UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to

Commission file number 0-27782

DIME COMMUNITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

209 HAVEMEYER STREET, BROOKLYN, NEW YORK	11211
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all the reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) YES X NO ___

(2) YES ___ NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASSES OF COMMON STOCK	NUMBER OF SHARES OUTSTANDING, MAY 31, 1996
$.01 Par Value	None

Documents Incorporated by Reference:
Annual Report on Form 10-K of Conestoga Bancorp, Inc.

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THE DIME SAVINGS BANK OF WILLIAMSBURGH
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION

	(IN THOUSANDS) MARCH 31, 1996 (UNAUDITED)	JUNE 30, 1995
ASSETS:		
Cash and due from banks	$ 6,913	$ 6,807
Investment securities held to maturity (estimated market value of $40,984 and $51,254 at March 31, 1996 and June 30, 1995 respectively)	40,996	51,475
Investment securities available for sale:		
Bonds and notes (amortized cost of $45,723 and $42,350 at March 31, 1996 and June 30, 1995 respectively)	45,701	42,349
Marketable equity securities (historical cost of $2,971 and $3,304 at March 31, 1996 and June 30, 1995 respectively)	3,108	3,070
Mortgage-backed securities held to maturity (estimated market value of $55,919 and $54,172 at March 31, 1996 and June 30, 1995 respectively)	55,397	53,815
Mortgage-backed securities available for sale (amortized cost of $37,156 and $36,728 at March 31, 1996 and June 30, 1995 respectively)	37,856	37,733
Federal funds sold	24,247	17,809
Loans:		
Real estate	439,223	425,965
Other loans	3,988	3,751
Less allowance for loan losses	(6,146)	(5,174)
Total loans	437,065	424,542
Loans held for sale	468	138
Premises and fixed assets	6,138	5,921
Federal Home Loan Bank of New York capital stock	4,923	4,801
Other real estate owned	1,814	4,466
Other assets	11,549	9,813
TOTAL ASSETS	$ 676,175	$662,739
LIABILITIES AND EQUITY		
LIABILITIES:		
Due to depositors	$ 561,026	$554,841
Escrow and other deposits	11,515	12,109
Securities sold under agreements to repurchase	2,026	2,110
Federal Home Loan Bank of New York Advances	15,710	15,710
Accrued postretirement benefit obligation	2,080	-
Other liabilities	2,182	902
TOTAL LIABILITIES	594,539	585,672
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Retained earnings	81,196	76,651
Unrealized gain on securities available for sale, net of deferred taxes	440	416
TOTAL EQUITY	81,636	77,067
TOTAL LIABILITIES AND EQUITY	$ 676,175	$662,739

THE DIME SAVINGS BANK OF WILLIAMSBURGH
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In Thousands)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	1996	1995	1996	1995
Interest income:				
Loans secured by real estate	$ 9,862	$ 9,551	$ 29,394	$ 28,770
Other loans	85	66	249	230
Investment securities	1,246	975	4,154	3,194
Mortgage backed securities	1,484	1,354	4,491	4,017
Federal funds sold	297	136	962	332
Total interest income	12,974	12,082	39,250	36,543
Interest expense:				
Deposits and escrow	5,554	4,431	17,035	12,581
Borrowed funds	249	250	754	762
Total interest expense	5,803	4,681	17,789	13,343
Net interest income	7,171	7,401	21,461	23,200
Provision for loan losses	900	738	1,850	2,213
Net interest income after provision for loan losses	6,271	6,663	19,611	20,987
Non-interest income:				
Service charges and other fees	245	262	663	783
Net gain (loss) on sales and redemptions of securities and other assets	27	64	(54)	66
Net gain (loss) on sales of loans	(6)	15	17	21
Other	113	124	354	400
Total non-interest income	379	465	980	1,270
Non-interest expense:				
Salaries and employee benefits	1,992	1,830	5,534	5,124
Occupancy and equipment	469	394	1,269	1,206
Federal deposit insurance premiums	23	304	86	941
Data processing costs	147	126	392	362
Other	1,270	937	3,020	2,500
Total non-interest expense	3,901	3,591	10,301	10,133
Income before income taxes and cumulative effect of changes in accounting principles	2,749	3,537	10,290	12,124
Income tax expense	1,266	1,638	4,713	5,430
Income before cumulative effect of changes in accounting principles	1,483	1,899	5,577	6,694
Cumulative effect on prior years of changes to a different method of accounting for: Post-Retirement benefits other than pensions	-	-	(1,032)	-
Net income	$ 1,483	$ 1,899	$ 4,545	$ 6,694

THE DIME SAVINGS BANK OF WILLIAMSBURGH
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 1996 (UNAUDITED)

	Retained Earnings	Unrealized Gain on Securities Available for Sale	Total
BALANCE, JULY 1, 1995	$ 76,651	$ 416	$ 77,067
Net income	4,545	-	4,545
Change in unrealized gain on securities available for sale during the period, net of deferred taxes	-	24	24
BALANCE, MARCH 31, 1996	$ 81,196	$ 440	$ 81,636

THE DIME SAVINGS BANK OF WILLIAMSBURGH
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	(In Thousands) Nine Months Ended March 31, 1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,545	$ 6,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on investment and mortgage-backed securities called	(56)	-
Net loss on investment and mortgage-backed securities sold	164	11
Net gain on sale of loans held for sale	(17)	(21)
Depreciation and amortization	563	1,248
Provision for loan losses	1,850	2,213
Decrease (increase) in loans held for sale	(314)	351
Decrease in other assets and other real estate owned	898	2,641
Increase in accrued postretirement benefit obligation	2,080	-
Increase in other liabilities	1,279	1,543
Net cash provided by operating activities	10,992	14,680
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in Federal funds sold	(6,438)	(10,221)
Proceeds from maturities of investment securities held to maturity	3,035	2,030
Proceeds from maturities of investment securities available for sale	64,490	12,300
Proceeds from calls of investment securities held to maturity	9,056	-
Proceeds from calls of investment securities available for sale	8,300	-
Proceeds from sale of investment securities available for sale	500	-
Proceeds from sale of mortgage-backed securities held to maturity	2,555	1,067
Purchases of investment securities held to maturity	(14,525)	(1,000)
Purchases of investment securities available for sale	(63,543)	(8,369)
Purchases of mortgage-backed securities held to maturity	(11,714)	-
Purchases of mortgage-backed securities available for sale	(11,554)	(4,045)
Principal collected on mortgage-backed securities held to maturity	7,202	6,353
Principal collected on mortgage-backed securities available for sale	11,315	4,571
Net increase in loans	(14,373)	(907)
Purchases of fixed assets	(576)	(104)
Sale (purchase) of Federal Home Loan Bank capital stock	(123)	188
Net cash (used in) provided by investing activities	(16,393)	1,863
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in due to depositors	6,185	(13,010)
Decrease in and other deposits	(594)	(2,985)
Decrease in repurchase agreements	(84)	(24)
Net cash (used in) provided by financing activities	5,507	(16,019)
INCREASE IN CASH AND DUE FROM BANKS	106	524
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	6,807	5,776
CASH AND DUE FROM BANKS, END OF PERIOD	$ 6,913	$ 6,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 4,165	$ 4,149
Cash paid for interest	$ 17,822	$13,338
Transfer of investment and mortgage-backed securities held-to-maturity to available for sale	$ 3,300	$70,000

Dime Community Bancorp, Inc.

As discussed in Item 5, Dime Community Bancorp, Inc. (the "Company") was incorporated on December 12, 1995 to become the holding company for The Dime Savings Bank of Williamsburgh (the "Bank") upon completion of the conversion of the Bank from a mutual savings bank to a stock savings bank (the "Conversion"). The Company is located in Brooklyn, New York and its principal business, upon completion of the Conversion, will be the operation of its wholly-owned subsidiary, the Bank. In connection with the Conversion, the Company has filed a Registration Statement on Form S-1 with the Securities and Exchange Commission with respect to the issuance and sale of up to 14,547,500 shares, which was declared effective on May 13, 1996. The Company has offered 12,650,000 shares of Common Stock (subject to increase to 14,547,500 shares under certain circumstances) to certain eligible depositors and members of the Bank in a subscription offering and to certain members of the general public in a community offering (together, the "Offerings"). Shortly after consummation of the Conversion, the Bank will acquire (the "Acquisition") Conestoga Bancorp, Inc. ("CBI") and its wholly-owned financial institution subsidiary, Pioneer Savings Bank, F.S.B. ("Pioneer"), pursuant to an Agreement and Plan of Merger, dated as of November 2, 1995. Until the consummation of the Conversion, the Company will have no operations other than those of an organizational nature. Accordingly, all financial and other information set forth herein refers to the Bank or CBI.

The financial statements of the Company have been omitted because the Company has not yet issued any stock and has not yet conducted any business other than that of an organizational nature. In addition, as of March 31, 1996, the Company had no assets or liabilities. The financial statements of the Bank included herein should be read in conjunction with the financial statements and notes thereto included in the Prospectus of the Company dated May 14, 1996.

The Dime Savings Bank of Williamsburgh and Subsidiaries

Notes to Consolidated Financial Statements

Nature of Operations - The Dime Savings Bank of Williamsburgh (the "Bank") operates seven branches throughout the New York City boroughs of Bronx, Brooklyn and Queens and Nassau County. The Bank is a community-oriented financial institution providing financial services and loans for housing within its market area.

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

Principles of Consolidation - The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, Havemeyer Equities Corp.("HEC"), Boulevard Funding Corp. ("BFC") and Havemeyer Brokerage Corp. ("HBC"). HBC is currently engaged in the sale of insurance and annuity products primarily to the Bank's customers and members of the local community. BFC and HEC were established in order to invest in real estate joint ventures and other real estate assets. BFC and HEC had no investments in real estate at March 31, 1996 and are currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Due from Banks - Cash and due from banks includes amounts representing cash held in escrow on behalf of the Bank's mortgagors.

Investment Securities and Mortgage-Backed Securities - Investment and mortgage-backed securities are accounted for in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires that debt and equity securities that have readily determinable fair values be carried at fair value unless they are held to maturity. Debt securities are classified as held to maturity and carried at amortized cost only if the reporting entity has a positive intent and ability to hold these securities to maturity. If not classified as held to maturity, such securities are classified as securities available for sale or as trading securities. Unrealized holding gains or losses on securities available for sale are excluded from earnings and reported net of income taxes as a separate component of equity.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value.

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

On July 1, 1995, the Bank adopted Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS 114"). The Statement 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. The adoption of SFAS No. 114, as amended by SFAS No. 118, did not have a material effect on the Bank's financial condition or results of operations.

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 - Properties acquired through foreclosure, or a deed in lieu of foreclosure, are recorded at the lower of fair value less estimated costs to sell, or cost.

Prior to July 1, 1995, the Bank was required to include in other real estate owned loans which have been in substance foreclosed. Effective July 1, 1995, the Bank adopted SFAS 114. The provisions of this Statement eliminated the Bank's requirement to include in substance foreclosed loans in other real estate, except where the Bank has physical possession of the collateral. In substance foreclosed real estate is not material to the financial condition or results of operations of the Bank.

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

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

Leasehold improvements are amortized over the remaining noncancelable terms of the related leases.

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

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

Recently Issued Accounting Standards - On July 1, 1995, the Bank adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The cumulative effect of the adoption of this standard on prior years was approximately $1,032 (after reduction for income taxes of $879). As permitted by the Statement, the Bank elected to record the full liability at the time of adoption.

In May 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights." The Statement which amends Statement of Financial Accounting Standards No. 65, "Accounting for Certain Mortgage Banking Activities," requires separate capitalization of the costs of rights to service mortgage loans for others regardless of whether these rights are acquired through a purchase or loan origination activity. Adoption of this Statement is required for fiscal years beginning after December 15, 1995. Given the current level of the Bank's mortgage banking activities, adoption of this Standard is not expected to have a material effect upon the Bank's 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 loan losses and the carrying value of other real estate.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Comparison of Financial Condition at March 31, 1996 and June 30, 1995

Asset growth amounted to $13.4 million in the nine months ended March 31, 1996, increasing assets to $676.2 million, as compared to $662.7 million at June 30, 1995. The growth was concentrated in the Bank's loan portfolio, which increased by $13.8 million to $443.7 million at March 31, 1996, or 65.5% of total assets. Management continued its strategy of emphasizing multi-family lending as loans secured by multi-family and underlying cooperative apartment buildings increased as a percentage of total loans, rising $23.8 million during the period to $276.2 million, or 62.1% of gross loans. Growth in this segment of the portfolio was attributable to the Bank's more competitive loan pricing during the period. During the nine months ended March 31, 1996, the Bank originated over $61.4 million, at an average rate of 8.38%, in new multi-family and underlying cooperative building loans, as compared to $36.3 million for all of fiscal year 1995.

The Bank's portfolio of other residential mortgage loans, which are mostly adjustable-rate loans, continued to decline. The Bank's holdings of one- to four-family and cooperative apartment loans declined by an aggregate of $11.3 million during the period, including repayments of principal. Substantially all of the loans originated by the Bank in the one- to four-family and cooperative apartment markets were fixed-rate loans. These loans were sold to the secondary mortgage market as part of the Bank's overall interest rate risk management strategy which focuses in part on selling fixed-rate loans in the secondary market and retaining adjustable-rate loans in the Bank's portfolio.

The Bank's portfolio of investment securities declined slightly between June 30, 1995 and March 31, 1996. Mortgage-backed securities, which totaled $93.3 million at March 31, 1996, increased by $1.7 million during the period. Substantially all of the increase was attributable to new purchases of adjustable-rate and short term fixed-rate mortgage-backed securities backed by various federal agency issuers. Other securities, however, declined by $7.0 million, the difference earmarked for new loan originations later in the year. Federal funds sold totaled $24.2 million at March 31, 1996, an increase of $6.4 million from June 30, 1995.

Total asset growth during the nine-month period was funded primarily by growth in the Bank's deposits and by retained earnings. Total deposits were $561.0 million at March 31, 1996, as compared to $554.8 million at June 30, 1995, an increase of $6.2 million. The increase was attributable to the combined effect of interest paid on deposits totaling $17.0 million and net deposit outflows of $10.8 million during the period. The composition of the Bank's deposits continued to change, as reflected in the shift of deposits out of savings accounts and into certificates of deposit. The Bank's savings accounts, which totaled $238.2 million at June 30, 1995, declined by $7.1 million during the nine month period ended March 31, 1996. Certificates of deposit, on the other hand, increased by $13.2 million during the period to $288.4 million, or 51.4% of total deposits. This shift is at least partly attributable to the Bank's deposit pricing strategy which, by paying competitive interest rates on certificates of deposit with maturities beyond one year, has encouraged deposito rs to extend the average maturity of their deposit liabilities.

Total equity of the Bank was $81.6 million at March 31, 1996, or 12.07% of total assets, an increase of $4.6 million from June 30, 1995. The increase was attributable to net income of $4.5 million during the period and a $24,000 increase in the component recognizing the net unrealized gain on the Bank's available for sale securities portfolio, net of taxes, as required by SFAS No. 115.

Comparison of Operating Results for the Three Months Ended March 31, 1996 and March 31, 1995

Net income for the three months ended March 31, 1996 was $1.5 million, compared to $1.9 million for the same period in 1995. The decrease was primarily attributable to a $310,000 increase in non-interest expenses, a $230,000 reduction in the Bank's net interest income, and a $162,000 increase in the provision for loan losses.

Total interest income and interest expense were both higher in the current quarter, despite a significant decrease in interest rates between 1995 and 1996. Interest income was $13.0 million during the three months ended March 31, 1996, an increase of $892,000 from the same period in 1995. The increase in interest income reflects an increase in the Bank's average interest earning assets from $602.0 million during the quarter ended March 31, 1995, to $651.1 million during the comparable 1996 period, the effect of which was partially offset by a period to period decrease from 8.03% to 7.97% in the yield on the Bank's interest earning assets. The resulting increase in interest income was less than the increase in total interest expense, however, as both the level of deposit liabilities and the Bank's cost of funds increased during the period. Average deposit liabilities rose $34.9 million from year earlier levels to $558.2 million for the three months ended March 31, 1996. Within total deposit liabilities, the continued shift of deposits out of savings accounts into higher cost certificates of deposit had the effect of increasing the Bank's average cost of funds, which rose to 4.09% from 3.51% the year before. This shift reflects, in part, management's strategy of paying competitive interest rates on certificates of deposit with maturities beyond one year in order to encourage depositors to extend the average maturity of their deposits. The result of the increases in both interest income and interest expense was a $229,000 decrease in net interest income.

The Bank's provision for loan losses totaled $900,000 for the three months ended March 31, 1996, as compared to $738,000 for the same period in 1995, an increase of $162,000. Between these two periods, the level of non-performing loans in the Bank's portfolio decreased, mitigating against loan loss reserve provisions in excess of loan charge-offs. Management continued to provide reserves, however, in light of the Bank's continued emphasis on multi-family lending and management's evaluation of the adequacy of the reserve in the context of the Bank's historical loan loss experience. Between March 31, 1995 and March 31, 1996, the Bank's loan portfolio increased by $11.2 million, with new multi-family loans accounting for virtually all of the increase. At March 31, 1996, the allowance for loan losses totaled 109.5% of non-performing loans and 1.39% of total loans, up from 77.6% and 1.09%, respectively, at March 31, 1995.

