GREENE COUNTY BANCORP INC
Form 10KSB
September 26, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2002

OR

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

For the transaction period from ___________________ to ______________________

Commission File Number: 0-25165

GREENE COUNTY BANCORP, INC.
(Name of Small Business Issuer in its Charter)

United States	14-1809721
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
302 Main Street, Catskill, New York	12414
(Address of Principal Executive Office)	(Zip Code)

(518) 943-2600
(Issuer's Telephone Number including area code)

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

None

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

Common Stock, par value $0.10 per share
(Title of Class)

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve 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.

YES / NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. [X]

The Registrant's revenues for the fiscal year ended June 30, 2002 were $14,389,771.

As of September 16, 2002, there were issued and outstanding 2,024,835 shares of the Registrant's common stock of which 872,519 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of $17.60 on such date, the aggregate value of stock held by non-affiliates was $15,356,334.

DOCUMENTS INCORPORATED BY REFERENCE

1. Sections of Annual Report to Shareholders for the fiscal year ended June 30, 2002 (Part II).
2. Proxy Statement for the 2002 Annual Meeting of Shareholders (Part III)

PART I

ITEM 1. Business

Greene County Bancorp, Inc. (the "Company") was organized in December of 1998 at the direction of the Board of Trustees of The Bank of Greene County (formerly Greene County Savings Bank) (the "Bank") for the purpose of acting as the holding company of the Bank. In 2001, the Company converted its charter from a Delaware corporation regulated by the New York Superintendent of Banks and the Board of Governors of the Federal Reserve System to a federal corporation regulated by the Office of Thrift Supervision ("OTS"). At June 30, 2002, the Company's assets consisted primarily of the outstanding capital stock of the Bank and cash and investments of $4.5 million. At June 30, 2002, 872,519 shares of the Company's common stock, par value $0.10 per share, were held by the public, 128,000 shares were held as Treasury stock and 1,152,316 shares were held by Greene County Bancorp, MHC, the Company's mutual holding company (the "Mutual Company"). The Company's principal business is overseeing and directing the business of the Bank and various Company investment securities.

At June 30, 2002, the Company had consolidated total assets of $220.2 million, consolidated total deposits of $183.7 million, consolidated borrowings from Federal Home Loan Bank of $9.0 million and consolidated total equity of $26.4 million.

The Company's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

TTHE BANK OF GREENE COUNTY

The Bank was organized in 1889 as The Building and Loan Association of Catskill, a New York-chartered savings and loan association. In 1974, the Bank converted to a New York mutual savings bank under the name Greene County Savings Bank. In conjunction with the reorganization and the offering completed in December 1998, which resulted in the organization of the Company, (the "December 1998 Reorganization"), the Bank changed its name to The Bank of Greene County. The Bank's deposits are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation ("FDIC"), up to the maximum amount permitted by law. The Bank's principal business consists of attracting retail deposits from the general public in the areas surrounding its branches and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family residential mortgage loans, commercial real estate loans, consumer loans, home equity loans and commercial business loans. In addition, the Bank invests a significant portion of its assets in investment securities and mortgage- and asset-backed securities. The Bank's revenues are derived principally from the interest on its mortgage, consumer and commercial loans and securities, and servicing fees and service charges and other fees collected on its deposit accounts. The Bank's primary sources of funds are deposits, and principal and interest payments on loans and investment securities and mortgage- and asset-backed securities. At June 30, 2002, the Bank had borrowed $9.0 million from the Federal Home Loan Bank.

The Bank's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

GREENE COUNTY BANCORP, MHC

The Mutual Company was formed in December 1998 as part of the Bank's mutual holding company reorganization. In 2001, the Mutual Company converted from a state to a federal charter. The OTS under the new charter currently regulates the Mutual Company. The Mutual Company owns 53.5% of the common stock of the Company. The Mutual Company does not engage in any business activity other than to hold the Company's common stock and to invest any liquid assets of the Mutual Company, which amounted to $166,000 in cash and cash equivalents at June 30, 2002.

The Mutual Company's administrative office is located at 302 Main Street, Catskill, New York 12414-1317, and its telephone number at that address is (518) 943-2600.

MARKET AREA

The Bank has been, and intends to continue to be, a community-oriented bank offering a variety of financial services to meet the needs of the communities it serves. The Bank currently operates six full-service banking offices in Greene County and southern Albany County, New York. The Bank's primary deposit gathering area is currently concentrated around the areas within Greene County and southern Albany County where its full-service banking offices are located, namely the towns of Catskill, Cairo, Coxsackie, Greenville, Tannersville and Westerlo.

As of the 2000 census estimates, the County population was 48,300 persons, indicating an overall increase in the population level of 8.0% since the last census conducted in 1990. Greene County is primarily rural and the major industry consists of tourism associated with the several ski facilities and festivals located in the Catskill Mountains. The County has no concentrations of manufacturing industry. Greene County is contiguous to the Albany-Schenectady-Troy metropolitan statistical area. The close proximity of Greene County to the city of Albany has made it a "bedroom" community for persons working in the Albany capital area. Greene County and the Coxsackie Correctional Facilities are the largest employers in the County. Other large employers include the Hunter Mountain and Ski Windham resort areas, the Catskill, Cairo-Durham, Greenville and Coxsackie-Athens Central School Districts and Stiefel Labs, Inc.

COMPETITION

The Bank faces significant competition both in making loans and in attracting deposits. The Bank's market area has a high density of financial institutions, many of which are branches of significantly larger institutions that have greater financial resources than the Bank, and all of which are competitors of the Bank to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage-banking companies, credit unions, insurance companies and other financial service companies. Its most direct competition for deposits has historically come from commercial banks, savings banks, savings and loan associations and credit unions. The Bank faces additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Competition may also increase as a result of the lifting of restrictions on the interstate operations of financial institutions.

Competition is likely to increase as a result of the enactment of the Gramm-Leach-Bliley Act of 1999, which eases restrictions on entry into the financial services market by insurance companies and securities firms. Moreover, to the extent that these changes permit banks, securities firms and insurance companies to affiliate, the financial services industry could experience further consolidation. This could result in a growing number of larger financial institutions competing in the Bank's primary market area that offer a wider variety of financial services than the Bank currently offers. Competition for deposits, for the origination of loans and the provision of other financial services may limit the Bank's growth and adversely impact its profitability in the future.

LENDING ACTIVITIES

General

The principal lending activity of the Bank is the origination, for retention in its portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located within its primary market area. To a lesser extent, the Bank also originates commercial real estate loans, home equity loans, consumer loans and commercial business loans. The Bank also offers a variety of line of credit products.

In an effort to manage the interest rate risk associated with its predominantly fixed-rate loan portfolio, the Bank maintains high levels of liquidity, and, where possible, corresponds the funding of fixed-rate residential mortgages with FHLB advances. The Bank also seeks to attract checking and other transaction accounts that generally have lower interest rate costs and tend to be less interest rate sensitive when interest rates rise.

