37.8 million added in the FIBC Acquisition. Overall, the yield on interest-earning assets decreased 40 basis points from 7.64% during the fiscal year ended June 30, 1998 to 7.24% during the fiscal year ended June 30, 1999. The decline was attributable primarily to a decrease of 43 basis points in the average yield on real estate loans resulting primarily from continued competition in the real estate lending market and the continued flat yield curve environment. The decline also reflects declines in the average yield on mortgage-backed securities and investment securities of 50 basis points and 52 basis points, respectively, due to declines in overall interest rates during the fiscal year ended June 30, 1999.

Interest Expense. Interest expense increased \$20.3 million, to \$77.2 million during the fiscal year ended June 30, 1999, from \$56.9 million during the fiscal year ended June 30, 1998. This increase resulted primarily from increased interest expense of \$18.9 million on borrowed funds, which resulted from an increase in the average balance of \$351.1 million during the fiscal year ended June 30, 1999 compared to the fiscal year ended June 30, 1998. The increase in the average balance of borrowed funds resulted primarily from \$183.0 million of borrowed funds added during the fiscal year ended June 30, 1999 under the capital leverage program. The increase in the average balance

of borrowed funds also reflects the Company's use of FHLBNY advances, which generally are medium-term interest-bearing liabilities, to fund the Company's loan originations. In addition, the average cost of interest-bearing liabilities decreased five basis points to 4.63% during the fiscal year ended June 30, 1999, from 4.68% during the fiscal year ended June 30, 1998, reflecting the decline in the average cost of certificates of deposit and borrowed funds of 35 basis points and 36 basis points, respectively. The decline in the average cost of borrowed funds resulted from reductions in overall interest rates, while the reduction in the average cost of certificates of deposit resulted from both lower overall interest rates and the cessation of deposit rate promotions that the Company maintained from July 1997 to June 1998. While the decline in the average cost of certificates of deposits and borrowed funds helped reduce the average cost of interest-bearing liabilities during the fiscal year ended June 30, 1999, their respective average balances increases of \$54.7 million and \$351.1 million contributed to the increase in the average cost of interest-bearing liabilities.

**Provision for Loan Losses.** The provision for loan losses decreased \$1.4 million to \$240,000 for the fiscal year ended June 30, 1999, from \$1.6 million for the fiscal year ended June 30, 1998. The allowance for loan losses has increased \$3.0 million from June 30, 1998 to June 30, 1999, due primarily to the addition of \$3.0 million in loan loss reserves from FIBC which the Company determined was adequate to cover potential losses on the loans acquired from FIBC. The reduction in the Company's loan loss provision from the prior fiscal year resulted from continued stability of non-performing loan and charge-offs which totaled \$201,000 during the fiscal year ended June 30, 1999, compared to \$286,000 during the fiscal year ended June 30, 1998. See "Asset Quality."

**Non-Interest Income.** Non-interest income increased \$909,000 to \$7.9 million during the fiscal year ended June 30, 1999, from \$7.0 million during the fiscal year ended June 30, 1998. Service charges and fees increased \$471,000 due primarily to increased service fees and charges on deposits of \$619,000, resulting primarily from adjustments in the Company's deposit fee and service charges. Other income increased \$2.5 million due primarily to increased loan prepayment penalties of \$1.6 million, which resulted from increased interest rate competition on new loans, and increased income on FHLBNY capital stock of \$815,000, due to an increase in the balance of FHLBNY capital stock from \$10.8 million at June 30, 1998 to \$28.3 million at June 30, 1999. The increase in the average balance of FHLBNY capital stock resulted from the Company's desire to increase its overall borrowing level with the FHLBNY during this period. See "Liquidity and Capital Resources." Offsetting these increases was a reduction in the gains on sales and redemptions of securities and other assets of \$2.1 million, due primarily to a non-recurring gain of \$2.0 million from the sale of a branch premise in Roslyn, New York during the fiscal year ended June 30, 1998.

**Non-Interest Expense.** Non-interest expense increased \$556,000, from \$29.9 million during the fiscal year ended June 30, 1998, to \$30.5 million during the fiscal year ended June 30, 1999. During the fiscal year ended June 30, 1998, the Company recorded one-time charges of \$1.6 million of benefit costs and \$598,000 of RRP costs associated with an early retirement option offered by the Company and accepted by eligible employees. Excluding this charge to expense, non-interest expense increased \$2.8 million during the fiscal year ended June 30, 1999. Salaries and employee benefit expense increased \$1.2 due to staffing and salary increases during the past 12 months and additional salary expense resulting from the FIBC acquisition. Compensation expense related to the Company's ESOP and RRP decreased by approximately \$263,000 due to the reduction in the Company's average stock price.

Occupancy and equipment expense declined \$28,000 due primarily to refunds of \$190,000 related to real estate taxes on branch properties, which were recorded as a reduction of occupancy and equipment expense during the fiscal year ended June 30, 1999, and cost savings associated with the sale of the Company's Roslyn office in May 1998. These cost savings were partially offset by increased expenses associated with the five branch offices obtained in the FIBC acquisition. Data processing costs increased \$147,000 during the fiscal year ended June 30, 1999, compared to the fiscal year ended June 30, 1998, due primarily to increased loan activity resulting from the FIBC acquisition and Year 2000 compliance costs. See "The Year 2000 Problem."

The provision for losses on other real estate owned declined \$98,000 due to the low level of real estate owned during the fiscal year ended June 30, 1999.

Goodwill expense increased \$977,000 due to the increased goodwill of \$44.2 million associated with the FIBC acquisition.

Other expenses increased \$748,000 due primarily to increased expenses associated with former operations of FIBC and an increase of \$301,000 in core deposit premium amortization.

Income Tax Expense. Income tax expense totaled \$14.0 million for the fiscal year ended June 30, 1999, compared to \$11.9 million for the fiscal year ended June 30, 1998, an increase of \$2.1 million. During the fiscal year ended June 30, 1999, the Company recorded income tax expense benefits totaling \$670,000 related to recoveries of previously recorded deferred taxes and adjustments from the filing of its June 1998 tax returns. Excluding these income tax benefits, the Company's income tax expense would have increased \$2.8 million, reflecting an increase of \$8.9 million in pretax income, offset by a reduction in the effective tax rate from 47.5% during the fiscal year ended June 30, 1998, to 43.3% during the fiscal year ended June 30, 1999.

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

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

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

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

Interest Expense. Interest expense increased \$15.3 million, to \$56.9 million during the fiscal year ended June 30, 1998, from \$41.6 million during the fiscal year ended June 30, 1997. This increase resulted primarily from increases of \$5.3 million and \$10.9 million in interest expense on certificate of deposit accounts and borrowed funds, respectively, which resulted primarily from increased average balances of \$78.6 million and \$179.9 million, respectively, during the fiscal year ended June 30, 1998, compared to the fiscal year ended June 30, 1997. The increase in the average balance on certificates of deposit resulted primarily from increased deposit flows due to

competitive rates offered on selected certificate accounts for the past 12 months. The increase in average balance of borrowed funds resulted primarily from approximately \$180.3 million of borrowed funds added for the period July 1, 1997 to June 30, 1998, under the capital leverage program. In addition to the growth in average balances, the average cost of interest-bearing liabilities increased 42 basis points to 4.68% for the fiscal year ended June 30, 1998, from 4.26% in the previous year. The increase in average cost resulted from an increase of \$78.6 million in the average balance of certificate of deposit accounts, which generally have a higher average cost than other deposits, the increase of 15 basis points in average cost on certificate of deposit accounts resulting from a rate promotion instituted for the past 12 months, and an increase of 42 basis points in the average cost on borrowed funds, resulting from an increase in the average balance of higher-rate, longer-term borrowings undertaken during the recent fiscal year in order to fund loan originations and the capital leverage program.

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

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

Non-Interest Expense. Non-interest expense increased \$2.4 million to \$29.9 million during the fiscal year ended June 30, 1998 from \$27.5 million during the fiscal year ended June 30, 1997. This increase resulted primarily from increases of \$3.0 million and \$2.3 million in salary and employee benefits and ESOP and RRP compensation expense, respectively, offset by declines of \$2.1 million, \$336,000 and \$484,000, respectively, in federal deposit insurance premiums, provision for losses on other real estate owned, and other expenses. The increase in salaries and employee benefits was attributable primarily to a one-time charge of \$1.6 million related to benefit costs, other than RRP related costs, associated with an early retirement program offered during the fiscal year ended June 30, 1998. The remainder of the increase resulted from general salary and staff increases. The increase in ESOP and RRP compensation expense was attributable primarily to several factors. First, the RRP expense increased \$1.5 million as a full 12 months of expense was recorded during the fiscal year ended June 30, 1998, compared to five months of expense recorded during the fiscal year ended June 30, 1997. The RRP was approved in December 1996, and expense recognition began in February 1997. In addition, a one-time charge of \$598,000 was recorded during the fiscal year ended June 30, 1998, related to vested shares of retiree's who accepted the early retirement program. Finally, the ESOP compensation expense increased \$787,000 due to the 50% appreciation in the average price of the Company's common stock during the fiscal year ended June 30, 1998, as the periodic ESOP compensation expense, under GAAP, is recorded based upon the average market value of the Company's common stock.

The increase in data processing costs resulted from both increased loan and deposit system utilization charges and expenses recorded related to the Year 2000 computer compliance. See "The Year 2000 Problem." The decline in federal deposit insurance expense resulted primarily from the non-recurring SAIF special assessment of \$2.1 million which was recorded during the fiscal year ended June 30, 1997. The reduction in provision for losses on other real estate owned resulted primarily from a decline of 49% in average balance of other real estate owned during the most recent fiscal year. The reduction in other expenses was attributable primarily to reduced legal expenses due to the settlement of a lawsuit during the past fiscal year, which had caused an increase in legal expenses in prior years. The settlement of such lawsuit resulted in a reimbursement of certain of such

expenses. The Company anticipates that its sale of the Roslyn branch premise will result in cost efficiencies for future periods related to occupancy and equipment and other operating expenses.

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

#### Impact of Inflation and Changing Prices

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

#### Impact of Legislation

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

As a result of the recapitalization of the SAIF in 1996 after the enactment of the Funds Act, the FDIC reduced the assessment rates for deposit insurance for SAIF-assessable deposits for 1997 to a range of 0 to 27 basis points. The Company's SAIF-assessable deposits are also subject to assessments for payments on the bonds issued in the late 1980's by the Financial Corporation (the "FICO" bonds) to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. The Company's total expenses for the fiscal years ended June 30, 1999 and 1998, for the assessments for deposit insurance and the FICO payments were \$404 and \$350, respectively, decreased from the total amount of \$423 paid during the fiscal year ended June 30, 1997.

**Recapture of Bad Debt Reserves.** The Bank, as a "large bank" (one with assets having an adjusted basis of more than \$500 million), is unable to make additions to its tax bad debt reserve, is permitted to deduct bad debts only as they occur and is required to recapture (i.e., take into income) over a multi-year period, a portion of the balance of its bad debt reserves as of June 30, 1997. Since the 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 federal legislation that imposed such recapture.

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

#### The Year 2000 Problem

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

There have been a small, but increasing, number of lawsuits filed against corporations regarding the Year 2000 Problem and their compliance efforts, many of which remain unresolved, have been dismissed or settled out of court without a final court determination as to the substantive issues.

The OTS, the Company's primary federal bank regulatory agency, along with the other federal bank regulatory agencies has published substantive guidance on the Year 2000 Problem and has included year 2000 compliance as a substantive area of examination for both regularly scheduled and special bank examinations. These publications, in addition to providing guidance as to examination criteria, have outlined requirements for creation and implementation of a compliance plan and target dates for testing and implementation of corrective action, as discussed below. As a result of the oversight by and authority vested in the federal bank regulatory agencies, a financial institution that does not become year 2000 compliant could become subject to administrative remedies similar to those imposed on financial institutions otherwise found not to be operating in a safe and sound manner, including remedies available under prompt correction active regulations.

The Company developed and has implemented a Year 2000 Project Plan (the "Plan") to address the Year 2000 Problem and its effects on the Company. The Plan includes five components which address issues involving awareness, assessment, renovation, validation and implementation. The Company has completed all phases of the Plan. During the awareness and assessment phases of the Plan, the Company inventoried all material information systems and reviewed them for year 2000 compliance. Among the systems reviewed were computer hardware and systems software, applications software and communications hardware and software as well as embedded or automated devices. As noted below, this review included both internal systems and those of third party vendors which provide systems such as retail deposit processing, loan origination processing, loan servicing and general ledger and accounting systems and software. The Bank and the Company have completed testing of core mission critical internal systems, both internally and externally supplied systems and have completed all renovation consistent with regulatory requirements. The Company has additionally completed testing of its mission critical systems, and its customer systems. The Company will continue to test, renovate and validate all such systems. The Company agreed to use its facilities as a test site for its major retail deposit processor allowing the Company additional opportunity to test and stress such system.

As part of the Plan, the Company has had formal communications with all of its significant suppliers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 Problem and has been following the progress of those vendors with their year 2000 compliance status. The Company presently believes that, modifications to existing software and conversions to new software and hardware where necessary have mitigated the Year 2000 Problem without causing a material adverse impact on the operations of the Company. At this time, the Company believes most of its hardware and software systems to be year 2000 compliant, tested and operational. However, if such modifications and conversions were not made or completed accurately, the Year 2000 Problem could have an adverse impact on the operations of the Company.