Non-interest expense was $3.9 million in the three months ended March 31, 1996, as compared to $3.6 million in the comparable 1995 quarter. Non-interest expense was higher in the 1996 quarter due primarily to a $178,000 provision for losses attributable to the Bank's portfolio of other real estate owned, necessitated by a reduction in the value of a portion of such portfolio, and a $171,000 increase in the provision for losses related to Nationar, a failed check-clearing and

trust company. See "Part II Item 1. Legal Proceedings." Other significant changes in the Bank's operating expenses included a $281,000 decrease in the insurance premiums paid to the Federal Deposit Insurance Corporation ("FDIC") resulting from the FDIC's decision to lower the insurance premiums paid by Bank Insurance Fund-insured institutions to the legal minimum effective January 1, 1996, and a $162,000 increase in compensation and benefits expense, attributable to an increase in employee bonuses and normal salary increases.

Comparison of Operating Results for the Nine Months Ended March 31, 1996 and March 31, 1995

Net income for the nine months ended March 31, 1996 was $4.5 million as compared to $6.7 million for the nine months ended March 31, 1995. Income before cumulative effect of change in accounting principles for the nine month period ended March 31, 1996 was $5.6 million, a decrease of $1.1 million from $6.7 million for the same period of the prior year. An increase in the average yield on interest earning assets, which rose to 8.06% from 7.99%, during the period, was offset by a greater increase in the Bank's average cost of funds, which rose to 4.18% from 3.29% the year before.The result was a decrease of 82 basis points in the Bank's net interest rate spread, reducing net interest income by $1.7 million. This was offset, in part, by an $855,000 savings in insurance premiums paid to the FDIC, a result of the FDIC's decision to lower premiums paid by well capitalized BIF-insured institutions from $0.23 to $0.04 per $100 of insured deposits, effective June 1, 1995.

Interest income amounted to $39.2 million for the nine months ended March 31, 1996, representing an increase of $2.7 million from the comparable period ended March 31, 1995. The increase was the result of the combined effect of a $39.9 million increase in average interest-earning assets and a 7 basis point increase in the average yield on earning assets. The increase in the average interest rate on interest earning assets was primarily due to the higher interest rate environment which affected both repricing assets, mostly adjustable-rate investment securities and whole loans, and new investments. The increase in average interest-earning assets is reflected primarily in the growth in investment securities and federal funds sold, consistent with the Bank's supplemental strategy of seeking investments that provide a stable source of liquidity and earnings.

Interest-bearing liabilities averaged $567.6 million for the nine months ended March 31, 1996, representing an increase of $27.0 million, or 4.99%, over the comparable period ended March 31, 1995. Total interest expense of $17.8 million represented a $4.4 million increase from the nine months ended March 31, 1995, as the average rate paid on interest-bearing liabilities increased 89 basis points, from 3.29% to 4.18%. The increase in the average rate paid on interest-bearing liabilities resulted from the higher interest rate environment and from a steady shift of deposits out of savings accounts and into higher costing certificates of deposit. Management's strategy of paying competitive interest rates on certificates of deposit with maturities in excess of one year, which management believes should help to stabilize the Bank's cost of funds over the longer term, contributed to a higher cost of funds in the current period. Average savings account balances decreased by $41.3 million from $272.5 million for the nine months ended March 31, 1995 to $231.2 million for the nine months ended March 31, 1996, at the same time the average certificates of deposit balance increased by $71.7 million from $212.8 million for the nine months ended March 31, 1995 to $284.5 million for the nine months ended March 31, 1996. The average rate paid on certificates of deposit increased by 138 basis points over the same period.

The provision for loan losses totaled $1.85 million for the nine-month period ended March 31, 1996 as compared to $2.2 million in the comparable period ended March 31, 1995. At June 30, 1994 the Bank's allowance for loan losses as a percentage of total loans was 0.84%. By March 31, 1996, the allowance for loan losses represented 1.39% of total loans, reflecting the fact that from July 1, 1994 to March 31, 1996 loan loss provisions consistently exceeded loan charge-offs. In management's judgment, it was prudent to continue to increase the loan loss allowance based upon an evaluation of the adequacy of the reserve in the context of the Bank's historical loan loss experience and the Bank's continuing emphasis on multi-family lending. At March 31, 1996, the Bank's allowance for loan losses as a percentage of total non-performing loans was 109.5%, as compared to 77.6% at March 31, 1995.

Non-interest income was $980,000 in the nine months ending March 31, 1996, a decrease of $290,000 from the comparable period ended March 31, 1995. This change reflects a period to period increase of $98,000 in gains on bonds called and bonds sold, offset by a $195,000 loss attributable to the sale of preferred stock during the nine months ended March 31, 1996, and a $120,000 decline in income provided by service charges, primarily due to a change in the way the Bank accounts for income from the rental of safe deposit boxes.

Overall, non-interest expense was $10.3 million during the nine months ended March 31, 1996, an increase of $168,000 from the comparable period ended March 31, 1995. A reduction in the rate paid by the Bank to the FDIC for deposit insurance premiums, combined with a refund from the FDIC for premiums previously paid in the amount of $319,000, lowered non-interest expense by $855,000 during the period. This was offset by a $410,000 increase in compensation and benefits expense, which was attributable to an increase in employee bonuses and normal salary increases, a $428,000 provision for losses attributable to the Bank's holding of OREO, necessitated by a reduction in the value of a portion of such portfolio, and a $171,000 increase in the provision for losses related to Nationar, a failed check clearing and trust company.

Tax expense totaled $4.7 million for the nine months ended March 31, 1996, versus $5.4 million for the nine months ended March 31, 1995. The decrease was attributable to lower pre-tax income, which fell from $12.1 million in the nine months ended March 31, 1995 to $10.3 million in nine months ended March 31, 1996, and to the application of tax loss carryforwards to capital gains totaling $183,000 in 1994, which effectively lowered the Bank's tax rate for that year.

On July 1, 1995, the Bank adopted SFAS No. 106, which requires accrual of post-retirement benefits, such as health care benefits, during the years an employee provides services. The cumulative effect of the adoption of SFAS No. 106 on prior years was $1,032,000, after a reduction for income taxes of $879,000. As permitted by the Standard, the Bank elected to record this liability at the time of adoption.

The following table sets forth certain asset quality ratios and other data at and for the nine months ended March 31, 1996 and 1995.

	At or For the Three and Nine Months Ended March 31,	
	1996	1995
	(Dollars in thousands)	
Non-accrual loans	$5,614	$6,028
Accruing loans past due ninety days or more	-	-
Total non-performing loans	5,614	6,028
Real estate owned, net	1,814	4,865
Ratios (1):		
Non-accrual loans to total loans	1.27%	1.40%
Non-performing loans to total loans	1.27	1.40
Non-performing loans and real estate owned to total assets	1.10	1.71
Allowance for loan losses to (2):		
Non-performing loans	109.48	77.64
Total loans	1.39	1.09

(1) Ratios are end of period ratios.

(2) Loans, net represents gross loans less deferred loan fees and allowance for loan losses. The allowance for loan losses at March 31, 1996 and March 31, 1995 was $6.1 million, and $4.7 million, respectively.

The Bank is negotiating an agreement with a third party to sell a $2.2 million non-performing loan. The underlying property, a 60 unit, 6 story cooperative apartment building located in Brooklyn, New York, has been in the process of foreclosure since November, 1994, and is currently classified as substandard by the Bank. Based on these negotiations, the Bank would sell the loan for $1.6 million. No assurance can be given that the loan will be sold, or as to the ultimate terms of any such sale. The Bank believes that its allowance for loan losses as of March 31, 1996 is adequate after taking into consideration the proposed sale of the loan and expected charge to the allowance for loan losses.

Liquidity and Capital Resources

The Bank's primary sources of funds are deposits, proceeds from principal and interest payments on loans, mortgage-backed securities and investments, 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 general interest rates, economic conditions and competition.

The Bank is required to maintain an average daily balance of liquid assets and short-term liquid assets as a percentage of net withdrawable deposit accounts plus short-term borrowings as defined by OTS regulations. The minimum required liquidity and short-term liquidity ratios are currently 5.0% and 1.0%, respectively. At March 31, 1996, the Bank's liquidity ratio and short-term liquid asset ratios were 20.12% and 13.02%, respectively. 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 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 nine months ended March 31, 1996 and the fiscal years ended June 30, 1995, 1994 and 1993, the Bank's loan originations totaled $68.5 million, $47.4 million, $64.7 million and $64.4 million, respectively. Purchases of mortgage-backed and other securities totaled $101.3 million, $55.4 million, $101.3 million and $120.5 million for the nine months ended March 31, 1996 and the fiscal years ended June 30, 1995, 1994, and 1993, respectively. These activities were funded primarily by principal repayments on loans, mortgage-backed securities and other securities. Loan sales provided additional liquidity to the Bank, totaling $5.2 million, $2.8 million, $19.9 million and $38.4 million for the nine months ended March 31, 1996 and the fiscal years ended June 30, 1995, 1994 and 1993, respectively. During fiscal year 1993, the Bank consummated the sale of its Huntington, New York branch, and the purchase of its Avenue M branch in Brooklyn, New York. The net deposit increase provided by these two transactions during the 1993 fiscal year was $11.8 million.

The Bank experienced a net increase in total deposits of $6.2 million and $8.1 million in the nine months ended March 31, 1996 and the fiscal year ended June 30, 1995, respectively, while fiscal years 1994 and 1993 produced decreases in total deposits of $17.3 million and $410,000, respectively. Deposit flows are affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors.

The Bank closely 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 $98.5 million borrowing limit at the Federal Home Loan Bank of New York ("FHLBNY"). At March 31, 1996, the Bank had $15.7 million in medium term borrowings outstanding at the FHLBNY and additional overall borrowing capacity from the FHLBNY of $82.8 million.

The Bank expects to fund the Acquisition through existing liquidity, the proceeds of the Offerings and, if necessary, short-term borrowings. Upon completion of the Acquisition the Bank will receive Pioneer's liquid assets and upon completion of the Conversion the Bank will receive not less than 50% of the net conversion proceeds. See "Item 5. Other Information."

Loan commitments totaled $44.8 million at March 31, 1996, comprised of $43.9 million in multi-family commitments and residential mortgage loan commitments totaling $919,000. Management of the Bank anticipates that it will have sufficient funds available to meet its current

loan commitments. Certificates of deposit which are scheduled to mature in one year or less from March 31, 1996 totaled $204.3 million. From October 1, 1994 to December 31, 1995, the Bank experienced an 80.2% retention rate of funds from maturing certificates of deposit. Based upon this experience and the Bank's current pricing strategy, management believes that a significant portion of such deposits will remain with the Bank.

At March 31, 1996, the Bank was in compliance with all applicable regulatory capital requirements. Tangible capital totaled 12.01% of total tangible assets, compared to a 1.50% regulatory requirement; core capital, at 12.03%, exceeded the required 3.0% regulatory minimum, and total risk-based capital, at 22.22% of risk weighted assets, exceeded the 8.0% regulatory requirement.

Proposed Acquisition of Conestoga Bancorp, Inc.

On November 2, 1995, the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with CBI pursuant to which CBI and its wholly-owned financial institution subsidiary Pioneer will be acquired by the Bank. The Merger Agreement provides that each share of CBI's common stock, par value of $.01 per share (the "Conestoga Common Stock"), outstanding as of the effective time of the Acquisition (the "Effective Time") (other than shares held as treasury stock, unallocated shares held by CBI's Recognition and Retention Plans and Trusts and any shares as to which dissenters' rights may be exercised under applicable law) will be converted into the right to receive $21.25 in cash without interest (the "Merger Consideration"). The Bank will increase the Merger Consideration by $0.07 per share for each month, pro rated on a daily basis, commencing on June 1, 1996 until completion of the transaction. The Conversion and the Acquisition are anticipated to be consummated in late June of 1996.

Information relating to CBI required to be contained herein is incorporated by reference to the following sections contained in CBI's Annual Report on Form 10-K for the fiscal year ended March 31, 1996 (the "CBI 10-K").

Part I   Item 3
Part II   Item 7
Part II   Item 8
Part IV   Item 14

The selected pro forma consolidated financial data of the Company set forth below is determined on a basis consistent with the Unaudited Pro Forma Condensed Combined Financial Statements of the Company (the "Pro-Forma") and notes thereto presented in the Prospectus, and is qualified in its entirety by references thereto. In deriving the amounts in the tables below, the Acquisition reflected in the ''Purchase Adjustments'' to the Pro Forma is assumed to have occurred; while the issuance of Common Stock reflected in the ''Conversion Adjustments'' to the Pro Forma is not assumed to have occurred. In deriving the amounts for the Selected Financial Condition Data, the Acquisition was assumed to have been consummated at March 31, 1996. In deriving the amounts for the Selected Operating Data, the Acquisition was assumed to have been consummated on January 1, 1996 and July 1, 1995, respectively, for the three months ended March 31, 1996 and the nine months ended March 31, 1996.

	At March 31, 1996 (In thousands)
Selected Financial Condition Data:	
Total assets	1,093,601
Loans, net	554,196
Mortgage-backed securities	224,700
Investment securities	277,837
Federal funds sold	64,047
Goodwill	24,914
Deposits	958,172
Equity	81,632

	For the Three Months Ended March 31, 1996	For the Nine Months Ended March 31, 1996
	(In Thousands)	
Selected Operating Data:		
Interest income	$ 20,685	$ 63,432
Interest expense on deposits and borrowings	10,191	31,882
Net interest income	10,494	31,550
Provision for loan losses	967	1,954
Net interest income after provision for loan losses	9,527	29,596
Non-interest income	1,447	3,149
Non-interest expense	6,478	17,641
Income before income tax expense and cumulative effect of changes in accounting principle	4,496	15,104
Income tax expense	2,433	7,844
Income before cumulative effect of changes in accounting principle	$ 2,063	$ 7,260

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Bank is involved in various 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.

On February 6, 1995, the Superintendent of Banks of the State of New York took possession of Nationar, a check-clearing and trust company, freezing all of Nationar's assets. Subsequently, the Bank filed claims of, as adjusted, approximately $2.2 million for demand accounts (including federal funds), $77,829 for the recovery on certain forged checks, $130,688 for a debt security, and interest earned thereon, held for payment of the Nationar capital debentures, $4,346 for bond coupon collections and $384,000 for capital debentures and revolving capital debentures. The Bank's SBLI Department filed a claim of $3,600 for a demand account. The Bank also filed proofs of interest for 147 shares of Nationar common stock and 372 shares of preferred stock, which had a value on the Bank's books of $66,000.

The Superintendent has submitted four Interim Status Reports regarding the business and affairs of Nationar to the Supreme Court of the State of New York in accordance with the relevant provisions of the Banking Law of the State of New York ("Banking Law"), including an Unaudited Statement of the Net Assets and Liabilities in Liquidation for Nationar as of February 6, 1996 ("Unaudited Statement") prepared for the Superintendent. The Unaudited Statement showed total assets of $266,238,000, of which $229,787,000 were reported as cash and cash equivalents, and total liabilities of $280,624,000, of which $118,545,000 were reported as entitled to a priority of payment or comparable special treatment. The Superintendent also stated that the net deficit shown in the Unaudited Statement may differ materially from that actually realized in the liquidation of Nationar as a result of, among other things, the results of the claims reconciliation process, litigation over rejected claims, resolution of objections to claims, and the Court's determinations regarding priority of payment of claims. Under the Banking Law, there may be certain preferences that might affect the percentage recovery of any particular institution. Section 621 of the Banking Law accords a preference to the deposits, within the meaning of that statute, of mutual savings banks with Nationar.

Based upon the information set forth in these documents, management, as advised by legal counsel, believes that there is a reasonable likelihood that the Bank will not realize a full recovery from the liquidation of Nationar. Although it is too early to determine the amount that ultimately will not be recovered, management has established reserves for potential losses associated with Nationar investments and deposits. As of December 31, 1995 the Bank had a reserve of $565,000 relating to its investments in Nationar's capital and preferred stocks and subordinated capital debentures and had a reserve of $75,000 relating to its federal funds of $360,000 with Nationar. In addition, during February 1996, the Bank increased its reserves for potential losses associated with Nationar by $285,000 in order to fully reserve its federal funds sold position at Nationar. In connection with its normal procedures for monitoring asset quality, management continues to assess the adequacy of its reserves for potential losses associated with Nationar. This assessment is based upon management's evaluation of the Interim Reports and will be reevaluated throughout the claims process. For the nine months ended March 31, 1996, no additional provisions were considered necessary.

By letters dated February 2 and April 24, 1996, the Superintendent notified the Bank that he will accept the Bank's claims in the amounts of $384,000 for the capital debentures, of $60,104 for the debt security, and interest thereon, held for payment of the Nationar capital debentures, of $2,231,811 for demand accounts, including the federal funds, of $4,346 for the bond coupon claim, and of $3,600 for the SBLI Department's demand account claim. The Superintendent also rejected $70,584 of the claim for the debt security, and the interest earned thereon, held for payment of the Nationar capital debentures. The Bank has received payment of the $77,829 claimed for the recovery of the forged checks. The Superintendent also informed the Bank that he intends to recommend to the Court that such accepted claims be treated as claims entitled to priority of payment, except to the extent that the demand account claim is for federal funds. Based on the various reports and communications from the Superintendent, the Bank expects that accepted claims for which a priority is granted will be paid in full, and other accepted but nonpriority claims will be paid at a substantial fraction of the claim, with the rate of such recovery dependent on the factors described above. The Superintendent has also obtained judicial approval to pay in full the claims entitled to priority and to pay 40% of the amount of accepted nonpriority claims. Subject to the satisfaction of certain conditions, the Superintendent will make such payment on June 27, 1996. The Bank intends that the reserves established for potential losses will not be reduced until, and to the extent, the Bank has received payment of the claim against which the reserves were established. The foregoing events will not have any material effect on the Company's or the Bank's liquidity needs. Management is continuing to take all steps necessary to recover the amounts owed to the Bank by Nationar.