Loan Portfolio Composition

Set forth below is selected information concerning the composition of the

Bank's loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and costs, unearned discounts and allowances for losses) as of the dates indicated.

	At June 30, 2002		2001		
	Amount	Percent	Amount	Percent	Amount
(Dollars in thousands)					
Real estate loans:					
One- to four-family	$98,834	76.19%	$86,336	77.84%	$80,69
Commercial	8,764	6.76	5,239	4.72	4,70
Construction and land	3,003	2.31	1,979	1.78	61
Multi-family	1,657	1.28	1,213	1.09	1,25
Total real estate loans	112,258	86.54	94,767	85.43	87,26
Consumer loans					
Installment (1)	5,611	4.32	6,128	5.53	4,86
Home equity	6,957	5.36	6,138	5.53	4,63
Passbook	545	0.42	596	0.54	49
Total consumer loans	13,113	10.10	12,862	11.60	9,98
Commercial business loans	4,356	3.36	3,291	2.97	1,70
Total consumer loans and commercial business loans	17,469	13.46	16,153	14.57	11,69
Total gross loans	129,727	100.0%	110,920	100.0%	98,96
Less:					
Deferred fees and discounts	(285)		(277)		(27
Allowance for loan losses	(1,069)		(886)		(86
Total loans receivable, net	$128,373		$109,757		$97,81

	At June 30,			
	2002		2001	
	Amount	Percent	Amount	Percen
(Dollars in thousands)				
Fixed-rate loans:				
Real estate loans:				
One- to four-family	$91,586	70.60%	$77,852	70.19%
Commercial	6,587	5.08	3,589	3.23
Construction and land	2,554	1.97	1,979	1.78
Multi-family	1,442	1.11	1,175	1.06
Total fixed-rate real estate loans	102,169	78.76	84,595	76.26
Consumer loans				
Installment (1)	5,611	4.32	6,128	5.53
Home equity	6,957	5.36	6,138	5.53
Passbook	545	0.42	596	0.54
Commercial business loans	4,356	3.36	3,291	2.97
Total fixed-rate loans	119,638	92.22	100,748	90.83
Adjustable-rate loans Real estate loans:				
One- to four-family	7,248	5.59	8,484	7.65
Commercial real estate	2,177	1.68	1,650	1.49
Construction and land	449	0.34	---	---
Multi-family	215	0.17	38	0.03

Total adjustable-rate loans	10,089	7.78	10,172	9.17
Total gross loans	129,727	100.0%	110,920	100.0%
Less:				
Deferred fees and discounts	(285)		(277)	
Allowance for loan losses	(1,069)		(886)	
Total loans receivable, net	$128,373		$109,757	

One- to Four-Family Residential Loans.

The Bank's primary lending activity is the origination, for retention in the Bank's portfolio, of one- to four-family residential mortgage loans collateralized by property located in the Bank's primary lending area. Generally, one- to four-family residential mortgage loans are made in amounts up to 89.9% of the appraised value of the property. However, the Bank will originate one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, with private mortgage insurance. Generally, residential mortgage loans are originated for terms of up to 30 years, though in recent years the Bank has been successful in marketing and originating such loans with 15-year terms. One- to four-family fixed-rate loans are offered with both a monthly and bi-weekly payment feature. The Bank generally requires fire and casualty insurance, the establishment of a mortgage escrow account for the payment of real estate taxes, hazard and flood insurance, as well as title insurance on all properties collateralizing real estate loans made by the Bank.

The Bank currently offers one- to four-family residential mortgage loans with fixed and adjustable interest rates. Originations of fixed-rate loans versus adjustable-rate loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, customer preference, the Bank's interest rate gap position, and loan products offered by the Bank's competitors. Particularly, in a relatively low interest rate environment, borrowers may prefer fixed-rate loans to adjustable-rate loans. Single-family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that the Bank's single-family residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors.

The Bank's adjustable-rate mortgage ("ARM") loans currently provide for maximum rate adjustments of 150 basis points per year and 600 basis points over the term of the loan. The Bank offers ARM loans with initial interest rates that are below market, referred to as "teaser rates." However, in underwriting such loans, borrowers are qualified at the full index rate. Generally, the Bank's ARM loans adjust every year. After origination, the interest rate on such ARM loans is reset based upon a contractual spread or margin above the average yield on one-year United States Treasury securities, adjusted to a constant maturity (the "U.S. Treasury Constant Maturity Index"), as published weekly by the Federal

Reserve Board.

ARM loans decrease the risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the terms of the ARM loans, and, therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At June 30, 2002, 5.59% of the Bank's loan portfolio consisted of one- to four-family residential loans with adjustable interest rates.

The Bank originates construction to permanent loans to homeowners for the purpose of construction of primary and secondary residences. The Bank issues a commitment and has one closing which encompasses both the construction phase and permanent financing. The construction phase is a maximum term of six months and the interest charged is the rate as stated in the commitment, with loan-to-value ratios of up to 89.9% (or up to 95% with private mortgage insurance), of the completed project. The Bank began offering loans collateralized by undeveloped land during fiscal year 2001. The acreage associated with such loans is limited. These land loans generally are intended for future sites of primary or secondary residences.

Construction lending generally involves a greater degree of risk than other one- to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property. Construction delays may further impair the borrower's ability to repay the loan.

The Bank's residential mortgage loan originations are generally obtained from the Bank's loan representatives operating in its branch offices through their contacts with existing or past loan customers, depositors of the Bank, attorneys and accountants who refer loan applications from the general public, and local realtors. The Bank has hired a loan originator who calls upon customers during non-banking hours and at locations convenient to the customer.

All one- to four-family residential mortgage loans originated by the Bank include "due-on-sale" clauses, which give the Bank the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

At June 30, 2002, $98.8 million, or 76.19% of the Bank's loan portfolio, consisted of one- to four-family residential mortgage loans. Approximately $314,000 of such loans (representing seven loans) were included in nonperforming loans as of that date.

Commercial Real Estate and Multifamily Loans.

At June 30, 2002, $ 8.8 million, or 6.76%, of the total loan portfolio consisted of commercial real estate loans. Office buildings, mixed-use properties and other commercial properties collateralize commercial real estate loans. The Bank originates fixed- and adjustable-rate commercial mortgage loans with maximum terms of up to 20 years. The maximum loan-to-value ratio of commercial real estate loans is generally 75%. At June 30, 2002, the largest commercial mortgage loan had a principal balance of $861,900 and was a construction loan for a firehouse. The were no commercial real estate loans included in nonperforming loans.

In underwriting commercial real estate loans, the Bank reviews the expected net operating income generated by the real estate to ensure that it is generally at least 110% of the amount of the monthly debt service; the age and condition of the collateral; the financial resources and income level of the borrower; and the borrower's business experience. The Bank's policy is to require personal guarantees from all commercial real estate borrowers.

Loans collateralized by commercial real estate generally are larger than one- to four-family residential loans and involve a greater degree of risk. Commercial mortgage loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for Bank management to monitor and evaluate.