Despite its best efforts to ensure year 2000 compliance, it is possible that one or more of the Company's internal or external systems may fail to operate. In the event that system failures occur related to the Year 2000 Problem, the Company has revised contingency plans, which involve, among other actions, utilization of

an alternate service provider or alternate products available through the current vendor. The Company is currently revising its contingency plan to specifically address other potential business continuance issues related to the Year 2000 Problem such as general utility failures. The revised contingency plan is expected to be approved by the Company's Board of Directors prior to October 31, 1999.

The Company has reviewed its customer base to determine whether they pose significant year 2000 risks. A portion of the Company's customer base is comprised of individuals who utilize the Company's services for personal, household or consumer uses. Individually, such customers are not likely to pose significant year 2000 risks directly. The remaining portion of the Company's customer base are landlords who manage apartment buildings throughout the Company's principal lending area. The Company has maintained formal communications with landlords who possess significant outstanding borrowings in order to determine the extent to which the Company is vulnerable to failure, by these landlords, to remediate their own Year 2000 Problem. The Company has been monitoring the progress of these borrowers with their year 2000 compliance status and is comfortable that many of its large borrowers are addressing the Year 2000 Problem. Should a significant number of borrowers encounter failures related to the year 2000, such failures could result in a material adverse impact upon the Company's earnings. The Company will continue to monitor the status of year 2000 Compliance amongst these borrowers in order to ensure that any adverse impact which may occur from potential year 2000 failures is minimized. It is not possible at this time to gauge the indirect risks which could be faced if employers, or other business entities from which these significant borrowers derive a substantial portion of their cash flows, encounter unresolved Year 2000 issues.

Additionally, public concerns over the Year 2000 Problem could adversely impact the Company's deposit flows near the end of 1999. Although the Company has made every effort to inform its deposit customers of the efforts taken in order to ensure that its deposit computer systems will not be adversely effected by the Year 2000 Problem, there still exists a likelihood that some customers will remove their deposit funds as a precautionary measure. While the Company believes that deposit outflows related solely to the Year 2000 Problem will likely be both minimal and short-term in nature, it has planned for potential alternative funding sources in the event that such deposit outflows occur.

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

#### Impact of Recent Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133" ("SFAS 137"). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133, an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. Under SFAS 137, adoption of SFAS 133 is required for all fiscal quarters or fiscal years beginning after June 15, 2000. Adoption of SFAS 133 is not expected to have an impact on the Company's consolidated financial condition or results of operations.

In October 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage Securities Retained after the Securitization of Mortgage

Loans Held for Sale by  
a Mortgage Banking Enterprise" ("SFAS 134"). SFAS 134 requires that an entity  
engaged in mortgage banking activities classify the retained mortgage-backed  
security or other interest, which resulted from the securitization of a  
mortgage loan held for sale based upon its ability and intent to sell or hold  
these investments. The Company adopted SFAS 134 effective July 1, 1999.  
Adoption of SFAS 134 did not have a significant impact on the Company's  
consolidated financial condition or results of operations.

Market for the Company's Common Stock

and Related Stockholder Matters

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

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

| Quarter Ended  | Fiscal Year End June 30, 1999 |                  |                   | Fiscal Year End June 30, 1998 |                  |                 |
|----------------|-------------------------------|------------------|-------------------|-------------------------------|------------------|-----------------|
|                | Dividends Declared            | High Sales Price | Low Closing Price | Dividends Declared            | High Sales Price | Low Sales Price |
| September 30th | \$0.10                        | \$28-1/2         | \$15-1/4          | \$-                           | \$20-1/2         | \$18-3/8        |
| December 31st  | 0.12                          | 27-7/16          | 14-3/4            | 0.06                          | 25-3/4           | 18-3/8          |
| March 31st     | 0.14                          | 25-3/8           | 19-3/4            | 0.08                          | 25-1/4           | 18-3/4          |
| June 30th      | 0.15                          | 23-7/8           | 20                | 0.09                          | 29-1/2           | 24-3/8          |

On June 30, 1999, the last trading date in the fiscal year, the Company's stock closed at \$231/4. At September 20, 1999 the Company had approximately 940 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. There were 12,775,588 shares of common stock outstanding at June 30, 1999.

As the principal asset of the Company, the Bank could be called upon to provide the principal source of funds for payment of dividends by the Company. The Bank will not be permitted to pay dividends on its capital stock if its stockholders' equity would be reduced below applicable regulatory requirements or the amount required for the liquidation account established during the Bank's conversion. See Note 2 to the Consolidated Financial Statements of the Company for a further discussion of the liquidation account. The OTS capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements, require approval for dividend payments in any year to the greater of (i) 100% of net retained income for the current year-to-date period plus the two previous calendar years. In addition, capital distributions from the Bank to the Company, if in excess of established limits, could result in recapture of the Bank's New York State and City bad debt reserves.

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

Research Reports

As of the date of this report, the following investment firms have issued research reports on the Company:

Advest, Inc.; Friedman, Billings, Ramsey & Co., Inc.;  
Keefe Bruyette & Woods, Inc.; McConnell Budd & Downes;  
Merrill Lynch & Co.; Ryan, Beck & Co.;  
Sandler O'Neill & Partners, L.P.

Copies of these research reports are available upon request to:

Dime Community Bancshares, Inc.  
Investor Relations,  
209 Havemeyer Street,  
Brooklyn, NY 11211

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of condition of Dime Community Bancshares, Inc. (formerly Dime Community Bancorp, Inc.) and Subsidiaries (the "Company") as of June 30, 1999 and 1998, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dime Community Bancshares, Inc. and Subsidiaries as of June 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
August 12, 1999

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(Dollars in thousands except share amounts)

| JUNE 30,  | 1999               | 1998               |
|---|--------------------|--------------------|
| <b>ASSETS:</b>  |                    |                    |
| Cash and due from banks   | \$17,801           | \$16,266           |
| Investment securities held-to-maturity (estimated market value of \$31,768 and \$78,593 at June 30, 1999 and 1998, respectively) (Note 4)   | 31,698             | 78,091             |
| Investment securities available for sale (Note 4):  |                    |                    |
| Bonds and notes (amortized cost of \$133,523 and \$72,715 at June 30, 1999 and 1998, respectively)  | 131,490            | 73,031             |
| Marketable equity securities (historical cost of \$14,162 and \$10,425 at June 30, 1999 and 1998, respectively)   | 15,142             | 12,675             |
| Mortgage-backed securities held-to-maturity (estimated market value of \$23,192 and \$47,443 at June 30, 1999 and 1998, respectively) (Note 5)  | 22,820             | 46,714             |
| Mortgage backed securities available for sale (amortized cost of \$507,486 and \$361,372 at June 30, 1999 and 1998, respectively) (Note 5)  | 502,847            | 363,875            |
| Federal funds sold  | 11,011             | 9,329              |
| Loans (Note 6):   |                    |                    |
| Real estate   | 1,375,510          | 943,864            |
| Other loans   | 7,831              | 5,716              |
| Less allowance for loan losses (Note 7)   | (15,081)           | (12,075)           |
| Total loans, net  | 1,368,260          | 937,505            |
| Loans held for sale   | -                  | 541                |
| Premises and fixed assets (Note 9)  | 14,975             | 10,742             |
| Federal Home Loan Bank of New York capital stock (Note 10)  | 28,281             | 10,754             |
| Other real estate owned, net (Note 7)   | 866                | 825                |
| Goodwill (Note 3)   | 64,871             | 24,028             |
| Receivable for securities sold  | -                  | 18,008             |
| Other assets (Notes 14 and 15)  | 37,553             | 21,542             |
| <b>TOTAL ASSETS</b>   | <b>\$2,247,615</b> | <b>\$1,623,926</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                    |                    |
| <b>LIABILITIES:</b>   |                    |                    |
| Due to depositors (Note 11)   | \$1,247,061        | \$1,038,342        |
| Escrow and other deposits   | 36,577             | 15,395             |
| Securities sold under agreements to repurchase (Note 12)  | 481,660            | 256,601            |
| Federal Home Loan Bank of New York advances (Note 13)   | 250,000            | 103,505            |
| Payable for securities purchased  | -                  | 12,062             |
| Other liabilities (Note 15)   | 20,622             | 11,672             |
| <b>TOTAL LIABILITIES</b>  | <b>2,035,920</b>   | <b>1,437,577</b>   |
| <b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>  |                    |                    |
| <b>Stockholders' Equity</b>   |                    |                    |
| Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at June 30, 1999 and June 30, 1998)  | -                  | -                  |
| Common stock (\$0.01 par, 45,000,000 shares authorized, 14,583,400 shares and 14,551,100 shares issued at June 30, 1999 and 1998, respectively, and 12,775,588 and 12,176,513 shares outstanding at June 30, 1999 and 1998, respectively) | 145                | 145                |
| Additional paid-in capital  | 148,865            | 143,322            |
| Retained earnings (Note 2)  | 119,100            | 105,158            |
| Accumulated other comprehensive income (loss), net of deferred taxes  | (3,323)            | 2,763              |
| Unallocated common stock of Employee Stock Ownership Plan (Note 15)   | (8,016)            | (9,175)            |
| Unearned common stock of Recognition and Retention Plan (Note 15)   | (6,040)            | (6,963)            |
| Common stock held by Benefit Maintenance Plan (Note 15)   | (831)              | (431)              |
| Treasury stock, at cost (1,807,812 shares and 2,374,587 shares at June 30, 1999 and 1998, respectively) (Note 18)   | (38,205)           | (48,470)           |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | <b>211,695</b>     | <b>186,349</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$2,247,615</b> | <b>\$1,623,926</b> |

See Notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(Dollars in thousands except share amounts)

| FOR THE YEARS ENDED JUNE 30,                                     | 1999            | 1998            | 1997            |
|--|-----------------|-----------------|-----------------|
| <b>INTEREST INCOME:</b>  |                 |                 |                 |
| Loans secured by real estate                                     | \$91,569        | \$69,824        | \$54,965        |
| Other loans  | 558             | 487             | 460             |
| Investment securities  | 10,654          | 10,798          | 13,654          |
| Mortgage-backed securities                                       | 29,683          | 23,463          | 17,704          |
| Federal funds sold   | 1,448           | 1,892           | 2,247           |
| <b>TOTAL INTEREST INCOME</b>                                     | <b>133,912</b>  | <b>106,464</b>  | <b>89,030</b>   |
| <b>INTEREST EXPENSE:</b>   |                 |                 |                 |
| Deposits and escrow  | 44,417          | 43,027          | 38,544          |
| Borrowed funds   | 32,802          | 13,908          | 3,020           |
| <b>TOTAL INTEREST EXPENSE</b>                                    | <b>77,219</b>   | <b>56,935</b>   | <b>41,564</b>   |
| <b>NET INTEREST INCOME</b>                                       | <b>56,693</b>   | <b>49,529</b>   | <b>47,466</b>   |
| Provision for loan losses  | 240             | 1,635           | 4,200           |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>       | <b>56,453</b>   | <b>47,894</b>   | <b>43,266</b>   |
| <b>NON-INTEREST INCOME:</b>                                      |                 |                 |                 |
| Service charges and other fees                                   | 2,823           | 2,352           | 1,934           |
| Net gain on sales and redemptions of securities and other assets | 804             | 2,873           | 859             |
| Net gain on sales of loans                                       | 66              | 108             | 125             |
| Other  | 4,223           | 1,674           | 1,215           |
| <b>TOTAL NON-INTEREST INCOME</b>                                 | <b>7,916</b>    | <b>7,007</b>    | <b>4,133</b>    |
| <b>NON-INTEREST EXPENSE:</b>                                     |                 |                 |                 |
| Salaries and employee benefits                                   | 12,365          | 12,748          | 9,794           |
| ESOP and RRP compensation expense                                | 4,517           | 5,378           | 3,058           |
| Occupancy and equipment  | 2,983           | 3,011           | 3,084           |
| SAIF special assessment  | -               | -               | 2,032           |
| Federal deposit insurance premiums                               | 404             | 350             | 423             |
| Data processing costs  | 1,316           | 1,169           | 1,000           |
| Provision for losses on other real estate owned                  | 16              | 114             | 450             |
| Goodwill amortization  | 3,382           | 2,405           | 2,405           |
| Other  | 5,510           | 4,762           | 5,246           |
| <b>TOTAL NON-INTEREST EXPENSE</b>                                | <b>30,493</b>   | <b>29,937</b>   | <b>27,492</b>   |
| <b>INCOME BEFORE INCOME TAXES</b>                                | <b>33,876</b>   | <b>24,964</b>   | <b>19,907</b>   |
| Income tax expense   | 14,015          | 11,866          | 7,591           |
| <b>NET INCOME</b>  | <b>\$19,861</b> | <b>\$13,098</b> | <b>\$12,316</b> |
| <b>EARNINGS PER SHARE:</b>                                       |                 |                 |                 |
| BASIC  | \$1.81          | \$1.19          | \$0.95          |
| DILUTED  | \$1.68          | \$1.09          | \$0.95          |