On December 4, 1995, a purported class action complaint was filed in the Delaware Chancery Court, New Castle County, on behalf of the stockholders of CBI by Jeffrey Simon ("Plaintiff") against CBI, each of the members of the CBI Board, and Dime. The Plaintiff alleges that each of the members of CBI's Board breached his fiduciary duties to CBI stockholders by, among other things, agreeing to accept the Merger Consideration, which Plaintiff alleges is inadequate. Dime is alleged to have aided and abetted this breach. Plaintiff seeks various remedies, including an injunction to prevent the consummation of the Acquisition and compensatory damages in an unspecified amount. On February 9, 1996, CBI and the director defendants filed an answer which denied the allegations of liability raised in the complaint and raised affirmative defenses, as well as a motion to dismiss the complaint. On February 12, 1996, Dime filed a motion to dismiss the complaint. On or about March 12, 1996, Plaintiff served a motion for leave to file an amended complaint. In his proposed amended complaint, Plaintiff asserts, among other things, that the Proxy Statement distributed to CBI's stockholders did not provide sufficient disclosure, and that the Acquisition is unfair to CBI's stockholders and disproportionately benefits CBI's Board and Dime. CBI and Dime each intend to vigorously defend against the respective claims against them, but there can be no assurance that CBI and/or Dime will be successful.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

On November 1, 1995, the Bank adopted a Plan of Conversion (the "Plan") whereby the Bank will convert from the mutual form to the stock form of ownership. In connection therewith, the Bank filed an Application for Conversion on Form AC to the Office of Thrift Supervision, which application was approved on May 14, 1996. The Plan was approved by members of the Bank by a vote taken on June 21, 1996. Pursuant to the Plan, the Company was organized at the direction of the Bank for the purpose of holding the stock of the Bank upon the Conversion and issuing shares of the common stock, par value $.01 per share (the "Common Stock"), of the Company. The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission registering up to 14,547,500 shares of the Common Stock. On May 13, 1996, the Company's Registration Statement on Form S-1 was declared effective by the Securities and Exchange Commission. The Company has offered 12,650,000 shares of Common Stock (subject to increase to 14,547,500 shares under certain circumstances) to certain eligible depositors and members of the Bank in a subscription offering and to certain members of the general public in a community offering. The Offerings concluded on June 17, 1996 and subscription orders received from eligible depositors, who have priority subscription rights, exceeded the 12,650,000 shares offered.

On November 2, 1995, the Bank entered into an Agreement and Plan of Merger with CBI pursuant to which CBI and its wholly-owned financial institution subsidiary Pioneer will be acquired by the Bank. The Merger Agreement provides that each share of Conestoga Common Stock outstanding as of the Effective Time (other than shares held as treasury stock, unallocated shares held by CBI's Recognition and Retention Plans and Trusts and any shares as to which dissenters' rights may be exercised under applicable law) will be converted into the right to receive $21.25 in cash without interest. The Bank will increase the Merger Consideration by $0.07 per share for each month, pro rated on a daily basis, commencing on June 1, 1996 until completion of the transaction. The Conversion and the Acquisition are anticipated to be consummated in late June of 1996.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27. Financial Data Schedule (EDGAR only).

Exhibit 99.1 The following sections of the Annual Report on Form 10-K of Conestoga Bancorp, Inc. for the fiscal year ended March 31, 1996 incorporated by reference herein:

Part I Item 3
Part II Item 7
Part II Item 8
Part IV Item 14

(b) Reports on Form 8-K

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

Dime Community Bancorp, Inc.

Dated: June 25, 1996

By: /s/ Vincent F. Palagiano

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

Dated: June 25, 1996

By: /s/ Kenneth J. Mahon

Kenneth J. Mahon
SeniorVice President and Chief Financial
Officer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	PAGE NO.
27	Financial Data Schedule	
99.1	Certain Sections of Annual Report on Form 10-K of Conestoga Bancorp, Inc. for the fiscal year ended March 31, 1996	

9

This schedule contains summary financial information extracted from the consolidated condensed statements of financial condition and the consolidated condensed statement of income and is qualified in its entirety by reference to such financial statements.

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9-MOS
JUN-30-1996
JUN-30-1995
MAR-31-1996
6,913
549,952
24,247
0
86,665
96,393
96,903
437,065
6,146
676,175
561,026
2,026
2,182
15,710
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0
81,636
676,175
29,643
8,645
962
39,250
17,035
17,789
21,461
1,850
(108)
3,020
10,290
5,577
0
(1,032)
4,545
0
0
8.06
5,614
0
5,238
9,124
5,174
889
11
6,146
6,146
0
0

Exhibit 99.1 Certain Sections of Annual Report on Form 10-K of Conestoga Bancorp, Inc. for the fiscal year ended March 31, 1996

ITEM 3. LEGAL PROCEEDINGS

On February 6, 1995, the Superintendent of Banks for the State of New York seized Nationar, a check-clearing and trust company, freezing all of Nationar's assets. On that date, the Bank had demand accounts of approximately $2.2 million. On April 5, 1995, the Bank received $739,000 from the New York State Banking Department representing a partial release of its funds with Nationar. On April 26, 1995, the Superintendent submitted an Interim Status Report ("Interim Report") regarding the business and affairs of Nationar to the Supreme Court of the State of New York, in accordance with the relevant provisions of the Banking Law of the State of New York. Attached to the Interim Report was a preliminary Statement of the Net Assets and Liabilities in Liquidation for Nationar as of February 6, 1995 ("Preliminary Statement"), which showed a net deficit of liabilities in excess of assets of approximately $29.4 million. The Superintendent indicated in the Interim Report that the review of potential claims against Nationar is not yet complete and that any estimate of the net deficit of Nationar (and potential creditor recoveries) may differ materially from the amounts shown in the Preliminary Statement as a result of, among other things, the ultimate realization on the assets of the estate, the total amount of claims presented, the results of the claims reconciliation process, the valuation of collateral and the review and classification of priority claims. Under the Banking Law, there may be certain preferences that might affect the percentage recovery of any particular institution. The Interim Report did not indicate whether or the extent to which the Bank or a similarily situated institution would recover amounts owed by Nationar. Based upon information set forth in these documents, which by their terms are preliminary, management, as advised by legal counsel, believes that there is a reasonable likelihood that the Bank will not recover all of its deposits owed by Nationar. Although it is too early to determine the amount that ultimately will not be recovered, management has provided $197,000 as a reserve against the possibility of loss in accordance with the Company's normal procedures for monitoring asset quality. Adjustments to this allowance may be made as the claims process progresses. The foregoing events will not have any material effect on the Company's or the Bank's ability to meet their liquidity needs. Management is taking all steps necessary to recover the amounts owed the Bank by Nationar.

On December 4, 1995, a purported class action complaint was filed in the Delaware Chancery Court, New Castle County, on behalf of the stockholders of Conestoga by Jeffrey Simon ("Plaintiff") against Conestoga, each of the members of the Conestoga Board, and Dime. The Plaintiff alleges that each of the members of Conestoga's Board breached his fiduciary duties to Conestoga stockholders by, among other things, agreeing to accept the Merger Consideration, which Plaintiff alleges is inadequate. Dime is alleged to have aided and abetted this breach. Plaintiff seeks various remedies, including an injunction to prevent the consummation of the Acquisition and compensatory damages in an unspecified amount. On February 9, 1996, Conestoga and the director defendants filed an answer which denied the allegations of liability raised in the complaint and raised affirmative defenses, as well as a motion to dismiss the complaint. On February 12, 1996, Dime filed a motion to dismiss the complaint. On or about March 12, 1996, Plaintiff served a motion for leave to file an amended complaint. In his proposed amended complaint, Plaintiff asserts, among other things, that the Proxy Statement distributed to Conestoga's shareholders did not provide sufficient disclosure, and that the Acquisition is unfair to Conestoga's stockholders and disproportionately benefits Conestoga's Board and Dime. Conestoga and Dime each intend to vigorously defend against the respective claims against them, but there can be no assurance that Conestoga and/or Dime will be successful.

The Bank is not involved in any other pending legal proceedings other than legal proceedings incident to the Bank's business, which involve amounts in the aggregate which management believes are immaterial to the financial condition and results of operations of the Bank.

PART II

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

GENERAL

Conestoga Bancorp, Inc. (the "Company"), was formed in November of 1993, the holding company for Pioneer Savings Bank, F.S.B. (the "Bank") in connection with the conversion of the Bank from mutual to stock form of ownership. The Company is headquartered in Roslyn, New York and principal business currently consists of operations of its wholly owned subsidiary, the Bank. The Company had no operations prior to March 30, 1994 and accordingly, the results of operations prior to that date reflect only those of the Bank. The Bank's results of operations are dependent primarily on net interest income, which is the difference between the income earned on its loan, mortgage-backed and mortgage-related securities and investment securities portfolios, and its cost of funds, consisting of the interest paid on its deposits and borrowings. The Bank's results of operations are also affected by its provision for loan losses. The Bank's non-interest expenses principally consist of employee compensation and benefits, occupancy and equipment expenses, federal deposit insurance premiums and other general and administrative 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 and actions of regulatory authorities.

MANAGEMENT STRATEGY

The Bank operates a traditional savings institution and seeks to achieve profitability while maintaining a relatively strong capital position by emphasizing one- to four- family residential mortgage lending, managing interest rate risk, and controlling expenses by improving operating efficiency.

The Bank has emphasized, and plans to continue to emphasize, originating for its portfolio traditional one- to four- family residential mortgage loans in its primary market area of Brooklyn, Queens, Nassau, Suffolk and Westchester counties in the New York City metropolitan area. One-to four-family residential mortgage loans have exceeded 90% of the Bank's total loan portfolio in each of the five years ended March 31, 1996 and totalled $109.5 million, or 94.87% of the Bank's total loan portfolio at March 31, 1996. As a result of the Bank's long-term policy of originating loans secured by one-to four-family, owner-occupied, primary residences that meet the Bank's underwriting standards, the Bank has maintained high asset quality. The Bank's ratio of non-performing loans and real estate owned to total assets did not exceed .34% at any fiscal year end during the past five fiscal years. At March 31, 1996, this ratio was .16%.

The Bank's allowance for loan losses as a percent of total loans was .18% at March 31, 1996. The Bank originates primarily ARM loans and 10-15 year fixed-rate loans as part of its strategy to reduce its exposure to interest rate risk. However, 30 year fixed rate mortgage loans are offered although they may not be at the most competitive rates. The Bank's total net loan portfolio as a percentage of total assets has decreased from 25.8% at March 31, 1995 to 23.2% at March 31, 1996, due to a declining interest rate environment which placed one- to- four family ARMs in less demand.

ASSET/LIABILITY MANAGEMENT
- --------------------------

In an effort to manage the Bank's vulnerability to interest rate changes, management closely monitors interest rate risk on an on-going basis. The Bank's overall asset/liability management policy is designed to maintain a balance between interest-earning assets and interest-bearing liabilities such that the Bank's cumulative one-year gap ratio is within a range which the Board believes is conducive to maintaining profitability without incurring undue risk. However, large fluctuations in market interest rates are neither predictable nor controllable and may have a materially adverse impact on the operations and financial condition of the Bank.

The Bank has limited its exposure to interest rate risk, in part, through its emphasis on the origination of ARM loans and shorter-term fixed rate loans. At March 31, 1996, 29% of the Bank's one- to four-family residential mortgage loans were ARM loans. Management believes that, although investment in ARM loans may reduce short-term earnings below amounts obtainable through investments in fixed-rate mortgage loans, an ARM loan portfolio reduces the Bank's exposure to adverse interest rate fluctuations and enhances longer term profitability. In recent periods, overall loan originations have decreased in the Bank's market area. Although the Bank originates 10, 15 and 30 year fixed-rate, one- to four- family residential mortgage loans, its emphasis in recent periods has been on the origination of shorter-term fixed-rate loans. The Bank believes that originating a longer term, fixed-rate loan product for retention in its portfolio would subject the Bank to undue exposure to fluctuations in interest rates but attempts to off-set this exposure to fluctuating interest rates with shorter-term securities. There is no assurance that any substantial amount of ARM loans meeting the Bank's underwriting standards will be available for origination in the future.

The Bank has increased its investments in low risk mortgage-backed and mortgage-related securities and investment securities with short and intermediate average lives. The investment policy of the Bank is designed to manage the interest rate sensitivity of its overall assets and liabilities, to generate a favorable return without incurring undue interest rate risk, to supplement the Bank's lending activities, and to provide and maintain liquidity. At March 31, 1996, the Bank's mortgage-backed and mortgage-related securities portfolio, including those available for sale, consisted of $50.3 million with fixed rates and $79.7 million with adjustable rates. Included in this total were $6.1 million of CMOs and REMICs, a type of CMO. All of the Bank's CMOs and REMICs had adjustable rates and $5.9 million were insured or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), the Federal National Mortgage Association ("FNMA") or the Government National Mortgage Association ("GNMA"). At March 31, 1996, the Bank's investment securities included $119.0 million of securities maturing in one year or less and $163.4 million of securities maturing in five years or less. These investments are consistent with the Bank's objective of controlling interest rate risk through investments in instruments with shorter terms to maturity or average lives to better match the repricing of liabilities.

The Bank closely monitors its operating expenses and seeks to control operating expense ratios while maintaining the necessary staff and facilities to serve its customers. The Bank's ratio of operating expenses to average assets was 2.11%, 2.03%, 1.93%, 1.83% and 1.92% for the fiscal years ended March 31, 1996, 1995, 1994, 1993 and 1992, respectively. The Bank has maintained low operating costs primarily through controlling the growth in personnel, the absence of large loan origination and servicing staffs and an efficient and effective product delivery

system. The Bank's expenses have increased as a result of its conversion from mutual to stock form because of increased regulatory and reporting requirements. Management will continue to monitor all expenses and attempt to control such expenses.

INTEREST RATE SENSITIVITY ANALYSIS

The matching of the repricing characteristics of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that same time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets anticipated, based upon certain assumptions, to mature or reprice within a specific time period and the amount of interest-bearing liabilities anticipated, based upon certain assumptions, to mature or reprice within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing within a specific time frame exceeds the amount of interest rate sensitive liabilities maturing or repricing within that same time frame. A gap is considered negative when the amount of interest rate sensitive liabilities maturing or repricing within a specific time frame exceeds the amount of interest rate sensitive assets maturing or repricing within that same time frame. Accordingly, in a rising interest rate environment, an institution with a positive gap would be in a better position to invest in higher yielding assets, which would result in the yield on its assets increasing at a pace closer to the cost of its interest-bearing liabilities, than would be the case if it had a negative gap. During a period of falling interest rates, an institution with a positive gap would tend to have its assets repricing at a faster rate than one with a negative gap, which would tend to restrain the growth of its net interest income.

In an effort to minimize interest rate risk exposure, the Bank has concentrated its efforts on investing in adjustable-rate mortgage-backed securities; however, in the current interest rate environment the Bank has invested in shorter-term, fixed-rate products which produce a greater yield while minimizing interest rate risk exposure. As a result of this strategy, at March 31, 1996, net interest-earning assets maturing or repricing within one year exceeded its total interest-bearing liabilities maturing or repricing within the same time period by $86.8 million, representing a positive cumulative one-year gap of 17.56% of total assets. The Bank is currently attempting to maintain a positive gap position; however, there can be no assurances that the Bank will be able to maintain its positive gap position or that the Bank's strategies will not result in a negative gap in the future.

The Bank has recently attempted to increase deposits by maintaining interest rates in line with those of its competitors. The Bank has also attempted to encourage long-term depositors to maintain their accounts with the Bank through expanded customer service and establishing branch offices in new market areas. This policy has resulted in the Bank's core deposits to total deposits ratio of at least 44.22% at any fiscal year end during the past five fiscal years. However, to the extent the Bank's core deposits are reduced at a more rapid rate than the Bank's decay assumptions on such deposits, the Bank's current positive gap position could be negatively impacted.

The following table sets forth the amount of interest-earning assets and interest-bearing liabilities outstanding at March 31, 1996, which are anticipated by the Bank based upon certain assumptions described below, to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual terms of the asset or liability. The Bank utilized the Office of Thrift Supervision's ("OTS") most recent national deposit decay rate assumptions, which were published as of December 31, 1992, of 17% for passbook accounts and 79% for money market deposit accounts. Those assumptions may not be indicative of actual withdrawals experienced by the Bank.