The Bank originates a limited number of multi-family loans, which totaled $1.7 million, or 1.28% of the Bank's total loans at June 30, 2002. Multi-family loans are generally collateralized by apartment buildings located in the Bank's primary market area. The were no multi-family loans included in nonperforming loans. The Bank's underwriting practices and the risks associated with multi-family loans do not differ substantially from that of commercial real estate loans.

Consumer Loans.

The Bank's consumer loans consist of direct loan installment on new and used automobiles, personal loans (either secured or unsecured), home equity loans, and other consumer loans (consisting of passbook loans, unsecured home improvement loans and recreational vehicle loans). At June 30, 2002 consumer loans totaled $13.1 million, or 10.10% of the total loan portfolio. Consumer loans (other than home equity loans) are originated at fixed rates with terms to maturity of one to five years.

Consumer loans generally have shorter terms and higher interest rates than one- to four-family mortgage loans. In addition, consumer loans expand the products and services offered by the Bank to better meet the financial services needs of its customers. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Bank's underwriting procedures for consumer loans includes an assessment of the applicant's credit history and an assessment of the applicant's ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral to the proposed loan amount. The Bank underwrites its consumer loans internally, which the Bank believes limits its exposure to credit risks associated with loans underwritten or purchased from brokers and other external sources. At this time, the Bank does not purchase loans from any external sources.

The Bank offers fixed and adjustable-rate home equity loans that are collateralized by the borrower's residence. Home equity loans are generally underwritten with terms not to exceed 15 years and under the same criteria that the Bank uses to underwrite one- to four-family fixed rate loans. Home equity loans may be underwritten with terms not to exceed 15 years and with a loan to value ratio of 80% when combined with the principal balance of the existing mortgage loan. The maximum amount of a home equity loan may not exceed $50,000 unless approved by the Board of Directors. The Bank appraises the property collateralizing the loan at the time of the loan application (but not thereafter) in order to determine the value of the property collateralizing the home equity loans. At June 30, 2002, the outstanding balance of home equity loans totaled $7.0 million, or 5.36% of the Bank's total loan portfolio. The were no home equity loans included in nonperforming loans.

Commercial Business Loans.

The Bank also originates commercial business loans up to 10 years at fixed and adjustable-rates. The Bank attributes growth in this portfolio to its ability to offer borrowers senior management attention as well as timely and local decision-making on commercial loan applications. The decision to grant a commercial business loan depends primarily on the creditworthiness and cash flow of the borrower (and any guarantors) and secondarily on the value of and ability to liquidate the collateral which may consist of receivables, inventory and equipment. The Bank generally requires annual financial statements, tax returns and personal guarantees from the commercial business borrowers. The Bank also generally requires an appraisal of any real estate that collateralizes the loan. At June 30, 2002, the Bank had $4.4 million of commercial business loans representing 3.36% of the total loan portfolio. On such date, the average balance of the Bank's commercial business loans was approximately $36,300. The largest commercial business loan had a balance of $560,000 and represented a fire truck loan for a local fire district. At June 30, 2002, the Bank's commercial loan portfolio included 121 loans collateralized by real estate, fire trucks, or other equipment. The were no commercial business loans included in nonperforming loans.

Commercial business lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based, with loan amounts based on predetermined loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Loan Maturity Schedule.

The following table sets forth certain information as of June 30, 2002 regarding the amount of loans maturing or re-pricing in the Bank's portfolio. Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather than the period in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due. Lines of credit with no specified maturity date are included in the category "within one year".

The following table illustrates the future maturities of such loans at June 30, 2002.

	1 Year	3 Years	5 Years

(Dollars in thousands)	Within 1 Year	Through 3 Years	Through 5 Years	Through 10 Years	Beyond 10 Years
Real estate loans:					
One- to four-family	$6,844	$1,504	$2,911	$10,258	$77,317
Commercial	1,693	332	149	1,137	5,453
Construction and land	---	---	---	80	2,923
Multi-family	236	33	59	---	1,329
Total real estate loans	8,773	1,869	3,119	11,475	87,022
Consumer loans	1,229	2,797	3,319	2,439	3,329
Commercial business loans	804	550	1,321	623	1,058
Total loan portfolio	$10,806	$5,216	$7,759	$14,537	$91,409

The total amount of the above loans due after June 30, 2003 which have predetermined interest rates is $117.1 million while the total amount of loans due after such date which have adjustable interest rates is $1.8 million.

The following table sets forth the loan origination and repayment activities of the Bank for the periods indicated. The Bank did not purchase or sell any loans during the periods presented.

	For the Years Ended June 30, 2002	2001	2000
(Dollars in thousands)			
Originations by type:			
Adjustable rate loans			
One- to four-family	$466	$409	$541

Commercial real estate	1,398	252	51
Construction and land	449	---	---
Multi-family	185	10	17
Total adjustable rate loans	2,498	671	609
Fixed rate loans			
One- to four-family	27,589	17,123	15,910
Commercial real estate	5,496	1,485	1,682
Construction and land	3,871	4,405	4,512
Multi-family	701	145	483
Installment	4,354	5,630	4,317
Home equity	3,800	3,311	1,610
Passbook	415	431	450
Commercial business	4,099	3,286	2,235
Total fixed rate loans	50,325	35,816	31,199
Total loans originated	52,823	$36,487	$31,808
Repayments:			
One- to four-family	15,557	11,892	9,900
Commercial real estate	3,369	1,200	1,016
Construction and land	3,296	3,042	5,550
Multi-family	442	195	88
Installment	4,871	4,367	4,213
Home equity	2,981	1,804	1,668
Passbook	466	325	485
Commercial business	3,034	1,702	1,758
Total repayments	34,016	24,527	24,678
Net increase in loans	$18,807	$11,960	$7,130

Loan Approval Procedures and Authority.

The Board of Directors establishes the lending policies and loan approval limits of the Bank. Loan officers generally have the authority to originate mortgage loans, consumer loans and commercial business loans up to amounts established for each lending officer. The Executive Committee or the full Board of Directors must approve all residential loans over $200,000.

The Board annually approves independent appraisers used by the Bank. For larger loans, the Bank may require an environmental site assessment to be performed by an independent professional for all non-residential mortgage loans. It is the Bank's policy to require hazard insurance on all mortgage loans.

Loan Origination Fees and Other Income.

In addition to interest earned on loans, the Bank receives loan origination fees. Such fees and costs vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money.

In addition to loan origination fees, the Bank also receives other income that consists primarily of deposit transaction account service charges, ATM fees and late charges. The Bank also installs, maintains and services merchant bankcard equipment for local retailers and is paid a percentage of the transactions processed using such equipment.

Loans-to-One Borrower.

Savings banks are subject to the same loans to one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate). The Bank's policy provides that loans to one borrower (or related borrowers) should not exceed 10% of the Bank's capital and reserves.

At June 30, 2002, the largest aggregate amount loaned by the Bank to one borrower consisted of a commercial realestate loan of $861,000 for the construction of a firehouse. The loan comprising the lending relationship was performing in accordance with its terms as of June 30, 2002.