STATEMENTS OF COMPREHENSIVE INCOME:

|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| Net Income   | \$19,861        | \$13,098        | \$12,316        |
| Change in unrealized (loss) gain on securities available for sale, net | (6,086)         | 732             | 1,720           |
| Reclassification adjustment for securities sold, net of tax            | (314)           | (512)           | (415)           |
| <b>COMPREHENSIVE INCOME</b>  | <b>\$13,461</b> | <b>\$13,318</b> | <b>\$13,621</b> |

See Notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(In Thousands Except Per Share Data)

| FOR THE YEARS ENDED JUNE 30,   | 1999     | 1998     | 1997     |
|--|----------|----------|----------|
| <b>COMMON STOCK (PAR VALUE \$0.01):</b>  |          |          |          |
| Balance at beginning of period   | \$145    | \$145    | \$145    |
| Issuance of common stock in initial public offering  | -        | -        | -        |
| Balance at end of period   | 145      | 145      | 145      |
| <b>ADDITIONAL PAID-IN CAPITAL:</b>   |          |          |          |
| Balance at beginning of period   | 143,322  | 141,716  | 141,240  |
| Issuance of common stock   | 3,327    | -        | -        |
| Cost of issuance of common stock   | -        | -        | (190)    |
| Stock options exercised  | 468      | 52       | -        |
| Tax benefit of RRP shares  | 312      | 33       | -        |
| Amortization of excess fair value over cost - ESOP stock   | 1,436    | 1,521    | 666      |
| Balance at end of period   | 148,865  | 143,322  | 141,716  |
| <b>RETAINED EARNINGS:</b>  |          |          |          |
| Balance at beginning of period   | 105,158  | 94,695   | 82,916   |
| Net income for the period  | 19,861   | 13,098   | 12,316   |
| Cash dividends declared and paid   | (5,919)  | (2,635)  | (537)    |
| Balance at end of period   | 119,100  | 105,158  | 94,695   |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET:</b>   |          |          |          |
| Balance at beginning of period   | 2,763    | 2,031    | 311      |
| Change in unrealized gain (loss) on securities available for sale during the period, net of deferred taxes | (6,086)  | 732      | 1,720    |
| Balance at end of period   | (3,323)  | 2,763    | 2,031    |
| <b>EMPLOYEE STOCK OWNERSHIP PLAN:</b>  |          |          |          |
| Balance at beginning of period   | (9,175)  | (10,324) | (11,541) |
| Amortization of earned portion of ESOP stock   | 1,159    | 1,149    | 1,217    |
| Balance at end of period   | (8,016)  | (9,175)  | (10,324) |
| <b>RECOGNITION AND RETENTION PLAN:</b>   |          |          |          |
| Balance at beginning of period   | (6,963)  | (9,671)  | -        |
| Common stock acquired by RRP   | (999)    | -        | (10,846) |
| Amortization of earned portion of RRP stock  | 1,922    | 2,708    | 1,175    |
| Balance at end of period   | (6,040)  | (6,963)  | (9,671)  |
| <b>TREASURY STOCK:</b>   |          |          |          |
| Balance at beginning of period   | (48,470) | (27,703) | -        |
| Issuance of stock in acquisition   | 31,463   | -        | -        |
| Purchase of treasury shares, at cost   | (21,198) | (20,767) | (27,703) |
| Balance at end of period   | (38,205) | (48,470) | (27,703) |
| <b>COMMON STOCK HELD BY BENEFIT MAINTENANCE PLAN:</b>  |          |          |          |
| Balance at beginning of period   | (431)    | -        | -        |
| Common stock acquired  | (400)    | (431)    | -        |
| Balance at end of period   | (831)    | (431)    | -        |

See Notes to consolidated financial statements.

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

| FOR THE YEARS ENDED JUNE 30,  | 1999             | 1998             | 1997            |
|---|------------------|------------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                  |                  |                 |
| Net Income  | \$19,861         | \$13,098         | \$12,316        |
| Adjustments to reconcile net income to net cash provided by operating activities  |                  |                  |                 |
| Net gain on investment and mortgage backed securities called                      | (113)            | (9)              | -               |
| Net gain on investment and mortgage backed securities sold                        | (555)            | (1,123)          | (768)           |
| Net gain on sale of loans held for sale   | (66)             | (108)            | (125)           |
| Net gain on sale of other assets  | -                | (1,973)          | (19)            |
| Net depreciation and amortization (accretion)                                     | 1,660            | 847              | (958)           |
| ESOP and RRP compensation expense   | 4,517            | 5,378            | 3,058           |
| Provision for loan losses   | 240              | 1,635            | 4,200           |
| Goodwill amortization   | 3,382            | 2,405            | 2,405           |
| Decrease (increase) in loans held for sale  | 607              | (171)            | 322             |
| Increase in other assets and other real estate owned                              | (3,005)          | (3,476)          | (2,401)         |
| Decrease (increase) in receivable for securities sold                             | 18,008           | (18,008)         | -               |
| (Decrease) increase in payable for securities purchased                           | (12,062)         | 12,062           | (33,994)        |
| Increase in other liabilities   | 6,617            | 5,447            | 1,023           |
| <b>Net cash provided by (used in) Operating Activities</b>                        | <b>39,091</b>    | <b>16,004</b>    | <b>(14,941)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                  |                  |                 |
| Net decrease in federal funds sold  | 37,618           | 9,573            | 96,228          |
| Proceeds from maturities of investment securities held to maturity                | 4,830            | 10,250           | 19,075          |
| Proceeds from maturities of investment securities available for sale              | 85,979           | 63,145           | 359,710         |
| Proceeds from calls of investment securities held to maturity                     | 41,660           | 42,500           | 5,000           |
| Proceeds from calls of investment securities available for sale                   | 30,268           | 11,500           | 26,011          |
| Proceeds from sales of investment securities available for sale                   | 9,373            | 13,437           | 27,253          |
| Proceeds from sales of mortgage backed securities held to maturity                | -                | 5,317            | -               |
| Proceeds from sales and calls of mortgage backed securities available for sale    | -                | 92,776           | 16,713          |
| Purchases of investment securities held to maturity                               | -                | (29,082)         | (82,010)        |
| Purchases of investment securities available for sale                             | (146,786)        | (112,930)        | (126,741)       |
| Purchases of mortgage backed securities held to maturity                          | -                | -                | (38,842)        |
| Purchases of mortgage backed securities available for sale                        | (263,644)        | (290,576)        | (115,265)       |
| Principal collected on mortgage backed securities held to maturity                | 23,822           | 26,216           | 12,820          |
| Principal collected on mortgage backed securities available for sale              | 155,612          | 64,470           | 28,201          |
| Net increase in loans   | (241,114)        | (199,545)        | (168,381)       |
| Cash disbursed in acquisitions, net of cash acquired                              | (33,644)         | -                | (400)           |
| (Purchases) sales of fixed assets, net  | (819)            | 4,262            | (652)           |
| Purchase of Federal Home Loan Bank stock  | (15,417)         | (2,432)          | (718)           |
| <b>Net cash (used in) provided by Investing Activities</b>                        | <b>(312,262)</b> | <b>(291,119)</b> | <b>58,002</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                  |                  |                 |
| Net (decrease) increase in due to depositors                                      | (21,978)         | 74,947           | 13,281          |
| Net increase (decrease) in escrow and other deposits                              | 19,893           | 421              | (126,758)       |
| Proceeds from Federal Home Loan Bank of New York Advances                         | 146,495          | 40,295           | 47,500          |
| Increase in securities sold under agreements to repurchase                        | 157,906          | 180,268          | 64,335          |
| Common stock issued for exercise of Stock Options and tax benefits of RRP         | 906              | 85               | -               |
| Cash disbursed for expenses related to issuance of common stock                   | -                | -                | (190)           |
| Purchase of common stock by the Recognition and Retention Plan                    | (999)            | -                | (10,846)        |
| Purchase of common stock by Benefit Maintenance Plan                              | (400)            | (431)            | -               |
| Cash dividends paid to stockholders   | (5,919)          | (2,635)          | (537)           |
| Purchase of treasury stock  | (21,198)         | (20,767)         | (27,703)        |
| <b>Net cash provided by (used in) Financing Activities</b>                        | <b>274,706</b>   | <b>272,183</b>   | <b>(40,918)</b> |
| <b>INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>                             | <b>1,535</b>     | <b>(2,932)</b>   | <b>2,143</b>    |
| CASH AND DUE FROM BANKS, BEGINNING OF PERIOD                                      | 16,266           | 19,198           | 17,055          |
| <b>CASH AND DUE FROM BANKS, END OF PERIOD</b>                                     | <b>\$17,801</b>  | <b>\$16,266</b>  | <b>\$19,198</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                          |                  |                  |                 |
| Cash paid for income taxes  | \$11,462         | \$10,984         | \$8,486         |
| Cash paid for interest  | \$74,939         | \$54,941         | \$41,270        |
| Transfer of loans to Other real estate owned                                      | \$342            | \$779            | \$1,407         |
| Change in unrealized gain on available for sale securities, net of deferred taxes | \$ (6,086)       | \$732            | \$1,720         |

On January 21, 1999, the Bank acquired all of the outstanding common stock of Financial Bancorp, Inc. in exchange for a combination of cash and common stock of Dime Community Bancshares, Inc. In connection with this acquisition, the following assets were acquired and liabilities assumed:

|   |                  |
|---|------------------|
| Fair Value of Investments, Loans and Other Assets Acquired, net | \$369,398        |
| Dime Community Bancshares, Inc. Common Stock Issued             | (34,664)         |
| Cash paid   | (33,251)         |
| <b>Deposits and Other Liabilities Assumed</b>                   | <b>\$301,483</b> |

See Notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - Dime Community Bancshares, Inc. (formerly Dime Community Bancorp, Inc.) (the "Company" OR "DCB"), is a Delaware corporation organized by the Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Conversion on June 26, 1996. Presently, the significant assets of the Company are the capital stock of the Bank, the Company's loan to the Bank's ESOP, investments retained by the Company, and an investment real estate property owned through the Company's wholly-owned subsidiary 842 Manhattan Avenue Corporation. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - The accounting and reporting policies of the Company conform to generally accepted accounting principles. The following is a description of the significant policies:

PRINCIPLES OF CONSOLIDATION - The accompanying 1999, 1998 and 1997 consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, the Bank and 842 Manhattan Avenue Corp. All financial statements presented also include the accounts of the Bank's eight wholly-owned subsidiaries, Havemeyer Equities Corp. ("HEC"), Boulevard Funding Corp. ("BFC"), Havemeyer Brokerage Corp. ("HBC"), Havemeyer Investments Inc. ("HII") and DSBW Residential Preferred Funding Corp. ("DRPFC"), FS Agency Corp. ("FSA"), Finfed Funding Corp. ("FFC") and Finfed Development Corp. ("FDC"). 842 Manhattan Avenue Corp. owns and manages a real estate property which housed a former branch premise of Financial Bancorp, Inc. ("FIBC"), which the Company acquired on January 21, 1999 in connection with its acquisition of FIBC. HEC's primary function is the management of an investment securities portfolio. HII was established during the fiscal year ended June 30, 1998, and its primary function is the sale of insurance and annuity products. DRPFC, established in March, 1998, is intended to qualify as a real estate investment trust for federal tax purposes. BFC was established in order to invest in real estate joint ventures and other real estate assets. BFC has no investments in real estate at June 30, 1999, and is currently inactive. HEC was also originally established in order to invest in real estate joint ventures and other real estate assets. In June, 1998, HEC assumed direct ownership of DSBW Preferred Funding Corp. ("DPFC"). DPFC, established as a direct subsidiary of the Bank in March, 1998, is intended to qualify as real estate investment trust for federal tax purposes. HEC has no other investments as of June 30, 1999. FSA, FFC, and FDC are all inactive as of June 30, 1999. All significant intercompany accounts and transactions have been eliminated in consolidation.

INVESTMENT SECURITIES AND MORTGAGE-BACKED SECURITIES - Purchases and sales of investments and mortgage-backed securities are recorded on trade date. Gains and losses on sales of investment and mortgage-backed securities are recorded on the specific identification basis.

SFAS No. 115, "Accounting for Investments in Debt and Equity Securities" ("SFAS 115") requires that debt and equity securities that have readily determinable fair values be carried at fair value unless they are held to maturity. Debt securities are classified as held to maturity and carried at amortized cost only if the reporting entity has a positive intent and ability to hold these securities to maturity. If not classified as held to maturity, such securities are classified as securities available for sale or as trading securities. Unrealized holding gains or losses on securities available for sale are excluded from net income and reported net of income taxes as other comprehensive income. At June 30, 1999 and 1998, all equity securities are classified as available for sale.

LOANS HELD FOR SALE - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value.

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

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

LOAN INCOME RECOGNITION - Interest income on loans is recorded under the level yield method. Under this method, discount accretion and premium amortization are included in interest income.

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

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

OTHER REAL ESTATE OWNED, NET - Properties acquired as a result of foreclosure on a mortgage loan are classified as other real estate owned and are recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses and any disposition expenses charged to the valuation allowance for possible losses on other real estate owned. Subsequent write downs are charged directly to operating expenses.