	As of March 31, 1996								
	3 Months or Less	3 to 6 Months	6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years to 10 Years	More than 10 Years to 20 Years	More than 20 Years	Total
	(Dollars in Thousands)								
Interest-earning assets:									
Mortgage loans	$2,525	$2,691	$11,082	$28,550	$13,645	$25,703	$26,834	$3,023	$114,053
Other loans	692	692	-	-	-	-	-	-	1,384
Mortgage-backed securities available for sale (1)	308	339	368	143	170	192	29	-	1,549
Investment securities held to maturity (1)	101,104	20,903	14,999	12,480	11,959	17,990	-	-	179,435
Mortgage-backed securities held to maturity (1)	25,472	28,037	30,399	11,852	14,054	15,856	2,391	-	128,061
Interest-earning deposits	39,800	-	-	-	-	-	-	-	39,800
FHLB capital stock	2,681	-	-	-	-	-	-	-	2,681
Total interest-earning assets	172,582	52,662	56,848	53,025	39,828	59,741	29,254	3,023	466,963
Less: loan loss reserves, unearned discount & deferred fees on loans (2)	340	104	112	104	78	118	58	5	919
Net interest-earning assets	172,242	52,558	56,736	52,921	39,750	59,623	29,196	3,018	466,044
Interest-bearing liabilities:									
Passbook accounts	5,532	5,532	11,065	33,612	21,912	27,812	19,238	5,468	130,171
Money market accounts	5,930	5,930	11,859	3,303	1,573	1,206	218	5	30,024
Certificate accounts	48,199	31,818	63,636	56,157	23,138	-	-	-	222,948
Securities sold with agreement to repurchase	-	5,000	-	5,000	-	-	-	-	10,000
Escrow deposits (interest-bearing)	63	63	126	381	249	316	218	61	1,477
Total interest-bearing liabilities	59,724	48,343	86,686	98,453	46,872	29,334	19,674	5,534	394,620
Interest rate sensitivity gap	$112,518	$4,215	($29,950)	($45,532)	($7,122)	$30,289	$9,522	($2,516)	$71,424
Cumulative interest rate sensitivity gap	$112,518	$116,733	$86,783	$41,251	$34,129	$64,418	$73,940	$71,424	
Cumulative interest rate sensitivity gap as a percentage of total assets	22.77%	23.62%	17.56%	8.35%	6.91%	13.03%	14.96%	14.45%	
Cumulative net interest-earning assets as a percentage of interest-bearing liabilities	288.40%	208.02%	144.56%	114.07%	110.04%	117.44%	119.00%	118.10%	

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(1) Net of unearned discount and deferred fees

(2) For purposes of the gap analysis, unearned discount and deferred fees are pro-rated

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 react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features which limit changes in interest rates 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 significantly from those assumed in calculating the table. Finally, the ability of borrowers to service their ARM loans may decrease in the event of an interest rate increase.

ANALYSIS OF NET INTEREST INCOME

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the volume 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 average consolidated statement of financial condition and the consolidated statement of operations for the fiscal years ended March 31, 1995, 1994 and 1993 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 month-end balances. The average balance of loans receivable includes loans on which the Bank has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields.

	Year Ended March 31,								
	1996			1995			1994		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Federal funds sold	$36,092	$2,189	6.07%	$35,942	$1,678	4.67%	$33,100	$1,110	3.36%
Investment securities (1)(2)	136,293	9,266	6.80	94,562	6,611	6.99	67,132	4,466	6.65
Mortgage loans	112,990	8,964	7.93	107,317	8,454	7.88	99,822	8,374	8.39
Consumer and other loans	1,430	105	7.34	1,514	106	7.00	1,694	121	7.14
Mortgage-backed securities (2)	174,913	11,878	6.79	163,999	9,860	6.01	156,241	10,758	6.89
Total interest-earning assets	461,718	32,402	7.02	403,334	26,709	6.62	357,989	24,829	6.94
Non-interest-earning assets	25,644			24,081			22,919		
Total assets	$487,362			$427,415			$380,908		
Liabilities and stockholders' equity:									
Interest-bearing liabilities:									
Securities sold with agreement to repurchase	$18,660	1,209	6.48	$4,522	261	5.77	-	-	-
Money market deposits	29,816	976	3.27	31,928	922	2.89	$35,647	921	2.58
Savings deposits (3)	130,589	3,236	2.48	145,198	3,678	2.53	146,067	3,728	2.55
Certificates of deposit	210,469	12,872	6.12	153,373	7,444	4.85	150,737	6,969	4.62
Total interest-bearing liabilities	389,534	18,293	4.70	335,021	12,305	3.67	332,451	11,618	3.49
Demand deposits	14,814			12,970			11,076		
Other non-interest-bearing liabilities	4,680			4,086			3,652		
Total liabilities	409,028			352,077			347,179		
Stockholders' equity:	78,334			75,338			33,729		
Total liabilities and stockholders' equity	$487,362			$427,415			$380,908		
Net interest income/net interest rate spread (4)		$14,109	2.32%		$14,404	2.95%		$13,211	3.45%
Net interest-earning assets/net interest margin (5)	$72,184		3.06%	$68,313		3.57%	$25,538		3.69%
Ratio of interest-earning assets to average interest-bearing liablilties			1.19 x			1.20 x			1.08 x

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(1) Includes interest-bearing deposits in other banks and FHLB stock
(2) Includes assets available for sale
(3) Includes advance payment from borrowers for taxes and insurance of $1.5 million and $1.9 million for the fiscal years ended March 31, 1996 and 1995, respectively, which earns interest at a 2% annual rate.
(4) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average yield on interest-bearing liabilities
(5) Net interest margin represents net interest income as a percentage of average interest-earning assets

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Bank'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 (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended March 31, 1996 Compared to Year Ended March 31, 1995			Year Ended March 31, 1995 Compared to Year Ended March 31, 1994		
	Increase (Decrease) in Net Interest Income Due to			Increase (Decrease) in Net Interest Income Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest income:						
Federal funds sold	$9	$502	$511	$133	$435	$568
Investment securities	2,837	(182)	2,655	1,918	227	2,145
Mortgage loans	450	60	510	590	(510)	80
Consumer and other loans	(6)	5	(1)	(13)	(2)	(15)
Mortgage-backed securities	741	1,277	2,018	466	(1,364)	(898)
Total interest-earning assets	4,031	1,662	5,693	3,094	(1,214)	1,880
Interest expense:						
Securities sold with agreement to repurchases	916	32	948	261	-	261
Money market deposits	(69)	123	54	(107)	108	1
Savings deposits	(362)	(80)	(442)	(22)	(28)	(50)
Certificates of deposit	3,492	1,936	5,428	128	347	475
Total interest-bearing liabilities	3,977	2,011	5,988	260	427	687
Net change in interest income	$54	($349)	($295)	$2,834	($1,641)	$1,193

COMPARISON OF OPERATING RESULTS FOR THE FISCAL YEARS ENDED MARCH 31, 1996 AND 1995

GENERAL. For the twelve months ended March 31, 1996 and 1995, net income was $3.2 million and $4.1 million, respectively. Comments regarding the material changes in the components of net income are discussed below.

INTEREST INCOME. Interest income increased $5.7 million, or 21.3 percent, to $32.4 million for the twelve months ended March 31, 1996, from $26.7 million in the same period in 1995, primarily due to an increase in the average balance of interest-earning assets of $58.4 million, or 14.5 percent, representing investment of the proceeds from the increase in total deposits. Increases of $509,000, $2.5 million, $2.2 million and $511,000 in interest income on loans, mortgage-backed securities held to maturity, investment securities held to maturity and federal funds sold, respectively, were offset by a decrease in interest income on securities available for sale of $38,000.

INTEREST EXPENSE. Interest expense increased $6.0 million, or 48.7 percent, to $18.3 million for the twelve months ended March 31, 1996, from $12.3 million in the same period in 1995. The increase is primarily attributable to the interest expense on the securities sold with agreement to repurchase coupled with an increase in certificate rates, which resulted in the average cost of interest-bearing liabilities increasing to 4.70 percent for the twelve months ended March 31, 1996, from 3.67 percent for the same period in 1995. Securities sold with agreement to repurchase reflect management's decision to leverage the balance sheet in an effort to increase net interest income. The increase in the average cost of interest-bearing liabilities was coupled with an increase in the average balance of interest-bearing liabilities of $54.5 million, or 16.3 percent to $389.5 million from $335.0 million.

NET INTEREST INCOME. Net interest income declined $295,000, or 2.0 percent, to $14.1 million for the twelve months ended March 31, 1996, from $14.4 million in the same period in 1995. The net interest spread declined to 2.32 percent for the twelve months ended March 31, 1996, from 2.95 percent for the same period in 1995. This is largely due to the increased cost of interest-bearing liabilities discussed above. Due to the current interest rate environment, although management cannot predict with certainty the effects of changes, if any, in interest rates on future yields in the near term, it is likely the net interest margin will continue to narrow.

PROVISION FOR LOAN LOSSES. The Bank maintains an allowance for loan losses at a level considered adequate to absorb loan losses. Management of the Bank, in determining the provision for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the specific economic environment of the New York metropolitan area and its impact on real estate market conditions in the Bank's market area. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and financial condition of the borrower. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of loan portfolio and current economic conditions. Although management believes that adequate general loan losses are established, actual losses are dependent upon future events

and, as such, further additions to the level of the general loan loss allowance may be necessary. No specific reserves for loan losses were established for the twelve months ended March 31, 1996 and 1995. The general and specific reserve terms are used for regulatory and internal purposes only. In the calculation of the risk-based capital ratio, the general valuation reserves are added back to stockholders' equity.

For the twelve months ended March 31, 1996, the provision for loan losses was $104,000 as compared to a net recovery for loan losses of $36,000 for the same period in 1995. The Bank's history of loan losses has been minimal, which it believes is a reflection of its conservative underwriting standards. The ratio of allowance for loan losses as a percentage of total loans receivable was .18% and .15% at March 31, 1996 and 1995, respectively.

NON-INTEREST INCOME. Non-interest income consists primarily of fee income from service charges and gains on sales of mortgage-backed and investment securities. Non-interest income totalled $2.6 million for the twelve months ended March 31, 1996, an increase of $760,000, or 41.5 percent, from $1.8 million for the same period in 1995. The increase primarily reflects gains of $1.7 million on sales of securities available for sale in 1996 as compared to gains of $850,000 in 1995. The 1996 sales were undertaken as a result of management's decision to reduce the available-for-sale portfolio and, in turn, the accompanying gains were recorded in accordance with SFAS No. 115. The 1995 sales were a result of management's decision to eliminate higher-risk corporate bonds from the Bank's securities portfolio as well as mortgage-backed securities with high prepayment risk.

NON-INTEREST EXPENSE. For the twelve months ended March 31, 1996, non-interest expense was $10.3 million, an increase of $1.6 million, or 18.5 percent, as compared to $8.7 million for the same period in 1995. The increase was attributable to expenses of $842,000 incurred in connection with the merger of the Company with Dime. The rise was also a result of an increase in salaries and employee benefits of $294,000 primarily reflecting annual salary increases and increased payroll taxes, as well as increases in ESOP/RRP benefits and federal insurance premiums of $191,000 and $56,000, respectively.

INCOME TAX EXPENSE. Income taxes decreased $389,000 to $3.1 million for the twelve months ended March 31, 1996, from $3.5 million for the same period in 1995. This decrease was a result of the decrease in pre-tax income for the period.

COMPARISON OF OPERATING RESULTS FOR THE FISCAL YEARS ENDED MARCH 31, 1995 AND 1994

GENERAL. For the twelve months ended March 31, 1995 and 1994, net income was $4.1 million and $3.9 million, respectively. Comments regarding the material changes in the components of net income are discussed below.

INTEREST INCOME. Interest income increased $1.9 million, or 7.6%, to $26.7 million for the twelve months ended March 31, 1995, from $24.8 million in the same period in 1994, primarily due to an increase in the average balance of interest-earning assets of $45.3 million, or 12.7%, representing investment of the proceeds from the stock conversion. A decrease of $2.9 million in interest income on mortgage-backed securities was offset by increases in interest income of

$65,000, $2.3 million, $1.8 million and $568,000 on loans, investment securities, securities available for sale and federal funds sold, respectively. The increase in interest income on securities available for sale and the related decrease in interest income on mortgage-backed securities reflect the Bank's adoption of SFAS No. 115 effective April 1, 1994, requiring the reclassification of certain mortgage-backed securities from held to maturity to available for sale. See "Impact of New Accounting Standards."

INTEREST EXPENSE. Interest expense increased $687,000, or 5.9%, to $12.3 million for the twelve months ended March 31, 1995, from $11.6 million in the same period in 1994. The increase is primarily attributable to the interest expense on the securities sold with agreement to repurchase coupled with an increase in certificate rates, which resulted in the average cost of interest-bearing liabilities increasing to 3.67% for the twelve months ended March 31, 1995, from 3.49% for the same period in 1994. Securities sold with agreement to repurchase reflect management's decision to leverage the balance sheet in an effort to increase net interest income. The increase in the average cost of interest-bearing liabilities was coupled with an increase in the average balance of interest-bearing liabilities of $2.5 million, or .8%, to $335.0 million from $332.5 million.

NET INTEREST INCOME. Net interest income increased $1.2 million, or 9.0%, to $14.4 million for the twelve months ended March 31, 1995, from $13.2 million for the same period in 1994. However, the net interest spread declined to 2.95% for the twelve months ended March 31, 1995, from 3.45% for the same period in 1994. This is indicative of a decreased yield of 32 basis points on interest-earning assets due to increased investments in lower-risk, lower-yielding assets such as mortgage-backed and investment securities, as well as the increased cost of interest-bearing liabilities discussed above. Due to the current interest rate enviroment, management cannot predict with certainty the effects of changes, if any, in interest rates on future yields.

PROVISION FOR LOAN LOSSES. The Bank maintains an allowance for loan losses at a level considered adequate to absorb loan losses. Management of the Bank, in determining the provision for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the specific economic environment of the New York metropolitan area and its impact on real estate market conditions in the Bank's market area. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and financial condition of the borrower. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of loan portfolio and current economic conditions. Although management believes that adequate general loan losses are established, actual losses are dependent upon future events and, as such, further additions to the level of the general loan loss allowance may be necessary. For the twelve months ended March 31, 1995, specific reserves for loan losses totaling $14,000 were established. No specific reserves for loan losses were established for the twelve months ended March 31, 1994. The general and specific reserve terms are used for regulatory and internal purposes only. In the calculation of the risk-based capital ratio, the general valuation reserves are added back to stockholders' equity.

Due to the Bank's historically low level of nonperforming loans, the Bank was able to realize a net recovery for loan losses of $36,000 for the twelve months ended March 31, 1995, as compared to a provision of $39,000 for the same period in 1994. The Bank's history of loan losses has been minimal, which it believes is a reflection of its conservative underwriting standards. The ratio of allowance for loan losses as a percentage of total loans receivable was .15% and .21% at March 31, 1995 and 1994, respectively.

NON-INTEREST INCOME. Non-interest income consists primarily of fee income from service charges and gains on sales of mortgage-backed and investment securities. Non-interest income totalled $1.8 million for the twelve months ended March 31, 1995, an increase of $344,000, or 23.1%, from $1.5 million for the same period in 1994. The increase primarily reflects gains of $850,000 on sales of securities available for sale in 1995 as compared to gains of $620,000 on sales of mortgage-backed securities and investments and securities available for sale in 1994. The 1995 sales were undertaken to reduce the available-for-sale portfolio and, in an increasing interest rate environment, the accompanying unrealized losses which would likely be required to be recorded in accordance with SFAS No. 115. See "Impact of New Accounting Standards." The 1994 sales were a result of management's decision to eliminate higher-risk corporate bonds from the Bank's securities portfolio as well as mortgage-backed securities with high prepayment risk.

NON-INTEREST EXPENSE. For the twelve months ended March 31, 1995, non-interest expense was $8.6 million, an increase of $1.3 million, or 17.9%, as compared to $7.3 million for the same period in 1994. The rise was primarily a result of an increase in Employee Stock Ownership Plan ("ESOP") and Recognition and Retention Plan ("RRP") benefits of $754,000, as well as increases of $128,000 and $93,000, respectively, in legal and accounting fees and various other increased costs associated with being a public company.

INCOME TAX EXPENSE. Income taxes increased $102,000 to $3.5 million for the twelve months ended March 31, 1995, from $3.4 million for the same period in 1994. This increase was a result of the increase in pre-tax income for the period.

CHANGES IN FINANCIAL CONDITION SINCE MARCH 31, 1995

Total assets increased $49.2 million, or 11.0 percent, to $494.3 million at March 31, 1996, primarily due to additional funds available for investment as a result of a net increase in deposits of $46.7 million.

Mortgage-backed securities available for sale decreased by $16.3 million, or 91.3 percent, which reflects sales of U.S. agency mortgage-backed securities and principal repayments and amortization of $85.2 million and $2.7 million, respectively, partially offset by a one-time reassessment and related reclassification from the held to maturity category and purchases during the period of Government National Mortgage Association ("GNMA") securities of $63.6 million and $8.0 million, respectively. Investment securities available for sale decreased by $51,000 to zero. This decrease was primarily due to sales of U.S. government agency securities and corporate bonds of $7.9 million and $15.0 million, respectively, coupled with calls of U.S. government agency securities of $5.0 million. These were partially offset by a one-time reassessment and related reclassification from the held to maturity category of $28.0 million. The

one-time reassessment and related reclassifications from the held to maturity category discussed herein resulted from the Company's decision to utilize the window allowed by the Financial Accounting Standards Board ("FASB") to reclassify held-to-maturity portfolios pursuant to FASB Statement No. 115 without affecting the classification of the remaining portfolio (see "Impact of New Accounting Standards").

The decreases in mortgage-backed securities and investment securities available for sale were coupled with an increase in investment securities held to maturity and partially offset by a decrease in mortgage-backed securities held to maturity. Investment securities held to maturity increased by $77.8 million or 76.5 percent. This increase was primarily due to purchases of U.S. agency securities and commercial paper of $109.8 million and $220.9 million, respectively. This was partially offset by a one-time reassessment and reclassification to available for sale and by calls and maturities of U.S. agency securities and corporate bonds and sales of downgraded corporate bonds of $28.0 million, $221.9 million and $4.0 million, respectively. The $4.0 million of downgraded corporate bonds were sold because there was evidence of significant deterioration of the issuer's creditworthiness, and were therefore sold in accordance with paragraph 8 of SFAS No. 115.