DELINQUENCIES AND CLASSIFIED ASSETS

Collection Procedures.

A computer generated late notice is sent and a 2% late charge is assessed when a payment is 15 days late. A second notice will be incorporated in the next month's billing notice, approximately 21 days after the due date of the first late payment. Accounts thirty days or more past due will be reviewed by the collection manager and receive individual attention as required, including collection letters and telephone calls. The collection manager in order to avoid further deterioration will closely monitor accounts that have a history of consistent late or delinquent payments. Accounts two or more payments past due are reported to the Board of Directors for consideration of foreclosure action. With respect to consumer loans, a late notice is sent and a late charge is assessed 10 days (or, in the case of home equity loans, 15 days) after payment is due. A second notice is sent 15 days (in the case of home equity loans, 25 days) thereafter. The collection manager reviews loans 30 days or more past due individually, following up with collection letters and telephone calls. Accounts three or more payments past due are reported to the Board of Directors and are subject to legal action and repossession of collateral.

Loans Past Due and Non-performing Assets.

Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable at least a portion of the loan will not be collected due to an irreversible deterioration in the financial condition of the borrower or the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectibility is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan does not have to be 90 days delinquent in order to be classified as non-performing. Interest on nonaccrual loans is recognized on a cash basis until such time as the borrower has brought the loan to performing status. Other real estate owned is included in non-performing assets. At June 30, 2002, the Bank had non-performing loans of $332,867 and a ratio of non-performing loans to total loans of 0.26%.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as other real estate owned ("OREO") until such time as it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at its fair value, less estimated costs of disposal. If the value of the property is less than the loan, less any related specific loan loss provisions, the difference is charged against the allowance for loan losses. Any subsequent write-down of OREO is charged against earnings. At June 30, 2002, the Bank's OREO totaled $30,229 and its ratio of non-performing assets to total assets was 0.16%.

The following table sets forth delinquencies in the Bank's loan portfolio at June 30, 2002. When a loan is delinquent 90 days or more, the Bank fully reverses all accrued interest thereon and ceases to accrue interest thereafter. A loan is not removed from nonaccrual status until the loan is current and evidence supports the borrower's ability to maintain a current status. The Bank also had a single one- to four-family real estate loan that amounted to $51,599 classified as nonaccrual which was in the 60 to 89 days delinquent category at June 30, 2002. For all the dates indicated, the Bank did not have any material restructured loans.

	Number	Dollar amount	Percentage of loan category
60 to 89 days delinquent			
Real estate:			
One- to four-family	9	$547,209	80.1%
Commercial	1	33,551	4.9
Construction and land	---	---	---
Multi-family	---	---	---
Installment	7	20,140	3.0
Home equity	2	82,037	12.0
Commercial business	---	---	---
Total loan delinquency 60 to 89 days	19	682,937	100.0
90 days and over delinquent			
Real estate:			
One- to four-family	6	262,382	93.3
Commercial	---	---	---
Construction and land	---	---	---
Multi-family	---	---	---
Home equity	5	18,886	6.7
Installment	---	---	---
Commercial business	---	---	---
Total loan delinquency 90 days and over	11	281,268	100.0

Total loans delinquent over 60 days Real estate:			
One- to four-family	15	809,591	84.0
Commercial	1	33,551	3.5
Construction and land	---	---	---
Multi-family	---	---	---
Installment	12	39,026	4.0
Home equity	2	82,037	8.5
Commercial business	---	---	---
Total loans delinquent over 60 days	30	$964,205	100.0%

Nonaccrual Loans and Nonperforming Assets.

The following table sets forth information regarding nonaccrual loans and other non-performing assets at the dates indicated. The Bank had no accruing loans delinquent more than 90 days at June 30, 2002, 2001, and 2000.

	At June 30,		
	2002	2001	2000
Nonaccruing loans:			

Real estate loans			
One- to four-family	$313,981	$660,607	$495,909
Commercial real estate	---	71,711	155,002
Installment and home equity	18,886	11,150	20,801
Commercial business	---	---	---
Total nonaccruing loans	332,867	743,468	671,712
Real estate owned:			
Real estate loans			
One- to four-family	---	---	42,133
Commercial real estate	30,229	30,229	---
Commercial business	---	---	109,000
Total real estate owned	30,229	30,229	151,133
Total non-performing assets	$363,096	$773,697	$822,845
Total as a percentage of total assets	0.16%	0.42%	0.49%

During the year ended June 30, 2002, gross interest income of $9,700 would have been recorded on nonaccrual loans under their original terms if the loans had been current throughout the period. No interest income was recorded on nonaccrual loans or on accruing loans more than 90 days delinquent during the year ended June 30, 2002.

Classification of Assets.

Consistent with regulatory guidelines, the Bank provides for the classification of loans and other assets considered to be of lesser quality. Such ratings coincide with the "Substandard", "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve and/or charge-off is not warranted. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention."

When the Bank classifies problem assets as either Substandard or Doubtful, it establishes a valuation allowances or "loss reserves" in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When the Bank classifies problem assets as "Loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of assets so classified, or to charge-off such amount. The Bank's determination as to the classification of its assets and the amount of its valuation allowance is subject to review by its regulatory agencies, which can order the establishment of additional general or specific loss allowances. The Bank reviews its portfolio monthly to determine whether any assets require classification in accordance with applicable regulations. At June 30, 2002, the Bank had $74,000 in loans classified as Substandard and no other classified assets.

Allowance for Loan Losses.

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the losses inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and valuation of OREO. Such agencies may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to noninterest expense) and is reduced by net charge-offs. At June 30, 2002, the total allowance was $1,068,734, which amounted to 0.83% of total net loans receivable and 321.07% of nonperforming loans. Management will continue to monitor and modify the level of the allowance for loan losses. For the year ended June 30, 2002, the Bank's charge-offs amounted to $52,257. For the years ended June 30, 2001 and 2000, the Bank's charge-offs amounted to $76,915 and $65,557, respectively.

The Bank may require an environmental site assessment to be performed by an independent professional for non-residential mortgage loans. It is also the Bank's policy to require title and hazard insurance on all mortgage loans. In addition, the Bank may require borrowers to make payments to a mortgage escrow account for the payment of property taxes. Any exceptions to the Bank's loan policies must be made in accordance with the limitations set out in each policy. Typically, the exception authority ranges from the Chief Lending Officer to the Board of Directors, depending on the size and type of loan involved.

Analysis of the Allowance For Loan Losses.

The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	For the Years Ended June 30,		
	2002	2001	2
Balance at the beginning of period	$886,081	$866,443	$79
Charge-offs:			
One- to four-family real estate	---	---	
Commercial real estate	---	26,432	

Installment	49,877	50,483	6
Home equity	2,380	---	
Commercial business	---	---	
Total charge-offs	52,257	76,915	6
Recoveries:			
One- to four-family real estate	---	---	
Installment	16,010	36,553	
Total recoveries	16,010	36,553	
Net charge-offs	36,247	40,362	6
Additions charged to operations	218,900	60,000	13
Balance at end of period	$1,068,734	$886,081	$86
Ratio of net charge-offs to average loans outstanding	0.03%	0.04%	
Ratio of net charge-offs to nonperforming assets	9.98%	5.22%	
Allowance for loan loss to nonperforming loans	321.07%	119.18%	12
Allowance for loan loss to net loans	0.83%	0.81%	

Allocation of Allowance for Loan Losses.