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

|                         |                         |
|-------------------------|-------------------------|
| Buildings               | 2.22% to 2.50% per year |
| Furniture and equipment | 10% per year            |
| Computer equipment      | 33.33% per year         |

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

EARNINGS PER SHARE ("EPS")- Earnings per share are calculated and reported in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128, which replaced APB Opinion No. 15 (issued by the American Institute of Certified Public Accountants in 1971), as the

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

The following is a reconciliation of the numerator and denominator of basic earnings per share for the years ended June 30, 1999, 1998 and 1997 (in thousands).

| Fiscal Year Ended June 30,   | 1999     | 1998     | 1997     |
|--|----------|----------|----------|
| -----  |          |          |          |
| NUMERATOR:   |          |          |          |
| Net Income   | \$19,861 | \$13,098 | \$12,316 |
| -----  |          |          |          |
| DENOMINATOR:   |          |          |          |
| Average shares outstanding utilized in the calculation of basic earnings per share   | 10,951   | 11,001   | 12,898   |
| -----  |          |          |          |
| Unvested shares of Recognition and Retention Plan                                    | 372      | 517      | 36       |
| Common stock equivalents due to the dilutive effect of stock options                 | 528      | 523      | 47       |
| -----  |          |          |          |
| Average shares outstanding utilized in the calculation of diluted earnings per share | 11,851   | 12,041   | 12,981   |
| -----  |          |          |          |

Common stock equivalents due to the dilutive effect of stock options are calculated based upon the average market value of the Company's common stock during the fiscal years ended June 30, 1999, 1998 and 1997.

GOODWILL - Goodwill generated from the Company's acquisition of Conestoga Bancorp, Inc. on June 26, 1996 is recorded on a straight line basis over a twelve year period. Goodwill generated from the Company's acquisition of Financial Bancorp, Inc. on January 21, 1999 is recorded on a straight line basis over a twenty year period. In March 1995, the FASB issued SFAS No. 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of' which requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment and reported at the lower of carrying amount or fair value, less cost to sell, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No such event or change in circumstance has occurred which has caused the Company to review its recorded level of goodwill associated with assets acquired from either Conestoga Bancorp, Inc. or Financial Bancorp, Inc.

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

CASH FLOWS - For purposes of the Consolidated Statement of Cash Flows, the Company considers cash and due from banks to be cash equivalents.

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

The Company provides additional postretirement benefits to employees, which are recorded in accordance with Statement of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions' ("SFAS 106"). This Statement requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The Company adopted SFAS 106 on July 1, 1995. As permitted by SFAS 106, the Company elected to record the full cumulative liability at the time of adoption.

The Company maintains an Employee Stock Ownership Plan for employees ("ESOP"). Compensation expense related to the ESOP is recorded in accordance with SOP 93-6, which requires the compensation expense to be recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the fair market value of the stock during

the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital.

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

FINANCIAL INSTRUMENTS - Statement of Financial Accounting Standards No. 119 "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments" ("SFAS 119") requires disclosures about financial instruments, which are defined as futures, forwards, swap and option contracts and other financial instruments with similar characteristics. On balance sheet receivables and payables are excluded from this definition. The Company did not hold any derivative financial instruments as defined by SFAS 119 at June 30, 1999, 1998 or 1997.

COMPREHENSIVE INCOME - Comprehensive income for the fiscal years ended June 30, 1999, 1998 and 1997 are determined in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Comprehensive income includes revenues, expenses, and gains and losses which, under current GAAP, bypass net income and are typically reported as a component of stockholders' equity.

DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION - In September 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information ("SFAS 131)". This statement is effective for the Company's 1999 Consolidated Financial Statements.

SFAS 131 establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in subsequent interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas, and major customers. The statement requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The statement also requires that public enterprises report a measure of segment profit or loss, certain specific revenue and expense items and segment assets. It also requires that information be reported about revenues derived from the enterprises' products or services, or about the countries in which the enterprises earn revenues and holds assets, and about major customers, regardless of whether that information is used in making operating decisions.

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, commercial lending is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. This situation is also similar for consumer and residential mortgage lending. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

General information required by SFAS 131 is disclosed in the Consolidated Financial Statements and accompanying notes. Additionally, for the years ended June 30, 1999, 1998, and 1997, there is no customer that accounted for more than 10% of the Company's revenue.

RECENTLY ISSUED ACCOUNTING STANDARDS - In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended in June, 1999 by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." ("SFAS 137"). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133 an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. Under SFAS 137, adoption of SFAS 133 is required for all fiscal quarters or fiscal years beginning after June 15, 2000. Adoption of SFAS 133 is not expected to have an impact on the Company's consolidated financial condition or results of operations.

In October, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("SFAS 134"). SFAS 134 requires that an entity engaged in mortgage banking activities classify the retained mortgage-backed security or other interest, which resulted from the securitization of a mortgage loan held for sale based upon its ability and intent to sell or hold these investments. The Company adopted SFAS 134 effective July 1, 1999. The adoption of SFAS 134 did not have a significant impact on the Company's consolidated financial condition or results of operations.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in the accompanying financial statements where estimates are significant include the allowance for loans losses, the carrying value of other real estate, purchase accounting adjustments related to the acquisitions of Conestoga and FIBC and the fair value of financial instruments.

RECLASSIFICATION - Certain June 30, 1998, and 1997 amounts have been reclassified to conform to the June 30, 1999 presentation.

## 2. CONVERSION TO STOCK FORM OF OWNERSHIP

On November 2, 1995, the Board of Directors of the Bank adopted a Plan of Conversion to convert from mutual to stock form. As part of the conversion, the Company was incorporated under Delaware law for the purpose of acquiring and holding all of the outstanding stock of the Bank. On June 26, 1996, the Company completed its initial public offering and issued 14,547,500 shares of common stock (par value \$.01 per

share) at a price of \$10.00 per share, resulting in net proceeds of approximately \$141,368 prior to the acquisition of stock by the Employee Stock Ownership Plan. Costs related to the conversion were charged against the Company's proceeds from the sale of the stock.

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

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

The Company acquired FIBC on January 21, 1999. The liquidation account previously established by FIBC's subsidiary, Financial Federal Savings Bank during its initial public offering was assumed by the Company in the acquisition.

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

### 3. ACQUISITION OF FINANCIAL BANCORP, INC.

On January 21, 1999, the Company completed the acquisition of FIBC, the holding company for Financial Federal Savings Bank, F.S.B. Pursuant to the Merger Agreement, each FIBC stockholder who submitted a valid election for cash received \$39.14 in cash and each FIBC stockholder who submitted a valid election for DCB common stock received 1.8282 shares of DCB common stock, plus cash in lieu of any fractional shares, in exchange for each of their shares of FIBC common stock. The remaining shares of FIBC common stock for which a valid election was not submitted were converted into, pursuant to the Merger Agreement, a combination of DCB stock and cash such that each such shareholder received \$31.257 in cash and 0.3682 shares of DCB common stock for each share of FIBC common stock, except that all stockholders of FIBC who owned less than 50 shares of FIBC common stock received cash. Upon consummation of the acquisition, shares of FIBC common stock that were owned by FIBC as treasury, that were unallocated shares held in FIBC's Recognition and Retention Plan or that were held directly by DCB other than in a fiduciary capacity or in satisfaction of a debt previously contracted were canceled and retired. No payment was made with respect to such shares of FIBC common stock.

Holdings of stock options which had been granted by FIBC to purchase 60,133 shares of FIBC common stock were paid an amount in cash computed by multiplying (i) any positive difference obtained by subtracting the per share exercise price applicable to such option from \$39.14, by (ii) the number of shares of FIBC common stock subject to such option. These payments totaled approximately \$1,545. In addition, holders of stock options which had been granted by FIBC to purchase 96,975 shares of FIBC common stock were converted into options to purchase 177,286 shares DCB common stock (the "Converted Options"). The expiration dates on all Converted Options remained unchanged from initial grant by FIBC. Based upon the closing price of DCB common stock on January 21, 1999, the total consideration paid to FIBC stockholders, in the form of cash or DCB stock, was \$66,750.

The Bank received approximately \$190,000, \$43,800, and \$37,800 of net loans, investment securities, and mortgage-backed securities, respectively, at fair value and assumed approximately \$230,700 of customer deposit liabilities. A core deposit premium of \$4,950 was recorded related to the deposits assumed and is being amortized on a straight line basis over six years.

The acquisition was recorded using the purchase method of accounting; accordingly, the purchase price was allocated to the respective assets acquired and liabilities assumed based on their estimated fair values. Goodwill generated in the transaction of \$44,200 is being amortized on a straight line basis over 20 years for financial reporting purposes.

The information below presents, on an unaudited pro forma basis, the consolidated statement of operations for the Company for the years ended June 30, 1999 and 1998. All information below is adjusted for the acquisition of FIBC, as if the transaction had been consummated on July 1, 1997.

|  | Actual<br>Consolidated<br>for the Six<br>Months Ended<br>June 30, 1999 | Pro-Forma<br>for the Six<br>Months Ended<br>December 31, 1998 | Pro Forma<br>for the<br>Year Ended<br>June 30, 1999 | Pro Forma<br>for the<br>Year Ended<br>June 30, 1999 |
|--|--|---|---|---|
| Net interest income                    | \$31,607   | \$29,805  | \$61,412  | \$58,682  |
| Provision for possible loan losses     | 120  | 292   | 412   | 2,068   |
| Non-interest income                    | 4,255  | 4,137   | 8,392   | 8,033   |
| Non-interest expense:                  |  |   |   |   |
| Goodwill and core deposit amortization | 2,543  | 1,804   | 4,347   | 3,636   |
| Other non-interest expense             | 14,184   | 15,404  | 29,588  | 33,219  |
| Total non-interest expense             | 16,727   | 17,208  | 33,935  | 36,855  |
| Income before income taxes             | \$19,015   | \$16,442  | \$35,457  | \$27,792  |

Amounts exclude the operations of FIBC during the period January 1, 1999 through January 21, 1999, which are not material to the total combined operations for the year ended June 30, 1999.

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

The amortized cost, gross unrealized gains and losses and estimated market value of investment securities held to maturity at June 30, 1999 were as follows:

|   | Investment Securities Held to Maturity |                           |                            |                           |
|---|--|---------------------------|----------------------------|---------------------------|
|   | Amortized<br>Cost                      | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | Estimated Market<br>Value |
| DEBT SECURITIES:  |  |                           |                            |                           |
| U.S. Treasury securities and obligations<br>of U.S. Government corporations and<br>agencies | \$22,401                               | \$34                      | \$ (35)                    | \$22,400                  |
| Obligations of state and political<br>subdivisions  | 1,819                                  | 30                        | -                          | 1,849                     |
| Corporate securities  | 7,478                                  | 41                        | -                          | 7,519                     |
|   | \$31,698                               | \$105                     | \$ (35)                    | \$31,768                  |

The amortized cost and estimated market value of investment securities held to maturity at June 30, 1999, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Amortized<br>Cost | Estimated Market<br>Value |
|--|-------------------|---------------------------|
| Due in one year or less                | \$4,049           | \$4,079                   |
| Due after one year through five years  | 26,430            | 26,460                    |
| Due after five years through ten years | 1,219             | 1,229                     |
|  | \$31,698          | \$31,768                  |

During the year ended June 30, 1999, proceeds from the calls of investment securities held to maturity totaled \$41,660. A gain of \$86 resulted on these calls. There were no sales of investment securities held to maturity during the year ended June 30, 1999.

The amortized/historical cost, gross unrealized gains and losses and estimated market value of investment securities available for sale at June 30, 1999 were as follows:

Investment Securities Available for Sale

|   | Amortized/<br>Historical Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | Estimated Market<br>Value |
|---|-------------------------------|---------------------------|----------------------------|---------------------------|
| <b>DEBT SECURITIES:</b>   |                               |                           |                            |                           |
| U.S. Treasury securities and obligations<br>of U.S. Government corporations and<br>agencies | \$65,074                      | \$439                     | \$(1,360)                  | \$64,153                  |
| Corporate securities  | 63,402                        | 141                       | (1,167)                    | 62,376                    |
| Public utilities  | 5,047                         | -                         | (86)                       | 4,961                     |
|   | 133,523                       | 580                       | (2,613)                    | 131,490                   |
| <b>EQUITY SECURITIES:</b>   | 14,162                        | 1,614                     | (634)                      | 15,142                    |
|   | \$147,685                     | \$2,194                   | \$(3,247)                  | \$146,632                 |

The amortized cost and estimated market value of investment securities available for sale at June 30, 1999, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                                       | Amortized<br>Cost | Estimated Market<br>Value |
|---------------------------------------|-------------------|---------------------------|
| Due in one year or less               | \$6,313           | \$6,746                   |
| Due after one year through five years | 127,210           | 124,744                   |
| Due in five years to ten years        | -                 | -                         |
|                                       | \$133,523         | \$131,490                 |

During the year ended June 30, 1999, proceeds from the sales and calls of investment securities available for sale totaled \$9,373 and \$30,268, respectively. Net gains of \$555 and \$27, respectively, resulted from the sales and calls.