Mortgage-backed securities held to maturity declined $20.5 million or 13.8 percent largely as a result of a one-time reassessment and reclassification to available for sale and principal repayments of $63.6 million and $18.2 million, respectively. This was partially offset by purchases during the period of Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Resolution Trust Corporation ("RTC") securities of $20.3 million, $13.3 million, $26.2 million and $1.5 million, respectively.

The Bank's total deposit liabilities at March 31, 1996 were $399.7 million compared to $353.0 million at March 31, 1995. During the twelve months ended March 31, 1996, new deposits before interest credited exceeded deposit outflows by $29.7 million. Interest credited for the twelve months ended March 31, 1996 amounted to $17.0 million. The resulting net increase in deposits of $46.7 million, or 13.2 percent, is attributable primarily to the Bank's decision during the first quarter to raise interest rates on many time deposit products in celebration of the Bank's 110th anniversary of serving the financial needs of its communities and the Bank's expansion into the Westbury, New York community with the grand opening of a full service branch and mortgage center. Management has continued to monitor savings rates and has reduced time account rates to a level management believes is still competitive with other institutions in its market areas. At March 31, 1996, 32.6 percent of deposits were in savings accounts, 55.8 percent of deposits were in time accounts, 7.5 percent were in money market accounts and 4.1 percent were in demand accounts.

The Bank's securities sold with agreement to repurchase at March 31, 1996 were $10.0 million compared to $9.8 million at March 31, 1995, an increase of $205,000 or 2.1 percent. These U.S. Government and agency and mortgage-backed securities sold with agreement to repurchase mature during July of 1996 and July of 1997. Borrowings under such reverse repurchase agreements involve the delivery of securities to broker-dealers who arrange the transactions. The securities remain registered in the name of the Bank, and are returned upon the maturities of the agreements. Securities sold with agreement to repurchase reflect management's decision to

leverage the balance sheet in an effort to increase net interest income. Funds to repay at maturity the Bank's securities sold with agreement to repurchase will primarily be provided by cash received from maturing U.S. agency securities.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's primary sources of funds are deposits and principal and interest payments on loans and mortgage-backed and mortgage-related securities and investment securities. While maturities and scheduled amortization of loans and mortgage-backed and mortgage-related securities and investment securities are predictable sources of funds, deposit flows and mortgage prepayments are strongly influenced by changes in general interest rates, economic conditions, competition and regulatory changes.

The Bank is required to maintain an average daily balance of liquid assets and short-term liquid assets as a percentage of net withdrawable deposit accounts plus short-term borrowings as defined by OTS regulations. The minimum required liquidity and short-term liquidity ratios, which vary periodically depending upon economic conditions and deposit flows, are currently 5% and 1%, respectively. The Bank's liquidity ratios were 44.65% and 22.76% at March 31, 1996, and March 31, 1995, respectively, which were significantly higher than required, primarily due to the greater opportunity for deposit gathering than for loan origination within the Bank's local market area. Liquid assets consist of cash, cash equivalents and short-term and intermediate-term investments, such as short and intermediate-term U.S. Government and government agency securities. The maintenance of liquid assets allows for the possibility of disintermediation when interest rates fluctuate. The level of these assets is dependent on the Bank's operating, financing, lending and investing activities during any given period. At March 31, 1996, and March 31, 1995, assets qualifying for short-term liquidity, including cash and short-term investments, totalled $132.3 million and $42.5 million, respectively.

The primary investment activity of the Bank is the origination of one-to-four family mortgage loans as well as investing in mortgage-backed and mortgage-related securities. During the twelve months ended March 31, 1996, the Bank's one-to-four family mortgage loan originations totalled $10.5 million, while purchases of mortgage-backed securities were $69.2 million of which $10.0 million is pledged at March 31, 1996 as collateral for reverse repurchase agreements. Investments in U.S. Government and agency obligations totalled $77.9 million and $66.8 million at March 31, 1996, and March 31, 1995, respectively. Additionally, investments were maintained in corporate commercial paper, notes and bonds which at March 31, 1996, and March 31, 1995, amounted to $101.5 million and $34.9 million, respectively. These activities were primarily funded by principal repayments on loans and mortgage-backed securities, coupled with sales of securities available for sale.

The Bank's cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities and financing activities. Cash flows provided by operating activities, which consisted primarily of interest and dividends received less interest paid on deposits, were $5.2 million and $2.0 million for the twelve months ended March 31, 1996 and 1995, respectively. Net cash used in investing activities, which consisted primarily of mortgage-backed and mortgage-related securities purchases, disbursement of loan originations and investment purchases, offset by principal collections on and proceeds from the sale of loans,

mortgage-backed and mortgage-related securities, securities available for sale, and investment securities, was $51.8 million and $68.9 million for the twelve months ended March 31, 1996 and 1995, respectively. Net cash provided by financing activities, which consisted primarily of net activity in deposits and borrowings, was $44.6 million and $11.8 million for the twelve months ended March 31, 1996 and 1995, respectively.

The Bank has other sources of liquidity, including short term investments in bank and/or thrift certificates of deposit, commercial paper and federal funds. While the Bank has not had a need to borrow such funds, advances from the FHLB are available. If needed, the Bank could increase liquidity through the sale of unencumbered mortgage-backed securities, which are readily marketable, and its corporate debt portfolio. In that connection, the Bank has identified a portion of its investment and mortgage-backed securities portfolio as available for sale.

At March 31, 1996, the Bank had outstanding loan commitments of $83,000. The Bank will have sufficient funds available to meet its current loan origination commitments. Certificates of deposit that are scheduled to mature in one year or less at March 31, 1996 totalled $143.7 million. Management believes that a significant portion of such deposits will remain with the Bank.

At March 31, 1996, the Bank met each of its capital requirements, in each case on a fully phased-in-basis. The following table presents the Bank's capital position at March 31, 1996 relative to fully phased-in regulatory requirements.

	ACTUAL CAPITAL	REQUIRED CAPITAL	EXCESS AMOUNT	ACTUAL PERCENT	REQUIRED PERCENT
	(Dollars in thousands)				
Tangible	$57,845	$7,130	$50,715	12.2%	1.5%
Leverage	57,845	14,260	43,585	12.2	3.0
Risk-based	58,057	16,759	41,298	27.7	8.0

Tangible capital and core capital were $57.8 million at March 31, 1996. The Bank's risk-based capital increased to $58.1 million at March 31, 1996. The Bank exceeded its tangible, core and risk-based capital requirements by $50.7 million, $43.6 million, and $41.3 million, respectively.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and Notes thereto presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Bank's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a greater impact on the Bank'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 NEW ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The pronouncement is effective for fiscal years beginning after December 15, 1995, although earlier implementation is encouraged. In management's opinion, when adopted SFAS No. 121 will not have a material effect on the Bank's financial position or results of operations.

In May 1995, the Financial Accounting Standards Board issued SFAS No. 122, "Accounting for Mortgage Servicing Rights," which is an amendment to SFAS No. 65, "Accounting for Certain Mortgage Banking Activities." This Statement requires the recognition as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. The pronouncement is effective for fiscal years beginning after December 15, 1995, although earlier implementation is permitted. In management's opinion, when adopted Statement No. 122 will not have a material effect on the Bank's financial position or results of operations.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. The pronouncement is effective for transactions entered into for fiscal years that begin after December 15, 1995, though they may be adopted on issuance. In management's opinion, when adopted SFAS No. 123 will not have a material effect on the Bank's financial position or results of operations.

On November 15, 1995, the FASB issued a special report entitled, "A Guide to Implementation of Statement No. 115 on Accounting for Certain Investments in Debt and Equity Securities, Questions and Answers" ("the Guide"). The Guide permitted a one-time reassessment and related reclassifications from the held to maturity category (no later than December 31, 1995) that will not call into question the intent of the enterprise to hold other debt securities at maturity

in the future. In November 1995, the Bank performed a reassessment of its investment and mortgage-backed securities portfolio which resulted in a reclassification of approximately $91.5 million of investment securities from held to maturity into available for sale. There was no impact on the Bank's results from operations resulting from this transfer.

In December 1994, the AICPA issued Statement of Position No. 94-6, "Disclosure of Certain Significant Risks and Uncertainties" ("SOP 94-6") which is effective for fiscal years ending after December 15, 1995. SOP 94-6 requires disclosure in the financial statements about certain risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term and relate to: (i) the nature of operations; (ii) the necessary use of estimates in the preparation of financial statements, and; (iii) significant concentrations in certain aspects of operations. Management does not anticipate that the adoption of SOP 94-6 will have a material impact upon the financial condition or results of operations of the Bank.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included on pages F-1 through F-36 of this report.

PART IV

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

a)(1) Financial Statements:

- Independent Auditors' Report, page F-2
- Consolidated Statements of Financial Condition as of March 31, 1996 and 1995, page F-3
- Consolidated Statements of Income for each of the years in the three-year period ended March 31, 1996, page F-4
- Consolidated Statements of Changes in Stockholders' Equity for each of the years in the three-year period ended March 31, 1996, page F-5
- Consolidated Statements of Cash Flows for each of the years in the three-year period ended March 31, 1996, page F-6
- Notes to Consolidated Financial Statements, pages F-7 through F-36

(2) Financial Statement Schedule
All other schedules are not submitted because they are not applicable or they are not required.

b) Reports on Form 8-K
None.

c) Exhibits

The following exhibits are filed as part of this report:

3.1	Certificate of Incorporation of Conestoga Bancorp, Inc.*
3.2	Bylaws of Conestoga Bancorp, Inc.*
4.0	Stock Certificate of Conestoga Bancorp, Inc.*
10.1 (a)	Pioneer Savings and Loan Association Recognition and Retention Plan for Officers and Employees**
10.1 (b)	Pioneer Savings and Loan Association Recognition and Retention Plan for Outside Directors**
10.2	Conestoga Bancorp, Inc. 1994 Incentive Stock Option Plan**
10.3	Conestoga Bancorp, Inc. 1994 Stock Option Plan for Outside Directors**
10.4	Pioneer Savings Bank, F.S.B. Employee Stock Ownership Plan and Trust*
10.5	Form of Employment Agreements between Pioneer Savings Bank, F.S.B. and Certain Executive Officers
10.6	Form of Employment Agreements between Conestoga Bancorp, Inc. and Certain Executive Officers
10.7	Pioneer Savings Bank, F.S.B. Severance Compensation Plan***

10.8	Form of Change in Control Agreements between Pioneer Savings Bank, F.S.B. and Certain Executive Officers
10.9	Form of Change in Control Agreements between Conestoga Bancorp, Inc. and Certain Executive Officers
10.10	Pioneer Savings Bank, F.S.B. Directors' Deferred Fee Stock Unit Plan**
10.11	Pioneer Savings Bank, F.S.B. Outside Directors' Consultation and Retirement Plan*
10.12	Pioneer Savings Bank, F.S.B. Supplemental Executives' Retirement Plan*
11.0	Computation of earnings per share, incorporated herein by reference to Note 1 of Notes to the Consolidated Financial Statements
21.0	Subsidiary information is incorporated herein by reference to "Subsidiaries"
23.0	Consent of Arthur Andersen LLP
99.0	Proxy Statement for 1995 Annual Meeting

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* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement and amendments thereto, initially filed on December 21, 1993, Registration No. 33-73246.

** Incorporated herein by reference into this document from the Proxy Statement for the July 20, 1995 Annual Meeting of Stockholders filed on June 20, 1995.

*** Incorporated herein by reference into this document from Form 10-K for the fiscal year ended March 31, 1994.

CONESTOGA BANCORP, INC. AND SUBSIDIARY

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[Letterhead of Arthur Andersen LLP]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Conestoga Bancorp, Inc.:

We have audited the accompanying consolidated statements of financial condition of Conestoga Bancorp, Inc. and subsidiary (the "Company") as of March 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended March 31, 1996. 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 audits to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the financial position of Conestoga Bancorp, Inc. and subsidiary as of March 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1996, in conformity with generally accepted accounting principles.

As explained in Note 4 to the consolidated financial statements, effective April 1, 1994, the Company changed its method of accounting for certain investments in debt and equity securities.

/s/ Arthur Andersen LLP

New York, New York
April 24, 1996

CONESTOGA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands except share and per share amounts)

ASSETS	March 31, 1996	March 31, 1995
CASH AND DUE FROM BANKS	$ 9,834	$ 7,566
FEDERAL FUNDS SOLD	9,900	14,200
INTEREST-BEARING DEPOSITS WITH BANKS	29,900	18,885
SECURITIES AVAILABLE FOR SALE -		
Investment securities	-	51
Mortgage-backed securities	1,549	17,897
Total securities available for sale	1,549	17,948
SECURITIES HELD TO MATURITY -(market values of $308,542 and $245,734, respectively)		
Investment securities	179,435	101,669
Mortgage-backed securities	128,061	148,605
Total securities held to maturity	307,496	250,274
LOANS, net	114,518	114,651
ACCRUED INTEREST RECEIVABLE	2,920	3,655
PREMISES AND EQUIPMENT, net	12,629	12,526
OTHER ASSETS:		
Federal Home Loan Bank of New York -- capital stock	2,681	2,681
Other Real Estate Owned	524	-
Other	2,397	2,795
TOTAL ASSETS	$494,348	$445,181

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
DEPOSITS:		
Savings deposits	$130,171	$132,668
Time deposits	222,948	177,285
Money market accounts	30,024	29,526
Demand deposits	16,582	13,526
	399,725	353,005
SECURITIES SOLD WITH AGREEMENT TO REPURCHASE	10,000	9,795
ADVANCES FROM BORROWERS FOR TAXES AND INSURANCE	1,477	1,927
INCOME TAXES PAYABLE	2,400	2,273
ACCRUED EXPENSES AND OTHER LIABILITIES	782	719
TOTAL LIABILITIES	414,384	367,719
COMMITMENTS, CONTINGENCIES AND OTHER INFORMATION (Note 17)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 11,000,000 shares authorized; 4,813,900 shares issued	48	48
Additional paid-in capital	46,030	45,845
Employee stock ownership plan	(2,803)	(3,240)
Recognition and retention plan	(1,111)	(1,481)
Treasury stock, at cost (71,965 shares and 19,369 shares, respectively)	(1,062)	(271)
Retained earnings - subject to restrictions	38,844	36,579
Unrealized appreciation (depreciation) on securities available for sale, net	18	(18)
Total stockholders' equity	79,964	77,462
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$494,348	$445,181

The accompanying notes are an integral part of these consolidated statements.

CONESTOGA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share amounts)

	Year Ended March 31,		
	1996	1995	1994
INTEREST INCOME:			
Loans	$ 9,069	$ 8,560	$ 8,495
Mortgage-backed securities	10,364	7,868	10,758
Investment securities	8,761	6,546	4,253
Securities available for sale	2,019	2,057	213
Federal funds sold	2,189	1,678	1,110
Total interest income	32,402	26,709	24,829
INTEREST EXPENSE:			
Deposits	17,053	12,017	11,594
Escrow	31	27	24
Securities sold with agreement to repurchase	1,209	261	-
Total interest expense	18,293	12,305	11,618
Net interest income before provision (recoveries) for loan losses	14,109	14,404	13,211
PROVISION (RECOVERIES) FOR LOAN LOSSES	104	(36)	39
Net interest income after provision (recoveries) for loan losses	14,005	14,440	13,172
NON-INTEREST INCOME:			
Recoveries on investment securities	-	-	100
Fee income from service charges	568	617	522
Net gain on sale of mortgage-backed and investment securities	73	-	409
Net gain on sale of other assets	3	3	-
Net gain on sale of securities available for sale	1,695	850	211
Other	251	360	244
Total non-interest income	2,590	1,830	1,486
NON-INTEREST EXPENSE:			
Salaries and employee benefits	3,792	3,498	3,587
ESOP and RRP benefits	1,045	854	100
Premises and equipment	1,454	1,309	1,298
Advertising	146	184	176
Federal insurance premiums	938	882	829
Merger related expenses	842	-	-
Other	2,049	1,933	1,353
Total non-interest expense	10,266	8,660	7,343
INCOME BEFORE PROVISION FOR INCOME TAXES	6,329	7,610	7,315
PROVISION FOR INCOME TAXES	3,119	3,508	3,406
Net income	$ 3,210	$ 4,102	$ 3,909
Primary earnings per common share	$0.71	$0.93	$.01
Fully diluted earnings per common share	$0.71	$0.92	$.01

The accompanying notes are an integral part of these consolidated statements.