The following table sets forth the allocation of the allowance for loan losses by loan category for at the dates indicated. The allowance is allocated to each loan category based on historical loss experience and economic conditions. The unallocated portions of the allowance represent reserves for unused lines of credit and losses inherent in the loan portfolio.

	June 30, 2002			June 30, 2001			
	Amount of loan loss allowance	Loan amounts by category	Percent of loans in each category to total loans	Amount of loan loss allowance	Loan amounts by category	Percent of loans in each category to loans	A l a
(Dollars in thousands)							
One- to four-family	$488	$98,834	76.2%	$467	$86,336	77.8%	
Commercial real estate	182	8,764	6.6	120	5,239	4.7	
Construction and land	7	3,003	2.3	13	1,979	1.8	
Multi-family	18	1,657	1.3	10	1,213	1.1	
Installment	92	5,611	4.3	100	6,128	5.5	

Home equity	38	6,957	5.4	32	6,138	5.5
Passbook	1	545	0.4	1	596	0.6
Commercial business	191	4,356	3.3	136	3,291	3.0
Specific	24	---	---	---	---	---
Unallocated	28	---	---	7	---	---
Totals	$1,069	$129,727	100.0%	$886	$110,920	100.0%

SECURITIES INVESTMENT ACTIVITIES

Given the Bank's substantial portfolio of fixed-rate residential mortgage loans, the Bank maintains high balances of liquid investments for the purpose of mitigating interest rate risk. The Board of Directors establishes the securities investment policy. This policy dictates that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and desired risk parameters. In pursuing these objectives, management considers the ability of an investment to provide earnings consistent with factors of quality, maturity, marketability and risk diversification.

The Bank's current policies generally limit securities investments to U.S. Government and agency securities, federal funds sold, municipal bonds, corporate debt obligations and certain mutual funds. In addition, the Bank's policy permits investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and GNMA, and collateralized mortgage obligations ("CMOs"). The Bank's current securities investment strategy utilizes a risk management approach of diversified investing among three categories: short-, intermediate- and long-term. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk. The Bank will only invest in securities rated "A" or higher by at least one nationally recognized rating agency (or securities attaining such rating as a result of guarantees by insurance companies), with the exception of occasional investments in smaller non-rated local bonds. The Bank does not engage in any derivative or hedging transactions, such as interest rate swaps or caps.

At June 30, 2002, the Bank had $66.1 million in investment securities, or 30.0% of total assets. SFAS No. 115 requires the Bank to designate its securities as held to maturity, available for sale, or trading, depending on the Bank's ability and intent regarding its investments. As of June 30, 2002, the entire investment securities portfolio was classified as available for sale. At June 30, 2002, the Bank's mortgage-backed securities portfolio totaled $19.6 million, or 8.9% of total assets and the Bank's asset-backed securities portfolio totaled $0.8 million, or 0.4% of total assets.

Book Value of Investment Securities. The following table sets forth certain information regarding the investment securities and other interest earning assets as of the dates indicated.

At June 30,

	2001		2000		
	Book value	Percent of total	Book value	Percent of total	Book value
(Dollars in Thousands)					
Investment securities, AFS					
U.S. Treasuries	$---	---%	$1,005	2.1%	$4,68
U.S. Government agencies	14,862	22.5	1,794	3.7	5,19
State and political subdivisions	8,811	13.3	9,420	19.3	9,90
Mortgage-backed securities	19,564	29.6	8,783	18.0	6,00
Asset-backed securities	818	1.3	3,300	6.7	4,91
Corporate debt securities	20,760	31.4	23,432	47.9	12,81
Equity securities and other	1,274	1.9	1,141	2.3	1,30
Total investment securities, AFS	$66,089	100.0%	$48,875	100.0%	$44,80

Mortgage-Backed and Asset-Backed Securities.

The Bank purchases mortgage-backed securities in order to: (i) generate positive interest rate spreads with minimal administrative expense; (ii) lower the Bank's credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae, and GNMA; and (iii) increase liquidity. At June 30, 2002, mortgage-backed securities (including CMOs) totaled $19.6 million or 8.9% of total assets, all of which were classified as available for sale. At June 30, 2002, $15.2 million of the mortgage-backed securities were adjustable rate and $4.4 million were fixed rate. The mortgage-backed securities portfolio had coupon rates ranging from 4.00% to 7.00%, a weighted average yield of 4.02% and a weighted average life (including pre-payment assumptions) of 2.5 years at June 30, 2002. The estimated market value of the Bank's mortgage-backed securities at June 30, 2002 was $19.6 million, which was $204,760 more than cost.

The pooling of mortgages and the issuance of a security with an interest rate that is based on the interest rate on the underlying mortgages create mortgage-backed securities. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although the Bank focuses its investments on mortgage-backed securities backed by single-family mortgages. The issuers of such securities (generally U.S. Government agencies and government sponsored enterprises, including Fannie Mae, Freddie Mac and GNMA) pool and resell the participation interests in the form of securities to investors, such as the Bank, and guarantee the payment of principal and interest to these investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. In addition, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize certain liabilities and obligations of the Bank.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby altering the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are prepaid. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Management reviews prepayment estimates periodically to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates and to determine the yield and estimated maturity of the Bank's mortgage-backed securities portfolio. Of the Bank's $19.6 million mortgage-backed securities portfolio at June 30, 2002, $1.4 million with a weighted average yield of 6.08% had contractual maturities within five years, $2.9 million with a weighted average yield of 5.40% had contractual maturities of five to ten years and the remaining $15.3 million with a weighted average yield of 3.57% had contractual maturities more than 10 years. However, the actual maturity of a security may be less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and may result in a loss of any premiums paid and thereby reduce the net yield on such securities. Although prepayments of underlying mortgages depend on many factors, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of declining mortgage interest rates, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Bank may be subject to reinvestment risk because, to the extent that the Bank's securities prepay faster than anticipated, the Bank may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate of return. Conversely, in a rising interest rate environment prepayments may decline, thereby extending the estimated life of the security and depriving the Bank of the ability to reinvest cash flows at the increased rates of interest.

At June 30, 2002, the Bank's portfolio of asset-backed securities totaled $0.8 million, or 0.4% of total assets, all of which were classified as available for sale. At June 30, 2002, all of the asset-backed securities were fixed rate. The portfolio had coupon rates ranging from 6.10% to 6.85%, a weighted average yield of 5.23% and a weighted average life (including prepayment assumptions) of 3.0 years at June 30, 2002. The estimated market value of the Bank's asset-backed securities portfolio at June 30, 2002 was $0.8 million, which was $13,311 more than cost at such date.