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

Investment Securities Held to Maturity

|   | Amortized<br>Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | Estimated Market<br>Value |
|---|-------------------|---------------------------|----------------------------|---------------------------|
| <b>DEBT SECURITIES:</b>   |                   |                           |                            |                           |
| U.S. Treasury securities and obligations<br>of U.S. Government corporations and<br>agencies | \$64,448          | \$412                     | \$(49)                     | \$64,811                  |
| Obligations of state and political<br>subdivisions  | 1,899             | 43                        | -                          | 1,942                     |
| Corporate securities  | 11,494            | 96                        | -                          | 11,590                    |
| Public utilities  | 250               | -                         | -                          | 250                       |
|   | \$78,091          | \$551                     | \$(49)                     | \$78,593                  |

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

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

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

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

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

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities held to maturity at June 30, 1999 were as follows:

| Mortgage-Backed Securities Held to Maturity |                   |                           |                            |                           |
|---|-------------------|---------------------------|----------------------------|---------------------------|
|   | Amortized<br>Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | Estimated Market<br>Value |
| GNMA pass-through certificates              | \$5,772           | \$259                     | \$-                        | \$6,031                   |
| FHLMC pass-through certificates             | 9,140             | 68                        | -                          | 9,208                     |
| FNMA pass-through certificates              | 7,908             | 57                        | (12)                       | 7,953                     |
|   | \$22,820          | \$384                     | \$(12)                     | \$23,192                  |

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities available for sale at June 30, 1999 were as follows:

| Mortgage-Backed Securities Available for Sale |                   |                           |                            |                           |
|---|-------------------|---------------------------|----------------------------|---------------------------|
|   | Amortized<br>Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | Estimated Market<br>Value |
| Collateralized mortgage obligations           | \$348,938         | \$220                     | \$(4,904)                  | \$344,254                 |
| GNMA pass-through certificates                | 127,285           | 730                       | (709)                      | 127,306                   |
| FHLMC pass-through certificates               | 13,854            | 105                       | (74)                       | 13,885                    |
| FNMA pass-through certificates                | 17,409            | 127                       | (134)                      | 17,402                    |
|   | \$507,486         | \$1,182                   | \$(5,821)                  | \$502,847                 |

There were no sales or calls of mortgage-backed securities held to maturity or available for sale during the year ended June 30, 1999.

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

Mortgage-Backed Securities Held to Maturity

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

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

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

Mortgage-Backed Securities Available for Sale

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

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

6. LOANS

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

| At June 30,                             | 1999        | 1998      |
|---|-------------|-----------|
| One-to-four family                      | \$246,075   | \$125,163 |
| Multi-family and underlying cooperative | 1,000,859   | 717,638   |
| Nonresidential                          | 88,837      | 50,062    |
| F.H.A. and V. A. insured mortgage loans | 9,699       | 11,934    |
| Co-op loans                             | 32,893      | 42,553    |
|   | 1,378,363   | 947,350   |
| Net unearned fees                       | (2,853)     | (3,486)   |
|   | \$1,375,510 | \$943,864 |

The Bank originates both adjustable and fixed interest rate real estate loans. At June 30, 1999, the approximate composition of these loans was as follows:

| Fixed Rate                           |            | Variable Rate                        |            |
|--------------------------------------|------------|--------------------------------------|------------|
| Period to Maturity or Next Repricing | Book Value | Period to Maturity or Next Repricing | Book Value |
| 1 month-1 year                       | \$16,155   | 1 month-1 year                       | \$86,700   |
| 1 year-3 years                       | 4,624      | 1 year-3 years                       | 187,840    |
| 3 years-5 years                      | 18,865     | 3 years-5 years                      | 158,851    |
| 5 years-10 years                     | 300,135    | 5 years-10 years                     | 383,189    |
| Over 10 years                        | 220,041    | Over 10 years                        | 1,963      |
|                                      | \$559,820  |                                      | \$818,543  |

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

A concentration of credit risk exists within the Bank's loan portfolio, as the majority of real estate loans are collateralized by multi-family and underlying cooperative properties located in the New York City metropolitan area.

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

| At June 30,   | 1999    | 1998    |
|---|---------|---------|
| -----   | -----   | -----   |
| Student loans   | \$794   | \$677   |
| Passbook loans (secured by savings and time deposits) | 2,271   | 2,367   |
| Home improvement loans                                | 3,666   | 1,753   |
| Consumer installment and other loans                  | 1,100   | 919     |
| -----   | -----   | -----   |
|   | \$7,831 | \$5,716 |
| -----   | -----   | -----   |

Loans on which the accrual of interest has been discontinued were \$3,001 and \$884 at June 30, 1999 and 1998, respectively. Nonaccrual loans totaling \$1,772 as of June 30, 1999 were acquired on January 21, 1999 from FIBC. Interest income foregone on nonaccrual loans, which excludes foregone interest on nonaccrual loans acquired from FIBC during the period July 1, 1998 to January 21, 1999, was not material during the fiscal years ended June 30, 1999 and 1998.

The Bank had outstanding loans considered troubled-debt restructurings of \$1,290 and \$3,971 at June 30, 1999 and 1998, respectively. Income recognized on these loans was approximately \$125 and \$306 for the years ended June 30, 1999 and 1998, respectively, compared to interest income of \$183 and \$415 calculated under the original terms of the loans, for the years ended June 30, 1999 and 1998, respectively.

The recorded investment in loans for which impairment has been recognized under the guidance of SFAS 114 was approximately \$1,564 and \$3,136 at June 30, 1999 and 1998, respectively. The average balance of impaired loans was approximately \$2,329 and \$3,838 for the years ended June 30, 1999 and 1998, respectively. Write-downs on impaired loans were not material during the years ended June 30, 1999 and 1998, respectively. At June 30, 1999 and 1998, specific reserves totaling \$62 and \$23 were allocated within the allowance for loan losses for impaired loans. Net principal received and interest income recognized on impaired loans during the years ended June 30, 1999 and 1998 were not material. Reserves have been provided on all impaired loans as of June 30, 1999. At June 30, 1998, one loan totaling \$2,681, was deemed impaired for which no reserves have been provided. This loan, which was included in troubled-debt restructurings at June 30, 1998, was satisfied during the fiscal year ended June 30, 1999. All other loans deemed impaired, which total 5 and 3 loans as of June 30, 1999 and 1998, respectively, have reserves allocated towards their outstanding balance.

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

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

**LOANS EVALUATED FOR IMPAIRMENT** - All non-homogeneous loans greater than \$1,000 are individually evaluated for potential impairment. Additionally, residential mortgage loans exceeding \$227 and delinquent in excess of 60 days are evaluated for impairment. A loan is considered impaired when it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. A loan is not deemed to be impaired if a delay in receipt of payment is expected to be less than 30 days or if, during a longer period of delay, the Bank expects to collect all amounts due, including interest accrued at the contractual rate during the period of the delay. Factors considered by management include the property location, economic conditions, and any unique circumstances affecting the loan. At June 30, 1999 and 1998, all impaired loans were on nonaccrual status. In addition, at June 30, 1999 and 1998,

respectively, approximately \$1,437 and \$429 of one-to-four family residential mortgage loans, loans on cooperative apartments and consumer loans with a balance of less than \$227 were on nonaccrual status. These loans are considered as a homogeneous loan pool not covered by SFAS 114.

RESERVES AND CHARGE-OFFS - The Bank allocates a portion of its total allowance for loan losses to loans deemed impaired under SFAS 114. All charge-offs on impaired loans are recorded as a reduction in both loan principal and the allowance for loan losses. Management evaluates the adequacy of its allowance for loan losses on a regular basis. At June 30, 1999, management believes that its allowance is adequate to provide for losses inherent in the total loan portfolio, including impaired loans.

MEASUREMENT OF IMPAIRMENT - Since all impaired loans are collateralized by real estate properties, the fair value of the collateral is utilized to measure impairment.

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

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

Changes in the allowance for loan losses were as follows:

| For the year ended June 30,          | 1999     | 1998     | 1997     |
|--------------------------------------|----------|----------|----------|
| Balance at beginning of period       | \$12,075 | \$10,726 | \$7,812  |
| Provision charged to operations      | 240      | 1,635    | 4,200    |
| Loans charged off                    | (208)    | (328)    | (1,388)  |
| Recoveries                           | 7        | 42       | 102      |
| Reserve acquired in purchase of FIBC | 2,967    | -        | -        |
| Balance at end of period             | \$15,081 | \$12,075 | \$10,726 |

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

| For the year ended June 30,     | 1999  | 1998  | 1997  |
|---------------------------------|-------|-------|-------|
| Balance at beginning of period  | \$164 | \$187 | \$114 |
| Provision charged to operations | 16    | 114   | 450   |
| Charge-offs, net of recoveries  | (31)  | (137) | (377) |
| Balance at end of period        | \$149 | \$164 | \$187 |

8. MORTGAGE SERVICING ACTIVITIES

At June 30, 1999 and 1998, the Bank was servicing loans for others having principal amounts outstanding of approximately \$53,857 and \$58,619 respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. In connection with these loans serviced for others, the Bank held borrowers' escrow balances of approximately \$654 and \$569 at June 30, 1999 and 1998, respectively.

9. PREMISES AND FIXED ASSETS

The following is a summary of premises and fixed assets:

| At June 30,                                     | 1999     | 1998     |
|---|----------|----------|
| Land  | \$2,462  | \$2,164  |
| Buildings                                       | 10,689   | 11,753   |
| Leasehold improvements                          | 8,357    | 1,282    |
| Furniture and equipment                         | 7,712    | 6,503    |
|   | 29,220   | 21,702   |
| Less: accumulated appreciation and amortization | (14,245) | (10,960) |
|   | \$14,975 | \$10,742 |

Depreciation and amortization expense amounted to approximately \$954, \$964, and \$1,076 for the years ended June 30, 1999, 1998 and 1997, respectively.

10. FEDERAL HOME LOAN BANK OF NEW YORK CAPITAL STOCK

The Bank is a Savings Bank Member of the FHLBNY. Membership requires the purchase of shares of FHLBNY capital stock at \$100 per share. The Bank owned 282,813 and 107,535 shares at June 30, 1999 and 1998, respectively. The FHLBNY paid dividends on the capital stock of 6.9%, 7.2%, and 6.4% during the years ended June 30, 1999, 1998 and 1997, respectively.

11. DUE TO DEPOSITORS

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

Deposits are summarized as follows:

| At June 30,                            | 1999           |             | 1998           |             |
|--|----------------|-------------|----------------|-------------|
|  | EFFECTIVE COST | LIABILITY   | EFFECTIVE COST | LIABILITY   |
| Savings accounts                       | 2.09%          | \$406,602   | 2.27%          | \$340,481   |
| Certificates of deposit                | 5.31           | 703,251     | 5.84           | 612,328     |
| Money market accounts                  | 3.55           | 52,979      | 3.09           | 30,567      |
| NOW and Super NOW accounts             | 1.22           | 25,687      | 1.24           | 17,927      |
| Non-interest bearing checking accounts | -              | 58,542      | -              | 37,039      |
|  | 3.85%          | \$1,247,061 | 4.30%          | \$1,038,342 |

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

| At June 30,                      | 1999      | 1998      |
|----------------------------------|-----------|-----------|
| Maturity in three months or less | \$221,368 | \$139,108 |
| Over 3 through 6 months          | 137,654   | 103,472   |
| Over 6 through 12 months         | 192,749   | 163,791   |
| Over 12 months                   | 151,480   | 205,957   |
| Total certificates of deposit    | \$703,251 | \$612,328 |

The aggregate amount of certificates of deposits with a minimum denomination of \$100 was approximately \$78,707 and \$60,259 at June 30, 1999 and 1998, respectively.

12. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

| At or for the year ended June 30,                        | 1999      | 1998      |
|--|-----------|-----------|
| Balance outstanding at end of period                     | \$481,660 | \$256,601 |
| Average interest cost at end of period                   | 5.28%     | 5.74%     |
| Average balance outstanding during the year              | \$381,996 | \$145,676 |
| Average interest cost during the year                    | 5.45%     | 5.95%     |
| Carrying value of underlying collateral at end of period | \$496,500 | \$267,469 |
| Estimated market value of underlying collateral          | \$491,750 | \$268,991 |
| Maximum balance outstanding at month end during period   | \$481,660 | \$256,601 |

13. FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

The Bank had borrowings ("Advances") from the FHLBNY totaling \$250,000 and \$103,505 at June 30, 1999 and 1998, respectively. The average cost of FHLB advances was 5.96% and 6.04%, respectively, during the years ended June 30, 1999 and 1998, and the average interest rate on outstanding FHLB advances was 5.52% and 6.05%, respectively, at June 30, 1999 and 1998. At June 30, 1999, in accordance with the Advances, Collateral Pledge and Security Agreement with the FHLBNY, the Bank maintained in excess of \$275,000 of qualifying collateral with the FHLBNY (principally real estate loans), as defined by the FHLBNY, to secure such advances.