CONESTOGA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Unearned Comon Stock Held by RRPs	Treasury Stock	Retained Earnings	Unrealized Appreciation (Depreciation) on Securities Available for Sale, Net	Total
BALANCE, March 31, 1993	-	$ -	$ -	$ -	$ -	$ -	$28,568	$ -	$28,568
Net proceeds from common stock issued in stock conversion	4,813,900	48	45,844	-	-	-	-	-	45,892
Purchase of common stock by ESOP (370,300 shares)		-	-	(3,703)	-	-	-	-	(3,703)
Purchase of common stock by RRPs (185,150 shares)		-	-	-	(1,852)	-	-	-	(1,852)
Compensation amortized to expense		-	7	93	-	-	-	-	100
Net income		-	-	-	-	-	3,909	-	3,909
BALANCE, March 31, 1994	4,813,900	48	45,851	(3,610)	(1,852)	-	32,477	-	72,914
Change in accounting for certain investments in debt and equity securities		-	-	-	-	-	-	989	989
Payments for conversion costs		-	(75)	-	-	-	-	-	(75)
Compensation amortized to expense		-	113	370	371	-	-	-	854
Net income		-	-	-	-	-	4,102	-	4,102
Change in unrealized depreciation on securities available for sale, net		-	-	-	-	-	-	(1,007)	(1,007)
Acquisition of treasury stock	(22,500)	-	-	-	-	(315)	-	-	(315)
Exercise of stock options	3,131	-	(44)	-	-	44	-	-	-
BALANCE, March 31, 1995	4,794,531	48	45,845	(3,240)	(1,481)	(271)	36,579	(18)	77,462
Compensation amortized to expense		-	305	370	370	-	-	-	1,045
Net income		-	-	-	-	-	3,210	-	3,210
Cash dividends declared on common stock		-	-	-	-	-	(945)	-	(945)
Cash dividends received on common stock		-	-	67	-	-	-	-	67
Change in unrealized appreciation on securities available for sale, net		-	-	-	-	-	-	36	36
Acquisition of treasury stock	(105,000)	-	-	-	-	(1,548)	-	-	(1,548)
Exercise of stock options	52,404	-	(248)	-	-	757	-	-	509
Tax benefit of stock options		-	128	-	-	-	-	-	128
BALANCE, March 31, 1996	4,741,935	$48	$46,030	$(2,803)	$(1,111)	$(1,062)	$38,844	$ 18	$79,964

The accompanying notes are an integral part of these consolidated statements.

CONESTOGA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended March 31,		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,210	$ 4,102	$ 3,909
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	483	797	614
Provision (recoveries) for loan losses	104	(36)	39
Recoveries on investment securities	-	-	(100)
(Increase) decrease in assets-			
Accrued interest receivable	735	(810)	64
Other assets	398	(2,068)	(69)
Increase (decrease) in liabilities-			
Income taxes payable	225	279	(295)
Accrued expenses and other liabilities	63	(288)	265
Net cash provided by operating activities	5,218	1,976	4,427
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of premises and equipment	(626)	(941)	(1,556)
Sale (purchase) of Federal Home Loan Bank of New York capital stock	-	(309)	47
Purchases of investment securities	(330,738)	(63,560)	(57,857)
Purchases of securities available for sale	(7,998)	(49)	(42,995)
Sales of investment securities	3,995	-	8,335
Maturities of investment securities	221,938	17,000	41,415
Sales of securities available for sale	108,256	54,737	37,079
Maturities of secures available for sale	5,000	-	-
Net (purchases) maturities of interest-bearing deposits with banks	(11,015)	(18,192)	297
Loans made to customers	(11,493)	(26,750)	(17,524)
Principal collected on loans	11,126	12,018	19,758
Purchases of mortgage-backed securities	(61,210)	(58,347)	(69,601)
Sales of mortgage-backed securities	-	-	4,940
Principal collected on mortgage-backed securities and mortgage-backed securities available for sale	20,957	15,538	49,390
Net decrease in other investments	-	-	213
Net cash used in investing activities	(51,808)	(68,855)	(28,059)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in securities sold with agreement to repurchase	205	9,795	-
Net increase in demand deposits	3,056	687	2,947
Net increase (decrease) in money market accounts	498	(3,373)	(4,311)
Net increase (decrease) in advances from borrowers for taxes and insurance	(450)	166	45
Net increase (decrease) in savings deposits	(2,497)	(23,138)	16,627
Net increase in time deposits	45,663	28,076	987
Acquisition of treasury stock	(1,548)	(315)	-
Exercise of stock options	509	-	-
Cash dividends paid	(945)	-	-
Cash dividends received on common stock held by ESOP	67	-	-
Payments for conversion costs	-	(75)	(2,247)
Purchase of common stock by ESOP	-	-	(3,703)
Purchase of common stock by RRPs	-	-	(1,852)
Proceeds from issuance of common stock	-	-	48,139
Net cash provided by financing activities	44,558	11,823	56,632
Net (decrease) increase in cash and cash equivalents	(2,032)	(55,056)	33,000
CASH AND CASH EQUIVALENTS, beginning of period	21,766	76,822	43,822
CASH AND CASH EQUIVALENTS, end of period	$ 19,734	$ 21,766	$ 76,822

The accompanying notes are an integral part of these consolidated statements.

CONESTOGA BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands except share and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a description of the significant accounting and reporting policies followed in preparing and presenting the accompanying consolidated financial statements:

Basis of Presentation

The accounting and financial reporting policies of the Company are in conformity with generally accepted accounting principles and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported assets and liabilities as of the date of the consolidated statements of condition. The same is true of revenues and expenses reported for the period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Conestoga Bancorp, Inc. (the "Company") and its wholly-owned subsidiary, Pioneer Savings Bank, F.S.B. (the "Bank"), a federally chartered stock savings bank. All significant intercompany accounts and transactions are eliminated in consolidation.

As more fully discussed in Note 2, the Company, a Delaware corporation, was organized by the Bank for the purpose of acquiring all of the capital stock of the Bank pursuant to the conversion of the Bank from a federally chartered mutual savings and loan association to a federally chartered stock savings bank. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended.

Cash and Cash Equivalents

The Company generally considers short-term instruments, with original maturities of three months or less, measured from their acquisition date, and highly liquid instruments readily convertible to known amounts of cash, to be cash equivalents.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

The following is a supplemental disclosure of cash flow information and noncash financing activities:

	Year Ended March 31,		
	1996	1995	1994
Interest paid	$18,338	$12,141	$11,656
Income taxes paid	$ 2,826	$ 3,229	$ 3,550
Reclassification from held to maturity to available for sale	$91,541		

Securities Available for Sale
- ----------------------------

Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards (''SFAS'') No. 115, ''Accounting for Certain Investments in Debt and Equity Securities''. Debt securities, mortgage-backed securities and equity securities used as part of the Company's asset/liability management that may be sold in response to changes in interest rates, prepayments, and other factors have been classified as available for sale. Such securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity (on an after-tax basis). Gains and losses on the disposition of securities are recognized on the specific identification method in the period in which they occur.

On November 15, 1995, the FASB issued a special report entitled, "A Guide to Implementation of Statement No. 115 on Accounting for Certain Investments in Debt and Equity Securities, Questions and Answers" (the "Guide"). The Guide permitted a one-time reassessment and related reclassifications from the held to maturity category that will not call into question the intent of the Company to hold other debt securities to maturity in the future. In November 1995, the Company performed a reassessment of its investment and mortgage-backed securities portfolio which resulted in a reclassification of approximately $91.5 million of securities from held to maturity into available for sale. This transfer resulted in an increase to stockholders' equity of $423, net of income taxes.

Securities Held to Maturity
- --------------------------

Held to maturity investment securities are stated at cost adjusted for accretion of discount or amortization of premium. Mortgage-backed securities are stated at the unpaid principal amount net of unearned discount and unamortized premiums. Discounts are accreted and premiums are amortized using the interest method. The Company has the intent and ability to hold such securities until maturity.

Loans
- -----

Loans are stated at the principal amount outstanding, net of unearned income. Loan origination fees are recognized in interest income as an adjustment to yield over the life of the loan. Loans are placed on nonaccrual status when management has determined that the borrower will be unable to meet contractual principal or interest obligations. When a loan is classified as nonaccrual, the recognition of interest income ceases.

The Company adopted SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures" on April 1, 1995. Both pronouncements establish the accounting by creditors for impairment of certain loans with the latter adding as to how a creditor recognizes interest income related to those impaired loans. Both pronouncements require that certain impaired loans be measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan's collateral dependent. Based upon the current loan portfolio, SFAS No. 114, as amended by SFAS No. 118, did not have a material effect on the carrying value of the Company's loan portfolio.

The Company previously measured the allowance for loan losses on impaired loans using methods similar to those prescribed in SFAS No. 114 and SFAS No. 118. As a result of adopting these statements, no additional allowance for loan losses was required as of April 1, 1995.

Allowance for Loan Losses

The allowance for loan losses is established by management to absorb future charge-offs of loans that may be uncollectible. The allowance is increased by charges to operations and reduced by net charge-offs. The amount of the allowance is based on estimates and the ultimate losses may vary from the current estimates. These estimates are evaluated periodically and, as adjustments become necessary, they are reflected in operations in the periods in which they become known. Considerations in this evaluation include past and anticipated loss experience, real estate collateral, as well as current and anticipated economic conditions and maintenance of the allowance at a level adequate to absorb unforeseeable losses, but which are inherent losses in the loan portfolio at the reporting date.

While management uses available information to recognize provisions for loan losses as of the date of the statement of financial condition, future additions to the allowance may be necessary based on changes in the borrowers' economic conditions and the composition of the loan portfolio. In addition, the Company's regulators, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such regulators may require the Company to provide additions to the allowance based on judgments different from those of management.

Other Real Estate Owned

Other Real Estate Owned ("OREO") includes properties that have been acquired by the Company through foreclosure. OREO is recorded at the lower of: 1) the fair market value of the properties less estimated costs to sell or 2) the recorded investment in the related loan at the date of foreclosure. Subsequent reserves and adjustments to the carrying value of the properties to reflect declines in fair market value after the date of foreclosure as well as carrying and disposal costs are charged to operating expenses.

Loan Origination Fees

Nonrefundable loan fees net of certain direct origination costs are deferred, and recognized to income, using the level-yield method, as a yield adjustment, over the contractual lives of the related loans adjusted for estimated prepayments.

Premises and Equipment

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

	Years
Buildings	40
Furniture and equipment	10
On-line savings equipment	5
Other	Various

Building improvements on leased property are amortized over the remaining terms of the respective lease.

Income Taxes

SFAS No. 109 "Accounting for Income Taxes", requires the use of the asset and liability approach in accounting for income taxes. Under this method, the Company is required to establish deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at the enacted tax rates expected to be in effect when such amounts are realized or settled.

Earnings Per Common Share

Earnings per common share is computed based upon the weighted average number of common shares outstanding during the period plus the effect of common shares contingently issuable, primarily from the exercise of stock options using the treasury stock method.

Fully diluted earnings per common share reflects additional dilution related to common shares contingently issuable due to the use of the market price at the end of the period, when higher than the average market price for the period.

Earnings per common share reflect the operations for the twelve months ended March 31, 1996 and 1995, divided by 4,497,660 and 4,403,761 shares, respectively (primary); and 4,523,704 and 4,472,651 shares, respectively (fully diluted), which represent the weighted average number of common shares and common share equivalents outstanding during the period.

Employee Stock Ownership Plan

Statement of Position 93-6 "Employers' Accounting for Employee Stock Ownership Plans" ("SOP 93-6") requires that the issuance or sale of treasury shares to the ESOP be reported when the issuance or sale occurs, and that compensation expense be recognized for shares committed to be released to directly compensate employees equal to the fair value of the shares committed. The difference between the fair value of the shares committed to be released and the cost of such shares should be charged or credited to additional paid in capital. Additionally, ESOP shares that have been committed to be released should be considered outstanding for earnings per share computations. In addition, SOP 93-6 requires that leveraged ESOP debt and related interest expense be reflected in the employer's financial statements. The Company adopted SOP 93-6 on April 1, 1994.

2. CONVERSION TO STOCK FORM OF OWNERSHIP

On September 29, 1993, 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 March 30, 1994, the Company completed its initial public offering and issued 4,258,450 shares of common stock (par value $.01 per share) at a price of $10.00 per share, 370,300 shares were acquired by the ESOP and 185,150 shares were acquired by the RRPs, resulting in net proceeds of approximately $45,892. The Company retained approximately $22,946 of the net proceeds and used the remaining net proceeds to purchase all of the outstanding stock of the Bank. Costs related to the conversion were charged against the Company's proceeds from the sale of the stock.

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

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. PROPOSED ACQUISITION

On November 2, 1995, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with The Dime Savings Bank of Williamsburgh (the "Dime") pursuant to which the Company and the Bank will be merged into the Dime (the "Acquisition"). The Merger Agreement provides that each share of the Company's common stock, par value $.01 per share (the "Conestoga Common Stock") outstanding as of the effective time of the Merger (the "Effective Time") (other than shares held as treasury stock, unallocated shares held by the Company's Recognition and Retention Plans and Trusts and any shares as to which dissenters' rights may be exercised under applicable law) will be converted into the right to receive $21.25 in cash without interest (the "Merger Consideration"). In the event the transaction is not completed on or prior to May 31, 1996, the Dime will be required to increase the Merger Consideration by $.07 per share for each month, pro rated on a daily basis, commencing on June 1, 1996 until completion of the transaction. Based on the total number of shares of the Company's Common Stock outstanding as of December 31, 1995 and the consideration to be paid in respect of options of the Company's Common Stock outstanding on that date, assuming all such options are converted into the right to receive cash, the Company estimates that total cash consideration to be paid to the Company's shareholders and option holders in the Merger is approximately $105 million.

The Acquisition is subject to (i) approval by the requisite number of shareholders of the Company of the Merger Agreement, (ii) the receipt of all necessary consents, waivers, clearances, approvals and authorizations from regulators or governmental bodies, including the OTS, (iii) the occurrences of all material steps necessary to complete the Dime's Conversion and (iv) the satisfaction or waiver of certain other conditions.

On March 22, 1996, the Company announced that its shareholders, at a special meeting, approved the above agreement.

4. ACCOUNTING CHANGES

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS No. 115 requires that debt and equity securities that have readily determinable fair values be carried at fair value unless they are classified as held to maturity. Securities can be classified as held to maturity and carried at amortized cost only if the reporting entity has a positive intent and ability to hold those securities to maturity. If not classified as held to maturity, such securities must be classified as trading securities or securities available for sale. Unrealized holding gains or losses for securities available for sale are to be excluded from earnings and reported as a net amount as a separate component of stockholders' equity. Unrealized holding gains and losses for trading securities are to be included in earnings. On April 1, 1994, the Company adopted SFAS No. 115 which resulted in an increase in stockholders' equity of $989, on an after tax basis, which represents the net unrealized appreciation on securities available for sale.

SFAS No. 123, "Accounting for Stock-Based Compensation" was issued in October 1995 and must be adopted by the Company effective April 1, 1996. SFAS No. 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. Adoption of the disclosure requirements of this new accounting standard will not have an impact on the Company's results of operations or financial condition.

5. INTEREST-BEARING DEPOSITS WITH BANKS

Interest-bearing deposits with banks generally represent short-term liquid investments with maturities of one year or less. They are recorded at cost, which approximates market value, and are generally held to maturity.

The components of interest-bearing deposits with banks as of March 31, 1996 and 1995 are as follows:

	1996	1995
Federal Home Loan Bank (FHLB) overnight deposits	$29,900	$ 6,900
FHLB term deposits	-	10,500
Certificates of deposit	-	1,485
	$29,900	$18,885

6. INVESTMENT SECURITIES

The amortized cost and estimated market values of investment securities at March 31, 1996 and 1995 were as follows:

SECURITIES HELD TO MATURITY

Securities held to maturity are summarized below:

	March 31, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities:				
U.S. Treasury notes	$ 4,959	$208	$ -	$ 5,167
Government agencies	72,950	38	(172)	72,816
Corporate notes and bonds	101,526	401	(17)	101,910
Totals	$179,435	$647	$ (189)	$179,893

	March 31, 1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities:				
U.S. Treasury notes	$ 4,948	$ 61	$ -	$ 5,009
Government agencies	61,835	-	(1,246)	60,589
Corporate notes and bonds	34,886	-	(522)	34,364
Totals	$101,669	$ 61	$(1,768)	$ 99,962

The amortized cost and estimated market value of investment securities held to maturity at March 31, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 1996	
	Amortized Cost	Estimated Market Value
Within 1 year	$119,012	$118,994
After 1 year through 5 years	44,430	44,964
After 5 years through 10 years	15,993	15,935
After 10 years	-	-
Total investment securities	$179,435	$179,893

	Year Ended March 31,		
	1996	1995	1994
Proceeds received from sales of investment securities held to maturity	$3,995	$ -	$8,335
Gross realized gains from sales of investment securities held to maturity	$ 94	$ -	$ 399
Gross realized losses from sales of investment securities held to maturity	$ 21	$ -	$ -

Sales of investment securities held to maturity for the year ended March 31, 1996 approximated $4.0 million and reflects sales of downgraded corporate bonds. The $4.0 million of downgraded corporate bonds were sold because there was evidence of significant deterioration of the issuer's creditworthiness, and were therefore sold in accordance with SFAS No. 115.

SECURITIES AVAILABLE FOR SALE

Securities available for sale are summarized below:

	March 31, 1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Marketable equity securities:				
Government agencies	$ 49	$ 2	$ -	$ 51
Total securities available for sale	$ 49	$ 2	$ -	$ 51

The Company did not have investment securities available for sale at March 31, 1996.