Asset-backed securities are a type of debt security collateralized by various loans and assets including: automobile loans, equipment leases, credit card receivables, home equity and improvement loans, manufactured housing, student loans and other consumer loans. In the case of the Bank, its asset-backed securities are collateralized by automobile loans and second-mortgage loans.

Asset-backed securities provide the Bank with a broad selection of fixed-income alternatives, most with higher credit ratings and less downgrade risk than corporate bonds and more stable cash flows than mortgage related securities. Prepayments and structure risk of asset-backed securities are less of a concern than CMO securities due to the shorter maturities of the underlying collateral promoting greater stability of payments.

Of the Bank's $0.8 million portfolio of asset-backed securities at June 30, 2002, $0.1 million with a weighted average yield of 5.76% had contractual maturities within 5 years, no asset-backed securities held in the portfolio had contractual maturities of 5 to 10 years, and the remaining $0.7 million with a weighted average yield of 5.17% had contractual maturities of more than 10 years.

SOURCES OF FUNDS

General.

Deposits, repayments and prepayments of loans and securities, proceeds from sales of securities, and proceeds from maturing securities and cash flows from operations are the primary sources of the Bank's funds for use in lending, investing and for other general purposes.

Deposits.

The Bank offers a variety of deposit accounts with a range of interest rates and terms. The Bank's deposit accounts consist of savings, NOW accounts, and money market accounts, certificates of deposit, and noninterest bearing checking accounts. The Bank also offers IRAs.

At June 30, 2002, deposits totaled $183.7 million. At June 30, 2002, the Bank had a total of $62.6 million in certificates of deposit, of which $49.1 million had maturities of one year or less. Although the Bank has a significant portion of its deposits in shorter-term certificates of deposit, management monitors activity on these accounts and, based on historical experience and the Bank's current pricing strategy, believes it will retain a large portion of such accounts upon maturity.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Deposits are obtained predominantly from the areas in which the Bank's branch offices are located. The Bank relies primarily on competitive pricing of its deposit products and customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing, financial institutions significantly affect the Bank's ability to attract and retain deposits. The Bank uses traditional means of advertising its deposit products, including radio, television, and print media. It generally does not solicit deposits from outside its market area. While the Bank accepts certificates of deposit in excess of $100,000, they are not subject to preferential rates. The Bank does not actively solicit such deposits, as they are more difficult to retain than core deposits. Historically, the Bank has not used brokers to obtain deposits.

The following table sets forth the deposit activities of the Bank for the periods indicated.

	For the Years Ended June 30,		
	2002	2001	2000
(Dollars in thousands)			
Opening balance	$154,192	$133,460	$127,999
Deposits	664,399	512,785	333,442
Withdrawals	641,720	496,480	332,441
Interest credited	6,843	4,427	4,460
Ending balance	183,714	154,192	133,460

Net increase	$29,522	$20,732	$5,461
Percent increase	19.15%	15.53%	4.27%

The following tables set forth information, by various rate categories, regarding the balance of deposits by types of deposit as of the dates indicated.

	At June 30,				
	2002		2001		
	Amount	Percent	Amount	Percent	Amount
(Dollars in thousands)					
Transaction and savings deposits					
Demand deposits	$22,067	12.0%	$18,418	11.9%	$12,34
Savings deposits	70,825	38.5	57,021	37.0	53,89
NOW deposits	14,294	7.8	11,446	7.4	9,09
Money market deposits	13,883	7.6	9,194	6.0	6,18
Total non-certificates of deposit	121,069	65.9%	96,079	62.3	81,51
Certificate of deposit					
0.00 - 2.99%	26,024	14.2	100	0.1	--
3.00 - 3.99%	16,369	8.9	430	0.3	7
4.00 - 5.99%	20,252	11.0	57,583	37.3	51,86
6.00 - 7.99%	---	---	---	---	--
8.00 - and over	---	---	---	---	--
Total certificates of deposit	62,645	34.1	58,113	37.7	51,94
Total deposits	$183,714	100.0%	$154,192	100.0%	$133,46

The following table sets forth the amount and remaining maturities of the Bank's certificates of deposit accounts at June 30, 2001.

(Dollars in thousands)	0.00-2.99%	3.00-3.99%	4.00-5.99%	6.00% or Greater	Total
Certificates of deposit					
Maturity in quarter ended:					
September 30, 2002	$7,319	$2,136	$7,600	$---	$17,055
December 31, 2002	9,553	3,063	4,398	---	17,014
March 31, 2003	3,640	2,399	2,734	---	8,773
June 30, 2003	2,973	1,207	2,103	---	6,283
September 30, 2003	1,741	1,326	462	---	3,529
December 31, 2003	747	2,220	286	---	3,253
March 31, 2004	28	1,685	254	---	1,967
June 30, 2004	23	432	493	---	948
September 30, 2004	---	352	242	---	594
December 31, 2004	---	1,074	298	---	1,372
March 31, 2005	---	36	352	---	388
June 30, 2005	---	206	185	---	391
Thereafter	---	233	845	---	1,078
Total	$26,024	$16,369	$20,252	$---	$62,645
Percent of total	41.6%	26.1%	32.3%	---%	100.0

Borrowed Funds.

In the event that the Bank requires funds beyond its ability to generate them internally, additional sources of funds are available through Federal Home Loan Bank ("FHLB"). At June 30, 2002 the Bank had available an Overnight Line of Credit and a One-Month Overnight Repricing Line of Credit, each in the amount of $8,512,800 with the FHLB. Residential mortgages are pledged by the Bank as collateral to secure the Bank's line of credit and term borrowing. Interest on the line is determined at the time of borrowing. In addition to the overnight line of credit program, the Bank also has access to the FHLB's Term Advance Program under which it can borrow at various terms and interest rates. The advances are collateralized by all of the Company's stock and deposits in the FHLB and a general lien on one- to four-family mortgage loans, certain multi-family loans and U.S. Government Agency obligations in an aggregate amount equal up to 133% of outstanding advances. The maximum amount that the FHLB will advance to member institutions, including the Bank, fluctuates from time to time in accordance with policies of the FHLB.

The following table set forth certain information regarding borrowed funds.

Balance Outstanding at June 30, 2002:

Amount	Rate	Maturity date
$4,000,000	2.19% - fixed	01/14/2003
2,500,000	6.82% - fixed	09/02/2004

2,500,000	6.80% - fixed	10/04/2005
$9,000,000		

Average daily balance outstanding:	$6,841,096
Maximum amount outstanding during the year	$9,000,000
Weighted average interest rate during the year	5.57%
Weighted average interest at end of year	4.76%

PERSONNEL

As of June 30, 2002, the Bank had 74 full-time employees and 12 part-time employees. The Company has no employees who are not also Bank employees. A collective bargaining unit does not represent the employees and the Bank considers its relationship with its employees to be good.

FEDERAL AND STATE TAXATION

Federal Taxation

General.
The Mutual Company, the Company and the Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to these entities.