14. INCOME TAXES

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

| Year Ended June 30, | 1999     |                |          | 1998    |                |          | 1997    |                |          |
|---------------------|----------|----------------|----------|---------|----------------|----------|---------|----------------|----------|
|                     | FEDERAL  | STATE AND CITY | TOTAL    | Federal | State and City | Total    | Federal | State and City | Total    |
| Current             | \$11,045 | \$1,685        | \$12,730 | \$8,687 | \$2,698        | \$11,385 | \$6,047 | \$4,541        | \$10,588 |
| Deferred            | 1,915    | (630)          | 1,285    | 776     | (295)          | 481      | 2,153   | (5,150)        | (2,997)  |
|                     | \$12,960 | \$1,055        | \$14,015 | \$9,463 | \$2,403        | \$11,866 | \$8,200 | \$(609)        | \$7,591  |

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

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

| At June 30,                           | 1999           |                   | 1998           |                   |
|---------------------------------------|----------------|-------------------|----------------|-------------------|
|                                       | FEDERAL        | STATE<br>AND CITY | FEDERAL        | STATE<br>AND CITY |
| <b>DEFERRED TAX ASSETS:</b>           |                |                   |                |                   |
| Excess book bad debt over tax         |                |                   |                |                   |
| bad debt reserve                      | \$3,809        | \$2,691           | \$2,990        | \$2,188           |
| Employee benefit plans                | 3,921          | 2,344             | 2,858          | 1,682             |
| Tax effect of purchase                |                |                   |                |                   |
| accounting fair value                 |                |                   |                |                   |
| adjustments                           | -              | -                 | 366            | 216               |
| Tax effect of unrealized gain on      |                |                   |                |                   |
| securities available for sale         | 1,752          | 618               | -              | -                 |
| Other                                 | 165            | 102               | -              | -                 |
| <b>Total deferred tax assets</b>      | <b>9,647</b>   | <b>5,755</b>      | <b>6,214</b>   | <b>4,086</b>      |
| Less: Valuation allowance on          |                |                   |                |                   |
| deferred tax assets                   | -              | -                 | -              | -                 |
| <b>Deferred tax assets after</b>      | <b>\$9,647</b> | <b>\$5,755</b>    | <b>\$6,214</b> | <b>\$4,086</b>    |
| <b>DEFERRED TAX LIABILITIES:</b>      |                |                   |                |                   |
| Undistributed earnings of             |                |                   |                |                   |
| subsidiary                            | \$4,865        | \$21              | \$1,677        | \$358             |
| Difference in book and tax            |                |                   |                |                   |
| carrying value of fixed assets        | 192            | 2                 | 412            | 245               |
| Tax effect of purchase                |                |                   |                |                   |
| accounting fair value                 |                |                   |                |                   |
| adjustments                           | 921            | 549               | -              | -                 |
| Tax effect of unrealized gain on      |                |                   |                |                   |
| securities available for sale         | -              | -                 | 1,436          | 871               |
| Other                                 | -              | -                 | 122            | 7                 |
| <b>Total deferred tax liabilities</b> | <b>\$5,978</b> | <b>\$572</b>      | <b>\$3,647</b> | <b>\$1,481</b>    |
| <b>Net deferred tax asset</b>         | <b>\$3,669</b> | <b>\$5,183</b>    | <b>\$2,567</b> | <b>\$2,605</b>    |

During the year ended June 30, 1999, deferred tax assets include an increase of \$4,677 resulting from adjustments pursuant to SFAS 115, an increase of \$1,872 related to deferred tax assets originally recorded on FIBC's books, and an increase of \$595 related to adjustments resulting from the filing of prior period tax returns. During the year ended June 30, 1999, deferred tax liabilities include an increase of \$2,179 related to the tax effect of purchase accounting adjustments resulting from the FIBC acquisition.

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

| Year ended June 30,               | 1999          | 1998          | 1997          |
|-----------------------------------|---------------|---------------|---------------|
| Tax at Federal statutory rate     | \$11,856      | \$8,737       | \$6,967       |
| State and local taxes, net of     |               |               |               |
| Federal income tax benefit        | 685           | 1,562         | (396)         |
| Goodwill amortization             | 1,185         | 843           | 843           |
| Amortization of excess fair value |               |               |               |
| over cost - ESOP stock            | 406           | 532           | 233           |
| Other, net                        | (117)         | 193           | (56)          |
|                                   | \$14,015      | \$11,867      | \$7,591       |
| <b>Effective tax rate</b>         | <b>41.37%</b> | <b>47.53%</b> | <b>38.13%</b> |

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

Pursuant to SFAS 109, the Bank is not required to provide deferred taxes on its tax loan loss reserve as of December 31, 1987 ("base year reserve"). The amount of this reserve on which no deferred taxes have been provided is approximately \$15,280. This reserve could be recognized as taxable income and create a current tax liability using the income tax rates then in effect if one of the following occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends or distributions in liquidation; 2) the Bank fails to qualify as a Bank as provided by the Internal Revenue Code, or 3) there is a change in federal tax law.

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

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

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

#### 15. EMPLOYEE BENEFIT PLANS

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

Prior to January 21, 1999, FIBC maintained an employee retirement plan covering all eligible employees (the "FIBC Retirement Plan"). Effective, January 21, 1999, the Bank assumed sponsorship of the FIBC Retirement Plan, for which the projected benefit obligation and plan assets totaled \$2,281 and \$2,675, respectively. Participants in the FIBC Retirement Plan, by amendment dated August 17, 1999, were provided with full vesting on their benefits through January 21, 1999. The projected benefit obligation and plan assets of the FIBC Retirement Plan are reflected in the projected benefit obligation and plan assets of the Bank's pension plan as of June 30, 1999.

The retirement cost for the pension plan includes the following components (including a non-recurring charge of \$1,611 related to an early retirement program in 1998 and costs associated with the acquired FIBC Retirement Plan obligation during the period January 21, 1999 to June 30, 1999):

| For the year ended June 30,                      | 1999    | 1998    | 1997  |
|--|---------|---------|-------|
| Service cost                                     | \$444   | \$332   | \$400 |
| Interest cost                                    | 915     | 781     | 727   |
| Actual return on plan assets                     | (1,272) | (2,931) | (838) |
| Net amortization and deferral                    | (32)    | 1,843   | (224) |
| Expense associated with early retirement program | -       | 1,611   | -     |
| Net periodic cost                                | \$55    | \$1,636 | \$65  |

The funded status of the plan was as follows:

| JUNE 30,                       | 1999     | 1998     |
|--------------------------------|----------|----------|
| PROJECTED BENEFIT OBLIGATION:  |          |          |
| Balance at beginning of period | \$14,286 | \$10,015 |
| Service cost                   | 444      | 332      |
| Interest cost                  | 915      | 781      |
| Actuarial (gain) loss          | (393)    | 2,127    |
| Benefit payments               | (795)    | (580)    |
| Settlements                    | (2)      | -        |
| Early retirement obligation    | (132)    | 1,611    |
| Obligation of acquired plan    | 2,281    | -        |
| Balance at end of period       | 16,604   | 14,286   |

Plan assets at fair value (investments in trust funds managed by RSI):

|                                |        |        |
|--------------------------------|--------|--------|
| Balance at beginning of period | 13,599 | 11,121 |
| Return on plan assets          | 786    | 2,932  |
| Contributions                  | -      | 126    |
| Benefit payments               | (795)  | (580)  |
| Settlements                    | (2)    | -      |
| Assets of acquired plan        | 2,675  | -      |
| Balance at end of period       | 16,263 | 13,599 |

FUNDED STATUS:

|   |       |         |
|---|-------|---------|
| Deficiency of plan assets over projected benefit obligation                 | (341) | (687)   |
| Unrecognized loss from experience different from that assumed               | 626   | 560     |
| Unrecognized net past service liability                                     | (175) | (207)   |
| (Accrued) Prepaid retirement expense included in Other (liabilities) assets | \$110 | \$(334) |

Amount recognized in statement of financial condition consists of:

|                                     |       |         |
|-------------------------------------|-------|---------|
| Prepaid asset / (accrued liability) | \$110 | \$(334) |
| Intangible asset                    | -     | -       |
| Net amount recognized               | \$110 | \$(334) |

Major assumptions utilized were as follows:

| At June 30,                              | 1999  | 1998  |
|--|-------|-------|
| Discount rate                            | 7.00% | 6.75% |
| Rate of increase in compensation levels  | 5.00  | 4.50  |
| Expected long-term return on plan assets | 9.00  | 9.00  |

BENEFIT MAINTENANCE PLAN AND DIRECTORS' RETIREMENT PLAN - During the fiscal year ended June 30, 1994, the Bank established a Supplemental Executive Retirement Plan ('SERP') for its executive officers. The SERP was established to compensate the executive officers for any curtailments in benefits due to the statutory limitations on benefit plans. The SERP exists as a nonqualified plan which supplements the existing qualified plans. Defined benefit and defined contribution costs are incurred annually related to the SERP. During the year ended June 30, 1997, the SERP was renamed the Benefit Maintenance Plan ("BMP"), and sponsorship was transferred to the Company. As of June 30, 1999, the Benefit Maintenance Plan has an investment in the Company's common stock of \$831.

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

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

| For the year ended June 30,   | 1999  | 1998  | 1997  |
|-------------------------------|-------|-------|-------|
| Service cost                  | \$141 | \$104 | \$203 |
| Interest cost                 | 236   | 248   | 211   |
| Net amortization and deferral | 175   | 170   | 178   |
|                               | \$552 | \$522 | \$592 |

The defined contribution costs incurred by the Bank related to the BMP/SERP for the years ended June 30, 1999, 1998 and 1997 were \$990, \$522 and \$305, respectively.

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

The funded status of the plan was as follows:

| JUNE 30,                       | 1999    | 1998    |
|--------------------------------|---------|---------|
| PROJECTED BENEFIT OBLIGATION:  |         |         |
| Balance at beginning of period | \$3,562 | \$3,276 |
| Service cost                   | 141     | 104     |
| Interest cost                  | 236     | 249     |
| Benefit payments               | -       | (29)    |
| Actuarial (gain) loss          | 25      | (38)    |
| Balance at end of period       | 3,964   | 3,562   |
| Plan assets at fair value:     |         |         |
| Balance at beginning of period | -       | -       |
| Contributions                  | -       | 29      |
| Benefit payments               | -       | (29)    |
| Balance at end of period       | -       | -       |

FUNDED STATUS:

|  |           |           |
|--|-----------|-----------|
| Deficiency of plan assets over projected benefit obligation        | (3,964)   | (3,562)   |
| Unrecognized loss from experience different from that assumed      | 1,088     | 1,219     |
| Unrecognized net past service liability                            | 739       | 759       |
| Accrued expense included in other liabilities                      | \$(2,137) | \$(1,584) |
| Amount recognized in statement of financial condition consists of: |           |           |
| Accrued liability  | \$(2,887) | \$(2,444) |
| Intangible asset   | 750       | 860       |
| Net amount recognized  | \$(2,137) | \$(1,584) |

Major assumptions utilized were as follows:

| At June 30,                             | 1999                       |       | 1998                       |       |
|---|----------------------------|-------|----------------------------|-------|
|   | DIRECTORS' RETIREMENT PLAN | BMP   | DIRECTORS' RETIREMENT PLAN | BMP   |
| Discount rate                           | 7.00%                      | 7.25% | 6.75%                      | 6.50% |
| Rate of increase in compensation levels | 5.00                       | 4.00  | 4.50                       | 4.00  |

401(K) PLAN - The Bank also has a 401(k) plan which covers substantially all employees. Prior to May 31, 1996, under such plan the Bank matched 50% of each participant's contribution up to 6% of the participant's annual compensation for the first four years of participation and thereafter 100% of the participant's contribution up to a maximum of 6%. Effective May 31, 1996, the plan was amended whereby the Bank ceased all contributions to the plan. Effective January 1, 1997, the Bank ceased all participant pre-tax contributions to the Plan. No expense was recorded related to the 401(k) plan during the fiscal years ended June 30, 1999, 1998 and 1997. The 401(k) plan owns participant investments in the Company's common stock for the accounts of participants which totaled \$5,001, \$6,630 and \$4,758 at June 30, 1999, 1998 and 1997, respectively.

Prior to January 21, 1999, FIBC maintained a savings incentive ("401(k)") plan for all eligible employees (the "FIBC 401(k) Plan"). Effective, January 21, 1999, the Bank assumed sponsorship of the FIBC 401(k) Plan, for which the plan assets total \$724 as of June 30, 1999. Consistent with the Bank's existing 401(k) Plan, effective January 21, 1999, participant pre-tax contributions and employer matching contributions to the FIBC 401(k) Plan were ceased. As a result, no expenses associated with the FIBC 401(k) are reflected in the Company's statement of operations.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - The Bank offers additional postretirement benefits to its retired employees who have provided at least five (5) consecutive years of credited service and were active employees prior to April 1, 1991, as follows:

- (1) Employees who retired prior to April 1, 1991 receive full medical coverage in effect until their death at no cost to such retirees;
- (2) Eligible employees retiring after April 1, 1991 will be eligible for continuation of their medical coverage in effect at the time of such employees' retirement until their death. Throughout an employee's retirement, the Bank will continue to pay the premiums for this coverage up to the premium amount paid for the first year of retirement coverage. Should the premiums increase, the employee will have to pay the differential to maintain full medical coverage.