	Year Ended March 31,		
	1996	1995	1994
Proceeds received from sales of securities available for sale	$23,019	$14,500	$29,232
Gross realized gains from sales of securities available for sale	$ 206	$ -	$ 75
Gross realized losses from sales of securities available for sale	$ 79	$ 685	$ -

7. MORTGAGE-BACKED SECURITIES

The amortized cost and estimated market values of mortgage-backed securities at March 31, 1996 and 1995 were as follows:

MORTGAGE-BACKED SECURITIES HELD TO MATURITY

Mortgage-backed securities held to maturity are summarized below:

	March 31, 1996			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Estimated Market Value
Pass-through certificates guaranteed by GNMA, FNMA and FHLMC	$122,189	$602	$ -	$122,791
Real estate mortgage investment conduit obligations	5,872	-	(14)	5,858
	$128,061	$602	$ (14)	$128,649

	March 31, 1995			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Estimated Market Value
Pass-through certificates guaranteed by GNMA, FNMA and FHLMC	$140,660	$ -	$(2,566)	$138,094
Real estate mortgage investment conduit obligations	7,945	-	(267)	7,678
	$148,605	$ -	$(2,833)	$145,772

	Year Ended March 31,		
	1996	1995	1994
Proceeds received from sales of mortgage-backed securities held to maturity	$ -	$ -	$4,940
Gross realized gains from sales of mortgage-backed securities held to maturity	$ -	$ -	$ 17
Gross realized losses from sales of mortgage-backed securities held to maturity	$ -	$ -	$ 7

MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE

Mortgage-backed securities available for sale are summarized below:

	March 31, 1996			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Estimated Market Value
Pass-through certificates guaranteed by GNMA, FNMA and FHLMC	$ 1,323	$31	$ -	$ 1,354
Real estate mortgage investment conduit obligations	194	1	-	195
	$ 1,517	$32	$ -	$ 1,549

	March 31, 1995			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Estimated Market Value
Pass-through certificates guaranteed by GNMA, FNMA and FHLMC	$15,934	$ -	$(32)	$15,902
Real estate mortgage investment conduit obligations	2,000	-	(5)	1,995
	$17,934	$ -	$(37)	$17,897

	Year Ended March 31,		
	1996	1995	1994
Proceeds received from sales of mortgage-backed securities available for sale	$85,237	$40,237	$7,847
Gross realized gains from sales of mortgage-backed securities available for sale	$ 1,568	$ 1,535	$ 136
Gross realized losses from sales of mortgage-backed securities available for sale	$ -	$ -	$ -

8. LOANS, NET

Loans consist of the following:

	March 31,	
	1996	1995
Loans secured by mortgages on real estate:		
Residential 1-4 family	$107,293	$107,593
Nonresidential (non-participation multi-family and mixed-use)	3,190	3,271
Participation investments in loans purchased	2,640	2,343
Partially guaranteed by Veterans Administration (VA) or insured by Federal Housing Authority (FHA)	352	444
Land and building loans (net of loans in process)	350	275
Less: Discounts and fees, net	(479)	(590)
Net loans secured by mortgages on real estate	113,346	113,336
Other loans:		
Passbook loans (secured by savings and time deposits)	1,384	1,467
Participation in loans fully guaranteed by Agency for International Development (AID)	-	22
Net other loans	1,384	1,489
Less: Allowance for loan losses	(212)	(174)
Net loans	$114,518	$114,651

The following is an analysis of the allowance for loan losses:

	Year Ended March 31,		
	1996	1995	1994
Balance, beginning	$ 174	$ 210	$ 171
Provision charged (credited) to operations	104	(36)	39
Loans charged off	(66)	-	-
Balance, end	$ 212	$ 174	$ 210

As of March 31, 1996, the Company did not have any impaired loans in accordance with SFAS No. 114 and 118.

Loans on a nonaccrual basis at March 31, 1996 and 1995 approximated $265 and $351, respectively.

Interest income on nonaccrual loans that would have been recorded under the original terms of such loans, net of interest income actually received, is summarized as follows:

	Year Ended March 31,		
	1996	1995	1994
Interest income which would have been recognized on nonaccrual loans (net of interest income received)	$ 33	$ 36	$ 29

9. ACCRUED INTEREST RECEIVABLE

	March 31, 1996	March 31, 1995
Loans	$ 825	$ 771
Investment securities	1,376	1,998
Securities available for sale	8	86
Mortgage-backed securities	711	790
Other	-	10
	$ 2,920	$ 3,655

10. PREMISES AND EQUIPMENT, NET

The following is a summary of premises and equipment:

	March 31, 1996	March 31, 1995
Land	$ 2,974	$ 2,974
Buildings and improvements	10,734	10,408
Furniture and equipment	2,211	1,941
On-line savings equipment	962	1,009
Other	109	109
	16,990	16,441
Less- Accumulated depreciation and amortization	(4,361)	(3,915)
	$12,629	$12,526

11. FEDERAL HOME LOAN BANK OF NEW YORK -- CAPITAL STOCK

The Bank is a member of the Federal Home Loan Bank of New York (FHLBNY). Membership requires the purchase of shares of FHLBNY capital stock at $100 per share, generally based on the value of the Bank's mortgage portfolio. As of March 31, 1996 and 1995, the Bank owned 26,810 shares. The FHLBNY paid dividends on the capital stock at the weighted averages of 7.27%, 7.65% and 8.80% for the fiscal years ended March 31, 1996, 1995 and 1994, respectively.

12. DEPOSITS

Deposits are summarized as follows:

	March 31,			
	1996		1995	
	Stated Rate	Amount	Stated Rate	Amount
Interest bearing:				
Savings accounts	2.50%	$130,171	2.50%	$132,668
Certificate accounts	4.34-5.70	222,948	4.58-7.13	177,285
Money market accounts	3.00	30,024	3.00	29,526
Demand deposits	-	16,582	-	13,526
		$399,725		$353,005

The remaining maturity of certificate accounts are as follows:

	March 31,	
	1996	1995
12 months or less	$ 143,674	$101,601
Over 12 months to 36 months	56,161	60,162
Over 36 months	23,113	15,522
	$ 222,948	$177,285

The aggregate amount of certificates of deposit with a minimum denomination of $100 was approximately $22,043 and $14,754 as of March 31, 1996 and 1995, respectively.

Interest expense related to deposits is as follows:

	Year Ended March 31,		
	1996	1995	1994
Savings accounts	$ 3,205	$ 3,651	$ 3,698
Certificate and money market accounts	13,848	8,366	7,896
	$17,053	$12,017	$11,594

13. SECURITIES SOLD WITH AGREEMENT TO REPURCHASE

Presented below is information concerning securities sold with agreement to repurchase and the related weighted average interest rates for the years ended March 31, 1996 and 1995:

	March 31,	
	1996	1995
Average amounts outstanding	$18,660	$4,522
Total interest costs	1,209	261
Average interest rate paid	6.48%	5.77%
Maximum amount outstanding at any month end	39,509	9,795
Ending balance	10,000	9,795
Weighted average interest rate on balance outstanding	5.73%	5.95%

The underlying collateral, which consists of mortgage-backed securities, U.S. Treasury notes and government agency securities, is held by a third-party institution. As of March 31, 1996 and 1995, the market value of such collateral was approximately $10,832 and $9,989, respectively.

There were no securities sold with agreement to repurchase for the year ended March 31, 1994.

14. INCOME TAXES

The provision for income taxes is as follows:

	Year Ended March 31,		
	1996	1995	1994
Current:			
Federal	$1,869	$2,141	$1,788
State and local	1,152	1,094	1,392
	3,021	3,235	3,180
Deferred	98	273	226
	$3,119	$3,508	$3,406

The following table presents a reconciliation between the reported income taxes and the income taxes which would be computed by applying the normal federal income tax rate of 34% to income before income taxes:

	Year Ended March 31,		
	1996	1995	1994
Federal income tax	$2,152	$2,587	$2,487
Increases in income taxes resulting from:			
State and local income taxes, net of federal tax benefit	779	918	966
Merger related expenses not deductible for tax purposes	383	-	-
Other items, net	(195)	3	(47)
Effective federal income tax	$3,119	$3,508	$3,406
Effective tax rate	49.3%	46.1%	46.6%

The following is a summary of the income tax liability:

	March 31,	
	1996	1995
Current taxes	$ 690	$ 661
Deferred taxes	1,710	1,612
	$2,400	$2,273

The components of the Company's deferred tax assets and liabilities at March 31, 1996 and 1995, are as follows:

	March 31, 1996	March 31, 1995
Deferred income tax assets:		
Provision for losses on other assets	$ 93	$ 93
Other	222	136
Valuation allowance	-	-
Net deferred income tax assets	315	229
Deferred income tax liabilities:		
Tax over book depreciation	(562)	(515)
Bad debt deduction	(1,463)	(1,305)
Other	-	(21)
Total deferred income tax liabilities	(2,025)	(1,841)
Net deferred income taxes	$(1,710)	$(1,612)

Income taxes are deferred as a result of the temporary differences in the timing of the recognition of certain income and expenses for income tax and financial reporting purposes. The primary sources of these differences are accelerated tax depreciation and bad debt deductions.

Bad Debt Deduction

The Company has qualified under certain provisions of the Internal Revenue Code ("Section 593") which permit the deduction from taxable income of an allowance for loan losses based upon a percentage of taxable income before such deduction. The maximum deduction allowed under current law is 8% of taxable income provided that certain minimum levels of qualifying assets are maintained. In accordance with SFAS No. 109, the Company provides deferred taxes for this temporary difference.

At March 31, 1996, surplus included approximately $4,535 which represents the accumulation of such statutory bad debt deduction for which no federal income taxes have been provided. If this portion of surplus is charged for any purpose other than bad debt losses, if the Company fails to maintain minimum levels of qualifying assets, or if the Company is liquidated, a tax liability will be created from the recapture of previous bad debt deductions.

Management of the Company does not anticipate that surplus will be used or qualifying asset levels will be reduced in such a way as to result in the recapture of these deductions.

Pending Legislation Regarding Bad Debt Reserves

Under pending legislative proposals, Section 593 would be repealed and the Company would be unable to make additions to its tax bad debt reserve, would be permitted to deduct bad debts only as they occur and would additionally be required to recapture over a multi-year period the excess of the balance of its bad debt reserve as of the date specified in the legislation (the "Specified Date") over the balance of such reserves as of December 31, 1987, or a lesser amount if the Company's loan portfolio has decreased since December 31, 1987. However, such recapture requirements would be suspended for each of two successive taxable years beginning after the Specified Date in which the Company originates a minimum amount of certain residential loans based upon the average of the principal amounts of such loans made by the Company during its six taxable years ending on the Specified Date. Similar

consequences would result under present law if the Company were to fail the definitional tests except that, under present law, the Company would recapture all of its bad debt reserves and not only the excess over the December 31, 1987 balance, and present law does not provide a two year suspension of the recapture. In addition, if Section 593 of the Code is repealed, the Company would be required under the New York State Bank Franchise Tax and New York City Banking Corporation Tax to include in its entire net income, for the last taxable year Section 593 of the Code applied, the excess of its New York State and New York City reserves for losses on qualifying real property loans over its reserve for losses on such loans maintained for federal income tax purposes (the "Excess Reserves"). Accordingly, if the pending legislative proposals are enacted in their present form, unless further legislation is adopted in New York State and New York City, the Company will be required to take its Excess Reserves into income in computing its New York State and City taxes for its taxable year specified in the legislation. The enactment of such legislation, in its present form, would result in aggregate tax liability of $2.3 million associated with such recapture. This will result in an additional tax provision and corresponding reduction in stockholders' equity of approximately $900.

15. BENEFIT PLANS

Retirement Plan

The Company is a participant in a defined benefit, noncontributory, multiple employer pension plan (the "Plan") with the New York State Bankers Retirement System covering substantially all employees. Pension benefits are based on length of service, average annual compensation, and other benefits. The Company's funding policy, the entry age normal cost-frozen initial liability method is consistent with the funding requirements of federal law and regulations. The Plan's assets consist principally of publicly traded stocks and bonds.

The Company accounts for the Plan in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

The Company performs its pension valuation to coincide with the year-end of the pension plan (September 30th). The Company estimates that its pension status is not materially different at March 31, 1996 and 1995. The components of net pension expense as determined by the Plan's actuary at the most recent September 30th valuation dates are as follows:

	1996	1995	1994
Service cost - benefits earned during the period	$ 183	$ 185	$ 163
Interest cost on projected benefit obligation	239	225	201
Actual return on plan assets	(279)	(238)	(236)
Net amortization and deferral	(5)	13	(15)
Net pension cost	$ 138	$ 185	$ 113

A comparison of accumulated plan benefit obligation and plan net assets as of the most recent actuarial valuation is as follows:

	1996	1995
Accumulated benefit obligation, including vested benefits of $2,821 and $2,579	$ 2,841	$ 2,607
Projected benefit obligation	(3,455)	(3,162)
Plan assets at fair value	3,800	3,355
Excess (deficiency) of Plan assets over projected benefit obligation	345	193
Unrecognized prior service cost	(12)	(13)
Unrecognized loss from experience different from that assumed	497	510
Unrecognized net transition asset	(131)	(148)
Projected prepaid pension cost at September 30, 1996 and 1995	$ 699	$ 542

Major assumptions utilized were as follows:

	1996	1995
Discount rate	7.75%	8.0%
Rate of increase in compensation levels	5.0	5.0
Expected long-term rate of return on Plan assets	8.5	8.5

Savings Plan

The Company maintains a retirement savings plan for its employees which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code through July 31, 1994. After July 31, 1994, no further contributions have been allowed due to the existence of the Employee Stock Ownership Plan and Trust. The Company's contributions to the retirement savings plan for the years ended March 31, 1996, 1995 and 1994 were $0, $12 and $45, respectively.

Supplemental Executive Retirement Plan

The Company adopted a Supplemental Executive Retirement Plan ("SERP") to provide additional retirement benefits for certain employees who are participants in the Company's qualified plans. For the years ended March 31, 1996 and 1995, $92 and $78, respectively, of expenses related to the SERP are included in the consolidated statements of income. No expenses related to the SERP are included in the consolidated statement of income for the year ended March 31, 1994.

Outside Directors' Consultation and Retirement Plan

The Company adopted an Outside Directors' Consultation and Retirement Plan for certain outside directors. For the years ended March 31, 1996 and 1995, $86 and $75, respectively, of expenses related to the plan are included in the consolidated statements of income. No expenses related to the plan are included in the consolidated statement of income for the year ended March 31, 1994. The plan is unfunded at March 31, 1996.

The components of net pension expense as determined by the Plan's actuary at the most recent April 1st valuation date are as follows:

	1996	1995
Service cost-benefits earned during the period	$ 21	$ 19
Interest cost on projected benefit obligation	27	23
Actual return on plan assets	-	-
Net amortization and deferral	33	33
Net pension cost	$ 81	$ 75

A comparison of accumulated plan benefit obligat ion and plan net assets as of the most recent actuarial valuation is as follow s:

	1996	1995
Accumulated benefit obligation, including vested benefits of $376 and $316, respectively	$ 398	$ 333
Projected benefit obligation	$ 398	$ 333
Plan assets at fair value	-	-
Excess (deficiency) of plan assets over projected benefit obligation	(398)	(333)
Unrecognized prior service cost	(226)	(258)
Unrecognized net loss	(16)	-
Adjustment required to recognize minimum liability	242	258
Projected accrued pension cost at March 31, 1996 and 1995	$(398)	$(333)
Major assumptions utilized as follows:		
Discount rate	7.75%	8.0%
Rate of increase in compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A

16. STOCK BENEFIT PLANS

The following plans became effective upon the conversion of the Bank from a mutual to a stock form:

Employee Stock Ownership Plan and Trust

The Bank has established an Employee Stock Ownership Plan and Trust ("ESOP") for eligible employees. Full-time employees employed with the Company or the Bank after such date who have been credited with at least 1,000 hours during a twelve-month period and who have attained age 21 are eligible to participate.

To fund the purchase of 370,300 shares of common stock issued in the conversion, the ESOP borrowed funds from the Company. The loan to the ESOP will be repaid principally from the Bank's contributions to the ESOP over a period of 10 years and the collateral for the loan will be the common stock purchased by the ESOP. At March 31, 1996 and 1995, the loan had an outstanding balance of $2,896 and $3,333 and an interest rate of 8.25% and 9.00%, respectively. No contributions were made to the ESOP for the years ended March 31, 1996, 1995 and 1994.

Shares purchased by the ESOP will be held by a trustee for allocations among participants as the loan is repaid. At March 31, 1996 and 1995, 83,318 shares and 46,288 shares, respectively, are considered outstanding for the earnings per common share calculation. $675, $483 and $100 of expenses related to the release of the ESOP shares are included in the consolidated statements of income for the years ended March 31, 1996, 1995 and 1994, respectively.

Incentive Stock Option Plan

The Company has adopted the 1994 Incentive Stock Option Plan (the "Stock Option Plan"). Pursuant to the Stock Option Plan, 306,799 stock options (which expire ten years from the date of grant, March 30, 1994) have been granted to officers and employees of the Company and the Bank. Options granted under the Stock Option Plan may be either options that qualify as incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or non-statutory options. Each option entitles the holder to purchase one share of the common stock at an exercise price equal to $10.00 per share (the initial public offering price). Options will be exercisable on a cumulative basis in equal installments at a rate of 20% per year commencing one year from the date of grant. All options granted will be exercisable in the event the optionee terminates his employment due to death, disability or retirement, or in the event of a change in control of the Bank or the Company. Simultaneously with the grant of these options, the Board of Directors granted a "Limited Right" with respect to the shares covered by the options. Limited rights granted are subject to terms and conditions and can be exercised only in the event of a change in control of the Company. Upon exercise of a limited right the holder shall receive from the Company a cash payment equal to the difference between the exercise price of the option ($10.00) and the fair market value of the underlying shares of common stock. No options were exercised or exercisable through March 31, 1994. At March 31, 1996 and 1995, 113,025 and 61,327 options, respectively, were exercisable of which 46,323 options were exercised in 1996 and 8,958 options were exercised in 1995.