Method of Accounting.
For federal income tax purposes, the Company and the Bank currently report income and expenses on the accrual method of accounting and use a tax year ending June 30 for filing consolidated federal income tax returns. The Small Business Protection Act of 1996 (the "1996 Act") eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

Bad Debt Reserves.
Prior to the 1996 Act, the Bank was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at the Bank's taxable income. As a result of the 1996 Act, the Bank must use the specific charge off method in computing its bad debt deduction beginning with its 1996 federal tax return.

Taxable Distributions and Recapture.
Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income should the Bank fail to meet certain thrift asset and definitional tests. New federal legislation eliminated these thrift related recapture rules. However, under current law, pre-1988 reserves remain subject to recapture should the Bank redeem its common stock pay, dividends or make distributions in excess of earnings and profits.

At June 30, 2002, the Bank's total federal pre-1988 reserve was approximately $2.1 million. This reserve reflects the cumulative effects of federal tax deductions by the Bank for which no federal income tax provision has been made. A deferred tax liability has not been provided on this amount as management does not intend to redeem stock, make distributions or take other actions that would result in recapture of the reserve.

Minimum Tax.

The Code imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The AMT is payable to the extent such AMTI is in excess of an exemption amount. For all loss years except those originating in 2001 and 2002, net operating losses can offset no more than 90% of AMTI. For loss years originating in 2001 and 2002, you can offset 100% of AMTI.Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company and the Bank have not been subject to the alternative minimum tax and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers.

A financial institution may carry back net operating losses to the preceding Five taxable years and forward to the succeeding 20 taxable years. At June 30, 2002, the Bank had no net operating loss carry forward for federal income tax purposes.

Corporate Dividends-Received Deduction.

The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The Mutual Company owns less than 80% of the outstanding Common Stock of the Company. As such, the Mutual Company is not permitted to file a consolidated federal income tax return with the Company and the Bank. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf.

State Taxation

New York State Taxation - General.

The Company and the Bank report income on a combined fiscal year basis to New York State. The New York State franchise tax on banking corporations is imposed in an amount equal to the greater of (a) 8.0% "entire net income" allocable to New York State (b) 3% of "alternative entire net income" allocable to New York State (c) 0.01% of the average value of assets allocable to New York State or (d) $250. Entire net income is based on federal taxable income, subject to certain modifications. Alternative entire net income is equal to entire net income without certain modifications. The Mutual Company files a separate New York State franchise tax return.

Bad Debt Reserves.

The Bank is allowed to utilize the reserve method of accounting for New York State franchise tax purposes and is required to maintain two reserve accounts: the Reserve for Losses on Nonqualifying Loans (the "NY NQL Reserve") and the Reserve for Losses on Qualifying Real Property Loans (the "NY QRPL Reserve"). The addition to the NY NQL Reserve must be computed under the "experience method". The addition to the NY QRPL Reserve may be computed under either the experience method or the "percentage of taxable income method" (the "PTI method"). The deduction under the PTI method is equal to 32% of entire net income (before the deduction for the bad debt reserve addition), which must first be allocated to the NY NQL Reserve. The balance, if any, is the allowable addition to the NY QRPL reserve, subject to a limitation based upon 6% of Qualifying Real Property Loans ("QRPL").

Recapture of New York State Bad Debt Reserves.

If the Bank ceases to qualify as a "thrift institution" (as defined in the New York State tax law), or fails to hold at least 60% of its assets in "Qualifying Assets", it will no longer be entitled to use the reserve method and must recapture into entire net income a portion of its NY QRPL Reserve. The amount subject to recapture is generally equal to the excess of the NY QRPL Reserve over the federal QRPL Reserve as of December 31, 1995. The amount of the Bank's NY QRPL Reserve subject to recapture is approximately $1.8 million. Since it is the Bank's intention to continue to qualify as a thrift institution and to meet the 60% Qualifying Asset test, a deferred tax liability has not been established for the $153,000 New York State tax that would result from such failure.

Net Operating Loss Deductions.

For New York State franchise tax purposes, the Bank is not entitled to carry back or forward net operating losses ("NOLs") incurred in taxable years ending before January 1, 2001. NOLs incurred in taxable years beginning on or after January 1, 2001 can be carried forward to the succeeding 20 taxable years and carried back to the Five preceeding years, however there is a $10,000 limitation on carry-backs.

Corporate Dividends-Received Deduction.

Similar to the federal rules, the Company and the Bank file a combined New York State franchise tax report and inter-company dividends will be eliminated. However, the Mutual Company does not own the requisite percentage (generally 80% or more) of the common stock of the Company necessary to file on a combined basis with the Company. As long as the Mutual Company owns more than 50% of the common stock of the Company, it is entitled to a full exclusion from taxation of dividend income related to subsidiary capital. The Mutual Company is entitled to a 50% dividends-received deduction if it owns 50% or less of the common stock of the Company.

REGULATION

General

The Bank is a New York-chartered savings bank and the FDIC through the BIF insures its deposit accounts up to applicable limits. The Bank is subject to extensive regulation by the New York State Banking Department (the "Department"), as its chartering agency, and by the FDIC, as its deposit insurer. The Bank is required to file reports with, and is periodically examined by, the FDIC and the New York Superintendent of Banking concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other banking institutions. The Bank is a member of the FHLB of New York and is subject to certain regulations by the Federal Home Loan Bank System. Both the Company and the Mutual Company, as mutual savings and loan holding companies, are subject to regulation by the OTS and are required to file reports with the OTS. Any change in such regulations, whether by the Department, the FDIC, or the OTS could have a material adverse impact on the Bank, the Company, or the Mutual Company.

Certain of the regulatory requirements applicable to the Bank, the Company and the Mutual Company are referred to below or elsewhere herein.

NEW YORK BANK REGULATION

FDIC regulations and other federal law and regulations limit the exercise by an FDIC-insured savings bank of the lending and investment powers under the New York State Banking Law. In particular, the applicable provisions of New York State Banking Law and regulations governing the investment authority and activities of an FDIC insured state-chartered savings bank have been substantially limited by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and the FDIC regulations issued pursuant thereto.

The Bank derives its lending, investment and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Department, as limited by FDIC regulations. Under these laws and regulations, savings banks, including the Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies, certain types of corporate equity securities and certain other assets. Under the statutory authority for investing in equity securities, a savings bank may invest up to 7.5% of its assets in corporate stock, with an overall limit of 5% of its assets invested in common stock. Investment in the stock of a single corporation is limited to the lesser of 2% of the outstanding stock of such corporation or 1% of the savings bank's assets, except as set forth below. Such equity securities must meet certain earnings ratios and other tests of financial performance. A savings bank's lending powers are not subject to percentage of assets limitations, although there are limits applicable to single borrowers. A savings bank may also, pursuant to the "leeway" power, make investments not otherwise permitted under the New York State Banking Law. This power permits investments in otherwise impermissible investments of up to 1% of assets in any single investment, subject to certain restrictions and to an aggregate limit for all such investments of up to 5% of assets. Additionally, in lieu of investing in such securities in accordance with and reliance upon the specific investment authority set forth in the New York State Banking Law, savings banks are authorized to elect to invest under a "prudent person" standard in a wider range of investment securities as compared to the types of investments permissible under such specific investment authority. However, in the event a savings bank elects to utilize the "prudent person" standard, it will be unable to avail itself of the other provisions of the New York State Banking Law and regulations, which set forth specific investment authority. The Bank has not elected to conduct its investment activities under the "prudent person" standard. A savings bank may also exercise trust powers upon approval of the Department.