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

The postretirement cost includes the following components:

| For the year ended June 30,         | 1999  | 1998  | 1997  |
|-------------------------------------|-------|-------|-------|
| Service cost                        | \$48  | \$37  | \$75  |
| Interest cost                       | 179   | 178   | 192   |
| Unrecognized past service liability | (20)  | (29)  | -     |
|                                     | \$207 | \$186 | \$267 |

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

| JUNE 30,                       | 1999    | 1998    |
|--------------------------------|---------|---------|
| PROJECTED BENEFIT OBLIGATION:  |         |         |
| Balance at beginning of period | \$2,714 | \$2,355 |
| Service cost                   | 48      | 37      |
| Interest cost                  | 179     | 177     |
| Actuarial (gain) loss          | 80      | 245     |
| Benefit payments               | (133)   | (100)   |
| Balance at end of period       | 2,888   | 2,714   |

|                                |       |       |
|--------------------------------|-------|-------|
| Plan assets at fair value:     |       |       |
| Balance at beginning of period | -     | -     |
| Contributions                  | 133   | 100   |
| Benefit payments               | (133) | (100) |
| Balance at end of period       | -     | -     |

FUNDED STATUS:

|   |            |            |
|---|------------|------------|
| Deficiency of plan assets over projected benefit obligation   | (2,888)    | (2,714)    |
| Unrecognized loss from experience different from that assumed | 451        | 290        |
| Unrecognized net past service liability                       | (268)      | (297)      |
| Accrued expense included in other liabilities                 | \$ (2,705) | \$ (2,721) |

|  |            |            |
|--|------------|------------|
| Amount recognized in statement of financial condition consists of: |            |            |
| Accrued liability  | \$ (2,705) | \$ (2,721) |
| Intangible asset   | -          | -          |
| Net amount recognized  | \$ (2,705) | \$ (2,721) |

The assumed medical cost trend rates used in computing the accumulated postretirement benefit obligation was 7.0% in 1998 and was assumed to decrease gradually to 5.0% in 2004 and to remain at that level thereafter. Increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by approximately \$129. The assumed discount rate and rate of compensation increase used to measure the accumulated postretirement benefit obligation at June 30, 1999 were 7.00% and 5.00%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated postretirement benefit obligation at June 30, 1998 were 6.75% and 4.50%, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN - In connection with the Conversion, the Board of Directors of the Company adopted the Dime Community Bancshares Employee Stock Ownership Plan (the "ESOP"). The ESOP borrowed \$11,638 from the Company and used the funds to purchase 1,163,800 shares of the Company's common stock. The loan will be repaid principally from the Bank's discretionary contributions to the ESOP over a period of time not to exceed 10 years from the date of the Conversion. The Bank's obligation to make such contributions is reduced by any investment earnings realized on such contributions or any dividends paid by the Company on stock held in the unallocated account. The loan had an outstanding balance of \$8,016 and \$9,175, respectively at June 30, 1999 and 1998, and a fixed rate of 8.0%.

Prior to January 21, 1999, FIBC maintained an employee stock ownership plan for all eligible employees (the "FIBC ESOP"). Effective, January 21, 1999, the Bank assumed sponsorship of the ESOP, for which the plan assets total \$5,376 as of June 30, 1999. The Bank is currently in the process of dissolving the FIBC ESOP and distributing the plan assets to the respective participants, and has received a federal tax determination letter dated August 5, 1999, indicating that the termination of the FIBC ESOP will not adversely impact its tax qualified status.

Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants on the basis of compensation, as described in the plan, in the year of allocation. The ESOP vests at a rate of 25% per year of service beginning after two years with full vesting after five years, or upon attainment of age 65, death, disability, retirement or in the event of a "change of control" of the Company as defined in the ESOP. Shares of common stock allocated to participating employees totaled 115,832, 116,380 and 121,702 during the years ended June 30, 1999, 1998 and 1997. The ESOP benefit expense recorded in accordance with SOP 93-6 for allocated shares totaled \$2,595, \$2,670 and \$1,883, respectively, for the years ended June 30, 1999, 1998 and 1997.

#### STOCK BENEFIT PLANS

RECOGNITION AND RETENTION PLAN ("RRP") - In December, 1996, the shareholders approved the RRP, which is designed to encourage key officers and directors of the Company and Bank to remain with the Company, as well as to provide these persons with a proprietary interest in the Company. All allocated RRP shares vest on February 1<sup>st</sup> of each year over a total period of five years, and become 100% vested in the event of death or disability of the participant, or in the event of a "change of control" of the Company as defined by the RRP. The Company continues to account for compensation expense under the RRP under APB 25, measuring compensation cost based upon the average acquisition value of the RRP shares.

The following is a summary of activity related to the RRP for the years ended June 30, 1999, 1998 and 1997:

| At or for the year ended June 30,  | 1999       | 1998    | 1997    |
|--|------------|---------|---------|
| Shares acquired (a)  | 46,770 (a) | -       | 581,900 |
| Shares vested  | 103,456    | 164,876 | 15,870  |
| Shares forfeited   | 3,200      | -       | -       |
| Unallocated shares - end of period                                       | 46,770     | -       | -       |
| Unvested allocated shares -end of period                                 | 310,368    | 417,024 | 566,030 |
| Compensation recorded to expense   | \$1,922    | \$2,708 | \$1,175 |
| EFFECTS OF ACCOUNTING FOR COMPENSATION UNDER SFAS 123 INSTEAD OF APB 25: |            |         |         |
| Decrease in compensation expense   | \$422      | \$601   | \$315   |
| Increase in Basic EPS  | \$0.02     | \$0.03  | \$0.01  |
| Increase in Diluted EPS  | \$0.02     | \$0.02  | \$0.01  |

(a) Represents awarded shares retained for tax withholding.

The effects of applying SFAS 123 for disclosing compensation cost may not be representative of the effect on reported net income for future years.

STOCK OPTION PLAN - In November, 1996, the Company adopted the Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (the "1996 Stock Option Plan"), which permits the Company to grant up to 1,454,750 incentive or non-qualified stock options to outside

directors, officers and other employees of the Company or the Bank. The Compensation Committee of the Board of Directors administers the Stock Option Plan and authorizes all option grants.

On December 26, 1996, 1,393,425 stock options were granted to outside directors, officers and certain employees. All stock options granted under the 1996 Stock Option Plan expire on December 26, 2006. One-fifth of the shares granted to participants under the 1996 Stock Option Plan become exercisable by participants on December 26, 1997, 1998, 1999, 2000 and 2001, respectively.

On January 21, 1999, holders of stock options which had been granted by FIBC to purchase 96,975 shares of FIBC common stock were converted into options to purchase 177,286 shares DCB common stock (the "Converted Options"). The expiration dates on all Converted Options remained unchanged from initial grant by FIBC.

Activity related to the Stock Option Plan for the fiscal years ended June 30, 1999, 1998 and 1997 is as follows:

| Year Ended June 30,  | 1999      | 1998      | 1997      |
|--|-----------|-----------|-----------|
| Options outstanding - beginning of year                              | 1,388,225 | 1,393,425 | -         |
| Options granted  | -         | -         | 1,393,425 |
| FIBC stock options converted into                                    |           |           |           |
| Company stock options  | 177,286   | -         | -         |
| Options exercised  | 32,300    | 3,600     | -         |
| Options forfeited  | 8,000     | 1,600     | -         |
| Options outstanding - end of year                                    | 1,525,211 | 1,388,225 | 1,393,425 |
| Remaining options available for grant under the plan                 | 70,925    | 62,925    | 61,325    |
| Exercisable options at end of year                                   | 771,361   | 305,225   | 39,675    |
| Weighted average exercise price on exercisable options - end of year | \$13.10   | \$14.50   | \$14.50   |

The weighted average fair value per option at the date of grant/conversion for stock options granted/converted was estimated as follows:

|  | Granted Options | FIBC Converted Options |
|--|-----------------|------------------------|
| Estimated fair value on date of grant/conversion | \$5.72          | \$13.81                |
| Pricing methodology utilized                     | Binomial Option | Binomial Option        |
| Expected life (in years)                         | 10              | 10                     |
| Interest rate                                    | 5.79%           | 5.25%                  |
| Volatility                                       | 22.89           | 22.78                  |
| Dividend yield                                   | 1.40            | 2.00                   |

The Company continues to account for Stock Options under APB 25, accordingly no compensation cost has been recognized. Had the Company recorded compensation expense under the fair value methodology encouraged under SFAS 123, compensation expense would have increased by \$1,063, \$1,063 and \$532, respectively, for the years ended June 30, 1999, 1998 and 1997, net income would have decreased by \$574, \$574 and \$287 respectively for the years ended June 30, 1999, 1998 and 1997, both basic and diluted earnings per share would have decreased by \$0.05 for the years ended June 30, 1999 and 1998, and both basic and diluted earnings would have decreased by \$0.02 during the year ended June 30, 1997. The effects of applying SFAS 123 for disclosing compensation cost may not be representative of the effect on reported net income for future years.

16. COMMITMENTS AND CONTINGENCIES

MORTGAGE LOAN COMMITMENTS AND LINES OF CREDIT - At June 30, 1999 and 1998, the Bank had outstanding commitments to make mortgage loans aggregating approximately \$111,008 and \$158,042, respectively.

At June 30, 1999, commitments to originate fixed rate and adjustable rate mortgage loans were \$18,221 and \$92,787 respectively. Interest rates on fixed rate commitments ranged between 6.38% to 8.00%. Substantially all of the Bank's commitments will expire within two months. A concentration risk exists with these commitments as virtually all of the outstanding mortgage loan commitments involve multi-family and underlying cooperative properties located within the New York City metropolitan area.

The Bank had available at June 30, 1999 unused lines of credit with the Federal Home Loan Bank of New York totaling \$100,000, expiring on September 13, 1999.

LEASE COMMITMENTS - At June 30, 1999, aggregate net minimum annual rental commitments on leases are as follows:

| Year Ended June 30, | Amount |
|---------------------|--------|
| 2000                | \$657  |
| 2001                | 665    |
| 2002                | 522    |
| 2003                | 541    |
| 2004                | 526    |
| Thereafter          | 1,719  |

Net rental expense for the years ended June 30, 1999, 1998 and 1997 approximated \$150, \$183, and \$197, respectively.

LITIGATION - The Company and its subsidiary are subject to certain pending and threatened legal actions which arise out of the normal course of business. Management believes that the resolution of any pending or threatened litigation will not have a material adverse effect on the financial condition or results of operations.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Standards No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

CASH AND DUE FROM BANKS - The fair value is assumed to be equal to their carrying value as these amounts are due upon demand.

INVESTMENT SECURITIES AND MORTGAGE-BACKED SECURITIES - The fair value of these securities is based on quoted market prices obtained from an independent pricing service.

FEDERAL FUNDS SOLD - The fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due to their short maturity.

FEDERAL HOME LOAN BANK OF NEW YORK (FHLB NY) STOCK - The fair value of FHLB NY stock is assumed to be equal to the carrying value as the stock is carried at par value and redeemable at par value by the FHLB NY.

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

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

ESCROW, OTHER DEPOSITS AND BORROWED FUNDS - The estimated fair value of escrow, other deposits and borrowed funds is assumed to be the amount payable at the reporting date.

OTHER LIABILITIES - The estimated fair value of other liabilities, which primarily include trade accounts payable, is assumed to be their carrying amount.

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

The estimated fair values of the Company's financial instruments at June 30, 1999 and 1998 were as follows:

| June 30, 1999  | CARRYING<br>AMOUNT | FAIR<br>VALUE |
|--|--------------------|---------------|
| ASSETS:  |                    |               |
| Cash and due from banks                                    | \$17,801           | \$17,801      |
| Investment securities held to maturity                     | 31,698             | 31,768        |
| Investment securities available for sale                   | 146,632            | 146,632       |
| Mortgage-backed securities held to maturity                | 22,820             | 23,192        |
| Mortgage-backed securities available for sale              | 502,847            | 502,847       |
| Loans and loans held for sale                              | 1,368,260          | 1,375,248     |
| Federal funds sold   | 11,011             | 11,011        |
| FHLB stock   | 28,281             | 28,281        |
| LIABILITIES:   |                    |               |
| Savings, money market, NOW Super NOW and checking accounts | \$543,810          | \$543,810     |
| Certificates of Deposit                                    | 703,251            | 701,695       |
| Escrow, other deposits and borrowed funds                  | 768,237            | 768,237       |
| Other liabilities  | 20,622             | 20,622        |

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

18. TREASURY STOCK

The Company repurchased 937,929, 919,837 shares and 1,454,750 shares of its common stock into treasury during the fiscal years ended June 30, 1999, 1998 and 1997, respectively. All shares were repurchased in accordance with applicable regulations of the Office of Thrift Supervision and Securities and Exchange Commission. The Company reissued 1,504,704 shares of treasury stock in conjunction with its acquisition of FIBC.

19. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures that have been established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). The Bank's primary regulatory agency, the OTS, requires that the Bank maintain minimum ratios of tangible capital (as defined in the regulations) of 1.5%, core capital (as defined) of 3%, and total risk-based capital (as defined) of 8%. In addition, insured institutions in the strongest financial and managerial condition, with a rating of one (the highest examination of the Office of Thrift Supervision under the Uniform Financial Institutions Rating System) are required to maintain Tier 1 capital ratio of not less than 3.0% of total assets (the "leverage capital ratio"). For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the institution. The Bank is also subject to prompt corrective action requirement regulations set forth by the FDIC. These regulations require the Bank to maintain minimum of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 1999, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 1999, the most recent notification from the OTS categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

|   | ACTUAL    |       | FOR CAPITAL ADEQUACY PURPOSES |       | TO BE CATEGORIZED AS "WELL CAPITALIZED" UNDER PROMPT CORRECTIVE ACTION PROVISIONS |        |
|---|-----------|-------|-------------------------------|-------|---|--------|
|   | AMOUNT    | RATIO | AMOUNT                        | RATIO | AMOUNT  | RATIO  |
| As of June 30, 1999                                 |           |       |                               |       |   |        |
| Tangible capital                                    | \$123,817 | 5.83% | \$31,846                      | 1.5%  | N/A   | N/A    |
| Leverage capital                                    | 123,817   | 5.83  | 63,693                        | 3.0%  | N/A   | N/A    |
| Total risk-based capital (to risk weighted assets)  | 138,123   | 11.45 | 96,515                        | 8.0%  | \$120,644   | 10.00% |
| Tier I risk-based capital (to risk weighted assets) | 123,817   | 10.28 | N/A                           | N/A   | 72,387  | 6.00   |
| Tier I leverage capital (to average assets)         | 123,817   | 6.52  | N/A                           | N/A   | 94,904  | 5.00   |

|   | ACTUAL    |       | FOR CAPITAL ADEQUACY PURPOSES |       | To Be Categorized TO BE CATEGORIZED AS "WELL CAPITALIZED" UNDER PROMPT CORRECTIVE ACTION PROVISIONS |        |
|---|-----------|-------|-------------------------------|-------|---|--------|
|   | AMOUNT    | RATIO | AMOUNT                        | RATIO | AMOUNT  | RATIO  |
| As of June 30, 1998                                 |           |       |                               |       |   |        |
| Tangible capital                                    | \$131,186 | 8.32% | \$23,655                      | 1.5%  | N/A   | N/A    |
| Leverage capital                                    | 131,186   | 8.32  | 47,309                        | 3.0%  | N/A   | N/A    |
| Total risk-based capital (to risk weighted assets)  | 141,885   | 16.58 | 68,472                        | 8.0%  | \$85,590  | 10.00% |
| Tier I risk-based capital (to risk weighted assets) | 131,186   | 15.33 | N/A                           | N/A   | 51,354  | 6.00   |
| Tier I leverage capital (to average assets)         | 131,186   | 9.06  | N/A                           | N/A   | 72,380  | 5.00   |

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

| At June 30,   | 1999             |                  |                    | 1998             |                  |                    |
|---|------------------|------------------|--------------------|------------------|------------------|--------------------|
|   | TANGIBLE CAPITAL | LEVERAGE CAPITAL | RISK-BASED CAPITAL | Tangible Capital | Leverage Capital | Risk-Based Capital |
| GAAP capital  | \$189,405        | \$189,405        | \$189,405          | \$156,718        | \$156,718        | \$156,718          |
| Non-allowable assets:                                   |                  |                  |                    |                  |                  |                    |
| Core deposit intangible                                 | (4,585)          | (4,585)          | (4,585)            | -                | -                | -                  |
| Unrealized loss (gain) on available for sale securities | 3,868            | 3,868            | 3,868              | (1,504)          | (1,504)          | (1,504)            |
| Goodwill  | (64,871)         | (64,871)         | (64,871)           | (24,028)         | (24,028)         | (24,028)           |
| General valuation allowance                             | -                | -                | 14,306             | -                | -                | 10,699             |
| Regulatory capital                                      | 123,817          | 123,817          | 138,123            | 131,186          | 131,186          | 141,885            |
| Minimum capital requirement                             | 31,846           | 63,693           | 96,515             | 23,655           | 47,309           | 68,472             |
| Regulatory capital excess                               | \$91,971         | \$60,124         | \$41,608           | \$107,531        | \$83,877         | \$73,413           |

## 20. QUARTERLY FINANCIAL INFORMATION

The following represents the unaudited results of operations for each of the quarters during the fiscal years ended June 30, 1999 and 1998.

| For the Three Months Ended                          | September 30, 1998 | December 31, 1998 | March 31, 1999 | June 30, 1999 |
|---|--------------------|-------------------|----------------|---------------|
| Net interest income                                 | \$12,600           | \$12,486          | \$15,489       | \$16,118      |
| Provision for loan losses                           | 60                 | 60                | 60             | 60            |
| Net interest income after provision for loan losses | 12,540             | 12,426            | 15,429         | 16,058        |
| Non-interest income                                 | 1,254              | 2,407             | 1,906          | 2,349         |
| Non-interest expense:                               | 6,692              | 7,074             | 8,172          | 8,555         |
| Income before income taxes                          | 7,102              | 7,759             | 9,163          | 9,852         |
| Income tax expense                                  | 3,119              | 3,074             | 3,614          | 4,208         |
| Net income  | \$3,983            | \$4,685           | \$5,549        | \$5,644       |
| EARNINGS PER SHARE :                                |                    |                   |                |               |
| Basic   | \$0.38             | \$0.46            | \$0.49         | \$0.49        |
| Diluted   | \$0.35             | \$0.42            | \$0.45         | \$0.45        |

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

On January 21, 1999, the Company completed the FIBC acquisition.

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

## 21. CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

The Company began operations on June 26, 1996. The following statements of condition as of June 30, 1999 and 1998, and the related statements of operations and cash flows for the years ended June 30, 1999, 1998 and 1997 reflect the Company's investment in its wholly-owned subsidiaries, the Bank and 842 Manhattan Avenue Corp., using the equity method of accounting:

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

| At June 30,  | 1999             | 1998             |
|--|------------------|------------------|
| <b>ASSETS:</b>                                     |                  |                  |
| Cash and due from banks                            | \$61             | \$55             |
| Investment securities available for sale           | 9,529            | 18,677           |
| Mortgage-backed securities available for sale      | 45,248           | -                |
| Federal funds sold                                 | 3,517            | 1,291            |
| ESOP loan to subsidiary                            | 8,016            | 9,175            |
| Investment in subsidiary                           | 189,575          | 156,718          |
| Receivable for securities sold                     | -                | 1,264            |
| Other assets                                       | 264              | 184              |
| <b>TOTAL ASSETS</b>                                | <b>\$256,210</b> | <b>\$187,364</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>       |                  |                  |
| Securities sold under agreement to repurchase      | \$43,766         | \$-              |
| Other liabilities                                  | 875              | 1,015            |
| Stockholders' equity                               | 211,569          | 186,349          |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY:</b> | <b>\$256,210</b> | <b>\$187,364</b> |

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

| For the year ended June 30,   | 1999            | 1998            | 1997            |
|---|-----------------|-----------------|-----------------|
| Net interest income   | \$1,503         | \$2,041         | \$3,585         |
| Dividends received from Bank  | 54,000          | 13,000          | -               |
| Gain on sales of securities   | 555             | 521             | 11              |
| Less:   |                 |                 |                 |
| Non-interest expense  | 431             | 481             | 446             |
| Income before income taxes and equity of undistributed (overdistributed) earnings of the Bank | 55,627          | 15,081          | 3,150           |
| Income tax expense  | 752             | 935             | 1,487           |
| Income before equity of undistributed (overdistributed) earnings of Subsidiaries              | 54,875          | 14,146          | 1,663           |
| Equity in (overdistributed) undistributed earnings of Subsidiaries (1)                        | (35,014)        | (1,048)         | 10,653          |
| <b>NET INCOME</b>   | <b>\$19,861</b> | <b>\$13,098</b> | <b>\$12,316</b> |

(1) The equity in overdistributed earnings of Subsidiaries for the years ended June 30, 1999 and 1998, represents dividends paid to the Company by its subsidiaries in excess of the current year's earnings of Subsidiaries.

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

| For the year ended June 30,   | 1999            | 1998            | 1997            |
|---|-----------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                 |                 |                 |
| Net income  | \$19,861        | \$13,098        | \$12,316        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |                 |
| Equity in overdistributed (undistributed) earnings of Subsidiaries                | 35,014          | 1,048           | (10,653)        |
| Gain on sale of investment securities available for sale                          | (555)           | (520)           | (11)            |
| Net accretion of discount on investment securities available for sale             | (283)           | (291)           | (1,130)         |
| Decrease (Increase) in other assets   | (80)            | 160             | (321)           |
| Decrease (Increase) in receivable for securities purchased                        | 1,264           | (1,264)         | -               |
| (Decrease) Increase in payable for securities purchased                           | -               | -               | (33,994)        |
| (Decrease) Increase in other liabilities  | (747)           | (71)            | (225)           |
| <b>Net cash (used in) provided by operating activities</b>                        | <b>54,474</b>   | <b>12,160</b>   | <b>(34,018)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                 |                 |                 |
| Decrease (Increase) in federal funds sold   | (2,226)         | 4,749           | 47,583          |
| Proceeds from sale of investment securities available for sale                    | 9,373           | 13,439          | 10,011          |
| Proceeds from calls and maturities of investment securities available for sale    | 5,000           | 13,500          | 120,595         |
| Purchases of investment securities available for sale                             | (5,425)         | (20,940)        | (117,006)       |
| Purchases of mortgage-backed securities available for sale                        | (54,015)        | -               | -               |
| Principal repayments on mortgage-backed securities available for sale             | 8,485           | -               | -               |
| Principal repayments on ESOP loan   | 691             | 911             | 1,165           |
| Cash disbursed in acquisition of Financial Bancorp, net of cash acquired          | (33,068)        | -               | -               |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>(71,185)</b> | <b>11,659</b>   | <b>62,348</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                 |                 |                 |
| Increase in securities sold under agreement to repurchase                         | 43,766          | -               | -               |
| Cash disbursed for expenses related to issuance of common stock                   | -               | -               | (190)           |
| COMMON STOCK ISSUED FOR EXERCISE OF STOCK OPTIONS                                 | 468             | 52              | -               |
| CASH DIVIDENDS PAID TO STOCKHOLDERS   | (5,919)         | (2,635)         | (537)           |
| PURCHASE OF TREASURY STOCK  | (21,198)        | (20,767)        | (27,703)        |
| PURCHASE OF COMMON STOCK BY BENEFIT MAINTENANCE PLAN                              | (400)           | (431)           | -               |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                        | <b>16,717</b>   | <b>(23,781)</b> | <b>(28,430)</b> |
| <b>NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS</b>                         | <b>6</b>        | <b>38</b>       | <b>(100)</b>    |
| CASH AND DUE FROM BANKS, BEGINNING OF PERIOD                                      | 55              | 17              | 117             |
| <b>CASH AND DUE FROM BANKS, END OF PERIOD</b>                                     | <b>\$61</b>     | <b>\$55</b>     | <b>\$17</b>     |

Subsidiaries of Dime Community Bancshares, Inc. - The following are the significant subsidiaries of Dime Community Bancshares, Inc.

Name: The Dime Savings Bank of Williamsburgh

Jurisdiction of incorporation: United States of America

Names under which it does business:

The Dime Savings Bank of Williamsburgh

Name: 842 Manhattan Avenue Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

842 Manhattan Avenue Corporation

Subsidiaries of The Dime Savings Bank of Williamsburgh - The following are the significant subsidiaries of The Dime Savings Bank of Williamsburgh.

Name: DSBW Preferred Funding Corporation

Jurisdiction of incorporation: Delaware

Names under which it does business:

DSBW Preferred Funding Corporation

Name: Havemeyer Equities, Inc.

Jurisdiction of incorporation: New York

Names under which it does business:

Havemeyer Equities, Inc.

Name: Havemeyer Brokerage Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

1

Havemeyer Brokerage Corporation

Name: Finfed Development Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

Finfed Development Corporation

Name: Finfed Funding Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

Finfed Funding Corporation

Name: FS Agency Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

FS Agency Corporation

The remaining subsidiaries, which are all direct or indirect subsidiaries of The Dime Savings Bank of Williamsburgh would not, when considered in the aggregate as a single subsidiary, constitute a significant subsidiary as defined in 17 C.F.R. 210.1-02 (v) Rule 1-02(v) of Regulation S-X as of June 30, 1999. For a description of the Registrant's subsidiaries, see Item 1 of "Business" of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999.

IN THOUSANDS EXCEPT PER SHARE AMOUNTS

|           |             |           |
|-----------|-------------|-----------|
| 12-MOS    |             |           |
|           | JUN-30-1999 |           |
|           | JUN-30-1999 | 17,801    |
|           | 0           |           |
|           | 11,011      |           |
|           | 0           |           |
| 649,479   | 54,518      |           |
|           | 54,960      |           |
|           |             | 1,383,341 |
|           |             | 15,081    |
|           | 2,247,615   |           |
|           |             | 1,247,061 |
|           |             | 245,895   |
|           | 57,199      |           |
|           |             | 485,765   |
|           | 0           |           |
|           |             | 0         |
|           |             | 145       |
|           |             | 211,550   |
| 2,247,615 |             |           |
|           | 92,127      |           |
|           | 40,337      |           |
|           | 1,448       |           |
|           | 133,912     |           |
|           | 44,417      |           |
|           | 77,219      |           |
|           | 56,693      |           |
|           |             | 240       |
|           | 668         |           |
|           | 30,493      |           |
|           | 33,876      |           |
| 33,876    |             |           |
|           | 0           |           |
|           |             | 0         |
|           | 19,861      |           |
|           | 1.81        |           |
|           | 1.68        |           |
|           | 7.24        |           |
|           |             | 3,001     |
|           |             | 0         |
|           | 1,290       |           |
|           | 4,659       |           |
|           | 12,075      |           |
|           |             | 208       |
|           |             | 7         |
|           | 15,081      |           |
|           | 15,081      |           |
|           | 0           |           |
| 15,081    |             |           |