Activity for the Incentive Stock Option Plan is as follows:

	Shares Under Option	
	Number of Shares	Exercise Price
BALANCE, March 31, 1993	-	-
Granted	306,799	$10.00
Exercised	-	-
Forfeited	-	-
BALANCE, March 31, 1994	306,799	10.00
Granted	-	-
Exercised	(8,958)	10.00
Forfeited	-	-
BALANCE, March 31, 1995	297,841	10.00
Granted	-	-
Exercised	(46,323)	10.00
Forfeited	-	-
BALANCE, March 31, 1996	251,518	$10.00

Stock Option Plan for Outside Directors

The Board of Directors of the Company has adopted the 1994 Stock Option Plan for Outside Directors (the "Directors' Option Plan") for non-employee directors of the Company. The Directors' Option Plan provided for the granting of non-statutory options totalling 156,076. Contemporaneously with the conversion, outside directors received fixed awards of options, depending upon length of Board service, aggregating 137,284 shares. The balance of 18,792 options in the Directors' Option Plan are reserved for awards to future outside directors. The exercise price per share of each currently outstanding option is $10.00 per share (the initial public offering price). No options were exercised or exercisable through March 31, 1994. At March 31, 1996 and 1995, 82,758 and 45,761 options, respectively, were exercisable of which 8,764 options were exercised in 1996 and no options were exercised in 1995.

All options granted under the Directors' Option Plan are exercisable in three equal annual installments commencing in March 1995 and expire upon the earlier of ten years following the date of grant or one year following the date the optionee ceases to be a director for any reason other than removal for cause. When options are exercised, the excess of the option price over the par value is credited to additional paid-in capital. The Directors' Option Plan does not provide for the granting of stock appreciation rights in the event of a change of control of the Company or the Bank as defined under the Directors' Option Plan.

Activity for the Stock Option Plan for Outside Directors is as follows:

	Shares Under Option	
	Number of Shares	Exercise Price
BALANCE, March 31, 1993	-	-
Granted	137,284	$10.00
Exercised	-	-
Forfeited	-	-
BALANCE, March 31, 1994	137,284	10.00
Granted	-	-
Exercised	-	-
Forfeited	-	-
BALANCE, March 31, 1995	137,284	10.00
Granted	-	-
Exercised	(8,764)	10.00
Forfeited	-	-
BALANCE, March 31, 1996	128,520	$10.00

Recognition and Retention Plans and Trusts

The Bank has established the Recognition and Retention Plan for Outside Directors and the Recognition and Retention Plan for Officers and Employees (the "RRPs") as a method of providing officers, employees and non-employee directors of the Bank and Company with a proprietary interest in the Company in a manner designed to encourage such persons to remain with the Bank. The Bank contributed funds from available liquid assets to the RRPs to enable the trusts to acquire 185,150 shares of common stock. The RRPs acquired the shares at a per share cost of $10.00. At March 31, 1996, 55,545 of the total 63,480 shares have been awarded under the RRP for Outside Directors and all of the total 121,670 shares which were acquired by the RRP for Officers and Employees, have been awarded.

Under the RRPs, awards are granted in the form of shares of common stock held by the RRPs. Awards to Outside Directors, Officers and Employees vest in five equal annual installments commencing one year from the date of the grant of awards. Awards will be 100% vested upon termination of employment due to death or disability of the participant or following a change in the control of the Bank or the Company, or in the case of Outside Directors mandatory retirement in accordance with the Bank's bylaws. At March 31, 1996, 22,218 shares for Outside Directors and 47,818 shares for Officers and Employees were vested. $370, $371 and $0 of expenses related to the release of the RRP shares are included in the consolidated statements of income for the years ended March 31, 1996, 1995 and 1994, respectively.

17. COMMITMENTS, CONTINGENCIES AND OTHER INFORMATION

Loan Commitments and Line of Credit

In the normal course of its business, the Company is party to various types of financial instruments which involve potential credit, liquidity, and interest rate risk in excess of the amounts recognized in its statements of financial condition. These risks are generally monitored and controlled in conjunction with the Company's on-balance sheet activities.

The Company's collateral for mortgage and commercial loans is primarily concentrated in Brooklyn, Queens, Staten Island and Long Island.

In meeting its customers' financing needs, the Company issues commitments to extend credit. Additionally, the Company issues commitments to purchase certain securities. For these types of commitments, the contractual amounts of the financial instruments represent the maximum potential credit risk in the event of nonperformance by the counterparty. However, since not all such commitments are drawn down prior to their expiration, the contractual amounts do not necessarily represent actual future liquidity and credit risk. Moreover, the actual credit risk related to these activities is controlled by the evaluation of the customer's creditworthiness and the need for and extent of collateral wherever it is deemed appropriate.

The Company was party to the following outstanding financial instruments involving off-balance sheet risk:

	March 31, 1996			
	Fixed Rate	Variable Rate	Total	Amount Closing within One Year
Loan originations	$83	$ -	$83	$83

The interest rate of the fixed-rate loan originations as of March 31, 1996 was 7.5%, with all originations closing within one year.

The Bank is a member of the Federal Home Loan Bank of New York, and has a credit facility available (unused as of March 31, 1996) to meet deposit outflows and mortgage commitments.

Lease Commitments

As of March 31, 1996, minimum annual rental commitments on leases are as follows:

Fiscal year ended:	Amount
1997	$ 62
1998	64
1999	65
2000	67
2001	69
Thereafter	254
	$581

Rent expense for the fiscal years ended March 31, 1996, 1995, and 1994, approximated $66, $32 and $43, respectively.

Other Non-Interest Expense

Other non-interest expense amounts which exceed one percent of aggregate interest and other non-interest expense are as follows:

	Year Ended March 31,		
	1996	1995	1994
Bank service fees	$ 799	$ 803	$ 715
Insurance, general	193	198	208
Merger-related expenses	842	-	-

Contingency

On February 6, 1995, the New York State Banking Department ("NYSBD") took possession of Nationar, a trust company that served as a correspondent bank and check processor for the Bank. In connection with the takeover of Nationar, at March 31, 1995, the Bank had approximately $2,156, which is classified in other assets, of funds with Nationar for which payment had been indefinitely suspended by the NYSBD. It is currently uncertain as to the amount of loss, if any, that will result from this event. At March 31, 1996 and 1995, the consolidated financial statements include a $197 reserve against the possibility of loss. While the ultimate amount of the loss may differ from the amount provided, the current allowance is consistent with the Company's internal policy for establishing valuation allowances. On April 5, 1995, the Bank received $739 from the NYSBD representing a partial release of its funds with Nationar. In management's opinion, potential losses, if any, that may arise from this event would not have a material effect on the Bank's results of operations.

Shareholders' Lawsuit

On December 4, 1995, a purported class action complaint was filed in the Delaware Chancery Court, New Castle County, on behalf of the stockholders of Conestoga by Jeffrey Simon ("Plaintiff") against Conestoga, each of the members of the Conestga Board, and Dime. The Plaintiff alleges that each of the members of Conestoga's Board breached his fiduciary duties to Conestoga stockholders by, among other

things, agreeing to accept the Merger consideration, which Plaintiff alleges is inadequate. Dime is alleged to have aided and abetted this breach. Plaintiff seeks various remedies, including an injunction to prevent the consummation of the Merger and compensatory damages in an unspecified amount. Conestoga and Dime each intend to pursue vigorously their defenses in this action. The Company does not believe that the likelihood of such a result is probable and has not established any specific litigation reserves with respect to this matter.

Recapitalization of Savings Association Insurance Fund ("SAIF")

The proposed Balanced Budget Act of 1995 ("Budget Act"), which was approved by the Congress but vetoed by the President, included provisions that focused on a recapitalization of the SAIF. Under the provisions of the Budget Act, all SAIF-member institutions would have paid a special assessment to recapitalize the SAIF, and the assessment base for the payments on the FICO bonds would have been expanded to include the deposits of both Bank Insurance Fund ("BIF") and SAIF-insured institutions. The amount of the special assessment required to capitalize the SAIF was estimated to be approximately 80 basis points of the SAIF-assessable deposits. The special assessment would have been imposed as of the first business day of January 1996 or on such other date prescribed by the FDIC not later than 60 days after enactment of the Budget Act, based on the the amount of SAIF deposits on March 31, 1995. If an 80 basis point assessment were assessed against the Company's deposits as of March 31, 1995, the Company's aggregate SAIF assessment would be approximately $2.8 million.

18. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks, Federal Funds Sold and Interest-Bearing Deposits with Banks

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities Held to Maturity and Available for Sale

For investment securities held to maturity and available for sale, fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Mortgage-Backed Securities Held to Maturity and Available for Sale

Fair value is determined by reference to quoted market prices, if available. If quoted market prices are not available, fair value is estimated using quoted market prices for similar securities.

Loans

For certain homogeneous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Accrued Interest and FHLB Stock

Carrying amount is a reasonable estimate of fair value.

Deposit Liabilities

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit and money market deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold with Agreement to Repurchase and Advances from Borrowers for Taxes and Insurance

Carrying amount is a reasonable estimate of fair value.

The estimated fair values of the Company's financial instruments are as follows:

	March 31, 1996		March 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 9,834	$ 9,834	$ 7,566	$ 7,566
Federal funds sold	9,900	9,900	14,200	14,200
Interest-bearing deposits with banks	29,900	29,900	18,885	18,885
Securities available for sale-				
Investment securities	-	-	51	51
Mortgage-backed securities	1,549	1,549	17,897	17,897
Total securities available for sale	1,549	1,549	17,948	17,948
Securities held to maturity-				
Investment securities	179,435	179,893	101,669	99,962
Mortgage-backed securities	128,061	128,649	148,605	145,772
Total securities held to maturity	307,496	308,542	250,274	245,734
Loans	114,730	113,950	114,825	112,620
Less: Allowance for loan losses	(212)	-	(174)	-
Accrued interest receivable	2,920	2,920	3,655	3,655
FHLB stock	2,681	2,681	2,681	2,681

	March 31, 1996		March 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Savings and demand deposits	146,753	146,753	146,194	146,194
Time and money market deposits	252,972	255,434	206,811	203,772
Securities sold with agreement to repurchase	10,000	10,000	9,795	9,795
Advances from borrowers for taxes and insurance	1,477	1,477	1,927	1,927
Accrued interest payable	119	119	164	164

19. REGULATORY MATTERS

As required by the Office of Thrift Supervision ("OTS"), the Bank is required to maintain minimum regulatory capital requirements which include a "leverage limit", a "tangible capital requirement" and a "risk-based capital requirement".

The leverage limit requires a savings institution to maintain "core capital" in an amount not less than 3% of the savings institution's "adjusted total assets". The tangible capital requirements call for a savings institution to maintain "tangible capital" in an amount not less than 1.5% of the savings institution's "adjusted total assets". The ability to include qualifying supervisory goodwill for purposes of the core capital requirement has been phased out as of January 1, 1995.

The risk-based capital requirement calls for a savings institution to maintain capital in an amount equal to 8.0% of the value of its risk-weighted assets.

In December 1992, the prompt corrective action provision under the Federal Deposit Insurance Corporation Improvement Act of 1991 became effective. These regulations established capital standards in five categories ranging from "critically undercapitalized" to "well capitalized", and defined "adequately capitalized" as at least 4% for core (leverage) capital. Institutions with a core capital level less than 4% or risk-based capital less than 8% are considered "undercapitalized", and subject to increasingly stringent prompt corrective action measures.

The Company's management believes that, under the current regulations, the Bank will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Company, such as increased interest rates or a downturn in the economy in areas where the Company has most of its loans, could adversely affect future earnings and, consequently, the ability of the Bank to meet its future minimum capital requirements.

The information below is based upon the Bank's understanding of the applicable regulations and related interpretations.

At March 31, 1996 and 1995, the Bank had the following capital ratios:

	March 31, 1996				March 31, 1995			
	Actual	%	Required	%	Actual	%	Required	%
Tangible capital	$57,845	12.2%	$ 7,130	1.5%	$54,205	12.7%	$ 6,380	1.5%
Core capital	$57,845	12.2%	$14,260	3.0%	$54,205	12.7%	$12,759	3.0%
Risk-based capital	$58,057	27.7%	$16,759	8.0%	$54,365	39.5%	$11,000	8.0%

The following is a reconciliation of the Bank's stockholders' equity to regulatory capital:

	March 31,	
	1996	1995
Bank's stockholders' equity	$57,863	$54,185
Add (subtract)-Unrealized losses (gains) on securities available for sale	(18)	20
OTS tangible/core capital	$57,845	$54,205
OTS tangible/core capital	$57,845	$54,205
Add- Allowable supplementary capital: General loan loss reserves on loans	212	160
OTS risk-based capital	$58,057	$54,365

20. CONESTOGA BANCORP, INC. - PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following statements of financial condition as of March 31, 1996 and 1995, the statements of income and cash flows for the years then ended, reflect the Company's investment in its wholly-owned subsidiary, the Bank, using the equity method of accounting.

CONESTOGA BANCORP, INC.

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share and per share amounts)

	March 31,	
ASSETS	1996	1995
Cash and cash equivalents	$ 246	$ 121
Interest-bearing deposits with banks	11,900	5,600
Investment securities available for sale	-	51
Investment securities held to maturity	6,999	13,862
Accrued interest receivable	116	365
Due from Pioneer Savings Bank, F.S.B.	-	-
ESOP loan to Pioneer Savings Bank, F.S.B.	2,896	3,333
Investment in Pioneer Savings Bank, F.S.B.	57,863	54,185
TOTAL ASSETS	$80,020	$77,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Income taxes payable	$ 39	$ 55
Accrued expense & other liabilities	17	-
TOTAL LIABILITIES	56	55
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 11,000,000 shares authorized; 4,813,900 shares issued	48	48
Additional paid-in capital	46,030	45,845
Employee stock ownership plan	(2,803)	(3,240)
Recognition and retention plan	(1,111)	(1,481)
Treasury stock, at cost (71,965 shares and 19,369 shares, respectively)	(1,062)	(271)
Retained earnings-subject to restrictions	38,844	36,579
Unrealized appreciation (depreciation) on securities available for sale, net	18	(18)
Total stockholders' equity	79,964	77,462
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$80,020	$77,517

CONESTOGA BANCORP, INC.

STATEMENTS OF INCOME

(In thousands)

	Year Ended March 31,	
	1996	1995
INTEREST INCOME:		
ESOP loan to Pioneer Savings Bank, F.S.B.	$ 285	$ 291
Investment securities	638	733
Federal funds sold	503	316
Total interest income	1,426	1,340
INTEREST EXPENSE	-	-
Net interest income before provision for loan losses	1,426	1,340
PROVISION FOR LOAN LOSSES	-	-
Net interest income after provision for loan losses	1,426	1,340
NON-INTEREST INCOME:		
Net gains on sale of securities available for sale	10	-
Equity in undistributed net income of subsidiary bank	2,527	3,457
Total non-interest income	2,537	3,457
NON-INTEREST EXPENSE	182	146
INCOME BEFORE INCOME TAXES	3,781	4,651
PROVISION FOR INCOME TAXES	571	549
Net income	$3,210	$4,102

The Company had no results of operations for the year ended March 31, 1994.

CONESTOGA BANCORP, INC.

STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended March 31, 1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 3,210	$ 4,102	$ -
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiary bank	(2,527)	(3,457)	-
Depreciation and amortization	(38)	(10)	-
(Increase) decrease in assets-			
Accrued interest receivable	249	(365)	-
Due from Pioneer Savings Bank, F.S.B.	-	19,233	(19,233)
Increase in liabilities-			
Accrued expense and other liabilities	17	-	-
Income taxes payable	112	55	-
Net cash provided by (used in) operating activities	1,023	19,558	(19,233)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment made to purchase 100% of the outstanding stock of the Bank	-	-	(22,946)
Purchases of investment securities	(12,000)	(13,853)	-
Purchases of securities available for sale	-	(49)	-
Net purchases of interest-bearing deposits with banks	(6,300)	(5,600)	-
Maturities of investment securities	18,900	-	-
Sales of securities available for sale	49	-	-
Decrease (increase) in ESOP loan receivable	437	370	(3,703)
Net cash provided by (used in) investing activities	1,086	(19,132)	(26,649)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Acquisition of treasury stock	(1,548)	(315)	-
Exercise of stock options	509	-	-
Cash dividends paid	(945)	-	-
Proceeds from issuance of common stock	-	-	45,892
Net cash provided by (used in) financing activities	(1,984)	(315)	45,892
Net increase in cash and cash equivalents	125	111	10
CASH AND CASH EQUIVALENTS, beginning of period	121	10	-
CASH AND CASH EQUIVALENTS, end of period	$ 246	$ 121	$ 10

21. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended March 31, 1996 and 1995:

	Three Months Ended			
	March 31, 1996	December 31, 1995	September 30, 1995	June 30, 1995
Total interest income	$7,875	$8,315	$8,481	$7,731
Total interest expense	4,519	4,616	4,831	4,327
Net interest income	3,356	3,699	3,650	3,404
Provision for loan losses	67	15	22	-
Non-interest income	1,068	869	232	421
Non-interest expense and provision for income taxes	3,615	3,637	3,050	3,083
Net income	742	916	810	742
Primary earnings per common share	0.16	0.20	0.18	0.17
Fully diluted earnings per common share	0.16	0.20	0.18	0.17

	Three Months Ended			
	March 31, 1995	December 31, 1994	September 30, 1994	June 30, 1994
Total interest income	$7,122	$6,826	$6,412	$6,349
Total interest expense	3,402	3,187	2,886	2,830
Net interest income	3,720	3,639	3,526	3,519
Provision for loan losses	(46)	-	10	-
Non-interest income	472	225	287	846
Non-interest expense and provision for income taxes	3,292	2,858	2,860	3,158
Net income	946	1,006	943	1,207
Primary earnings per common share	0.21	0.23	0.21	0.28
Fully diluted earnings per common share	0.20	0.23	0.22	0.27