New York State chartered savings banks may also invest in subsidiaries under their service corporation investment authority. A savings bank may use this power to invest in corporations that engage in various activities authorized for savings banks, plus any additional activities which may be authorized by the Department. Investment by a savings bank in the stock, capital notes and debentures of its service corporations is limited to 3% of the bank's assets, and such investments, together with the bank's loans to its service corporations, may not exceed 10% of the savings bank's assets. Furthermore, New York banking regulations impose requirements on loans which a bank may make to its executive officers and directors and to certain corporations or partnerships in which such persons have equity interests. These requirements include, but are not limited to, requirements that (i) certain loans must be approved in advance by a majority of the entire board of directors and the interested party must abstain from participating directly or indirectly in the voting on such loan, (ii) the loan must be on terms that are not more favorable than those offered to unaffiliated third parties, and (iii) the loan must not involve more than a normal risk of repayment or present other unfavorable features.

INSURANCE OF ACCOUNTS AND REGULATION BY THE FDIC

The Bank is a member of the BIF, which is administered by the FDIC. The FDIC insures deposits up to applicable limits and such insurance is backed by the full faith and credit of the U.S. Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings banks, after giving the Superintendent an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged or is engaging in unsafe or unsound practices, or is in an unsafe or unsound condition.

REGULATORY CAPITAL REQUIREMENTS

The FDIC has adopted risk-based capital guidelines for banks under their supervision. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as the Bank's "risk-based capital ratio". Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide Bank's capital into two tiers. The first tier ("Tier I") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier II") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Savings banks are required to maintain a total risk-based capital ratio of 8%, of which at least 4% must be Tier I capital.

In addition, the FDIC has established regulations prescribing a minimum Tier I leverage ratio (Tier I capital to adjusted total assets as specified in the regulations). These regulations provide for a minimum Tier I leverage ratio of 3% for banks that meet certain specified criteria, including that they have the highest examination rating and are not experiencing or anticipating significant growth. All other banks are required to maintain a Tier I leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant. Savings banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

At June 30, 2002, the Bank exceeded all regulatory capital requirements.

STANDARDS FOR SAFETY AND SOUNDNESS

The federal banking agencies have adopted a final regulation and Interagency Guidelines Prescribing Standards for Safety and Soundness ("Guidelines") to implement the safety and soundness standards required under federal law. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The standards set forth in the Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset growth; compensation; fees and benefits. The agencies also adopted additions to the Guidelines, which require institutions to examine asset quality and earnings standards. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by federal law. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

LIMITATIONS ON DIVIDENDS AND OTHER CAPITAL DISTRIBUTIONS

The FDIC has the authority to use its enforcement powers to prohibit a savings bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. New York law restricts the Bank from declaring a dividend, which would reduce its capital below (i) the amount required to be maintained by state and federal law and regulations, or (ii) the amount of the Bank's liquidation account established in connection with the December 1998 Reorganization. New York law also prescribes that dividends declared by a stock savings bank in any calendar year shall not exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, plus any required transfer to surplus or for the retirement of any preferred stock, unless approved by the Superintendent.

PROMPT CORRECTIVE ACTION

The federal banking agencies have promulgated regulations to implement the system of prompt corrective action required by federal law. Under the regulations, a bank shall be deemed to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to any written capital order or directive; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized"; (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Federal law and regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

Based on the foregoing, the Bank is currently classified as a "well capitalized" savings institution.

ACTIVITES AND INVESTMENTS OF INSURED STATE-CHARTERED BANKS

Federal law generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks, notwithstanding state laws. Under regulations dealing with equity investments, an insured state bank generally may not, directly or indirectly, acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary; (ii) investing as a limited partner in a partnership the sole purpose of which is the direct or indirect investment in the acquisition, rehabilitation, or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets; (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees', and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions; and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Federal law and FDIC regulations permit certain exceptions to the foregoing limitation. For example, certain state-chartered banks, such as the Bank, may continue to invest in common or preferred stock listed on a National Securities Exchange or the National Market System of NASDAQ, and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. As of June 30, 2002, the Bank had no securities pursuant to this exception.

TRANSACTIONS WITH AFFILIATES

Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings bank is any company or entity that controls, is controlled by, or is under common control with the savings bank, other than a subsidiary. In a holding company context, at a minimum, the parent holding companies of a savings bank and any companies that are controlled by such parent holding company are affiliates of the savings bank. Generally, Section 23A limits the extent to which the savings bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such savings bank's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term "covered transaction" includes the making of loans or other extensions of credit to an affiliate; the purchase of assets from an affiliate, the purchase of, or an investment in, the securities of an affiliate; the acceptance of securities of an affiliate as collateral for a loan or extension of credit to any person; or issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees, acceptances on letters of credit issued on behalf of an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same, or no less favorable, to the savings bank or its subsidiary as similar transactions with nonaffiliates.

Further, Section 22(h) of the Federal Reserve Act restricts a savings bank with respect to loans to directors, executive officers, and principal stockholders. Under Section 22(h), loans to directors, executive officers and stockholders who control, directly or indirectly, 10% or more of voting securities of a savings bank, and certain related interests of any of the foregoing, may not exceed, together with all other outstanding loans to such persons and affiliated entities, the savings bank's total capital and surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and stockholders who control 10% or more of voting securities of a stock savings bank, and their respective related interests, unless such loan is approved in advance by a majority of the board of directors of the savings bank. Any "interested" director may not participate in the voting. The loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus or any loans over $500,000. Further, pursuant to Section 22(h), loans to directors, executive officers and principal stockholders must generally be made on terms substantially the same as offered in comparable transactions to other persons. Section 22(g) of the Federal Reserve Act places additional limitations on loans to executive officers.

HOLDING COMPANY REGULATION

GENERALLY.

Federal law allows a state savings bank, such as the Bank that qualifies as a "Qualified Thrift Lender" discussed below, to elect to be treated as a savings association for purposes of the savings and loan holding company provisions of the Home Owners' Loan Act (the "HOLA"). Such election results in its holding company being regulated as a savings and loan holding company by the OTS rather than as a bank holding company by the Federal Reserve Board. The Company and the Mutual Company have made such election by converting from a Delaware corporation and a New York mutual holding company to a federal corporation and federal mutual holding company, respectively, effective May 15, 2001. The Company and the Mutual Company savings and loan holding companies are within the meaning of HOLA. As such, the Company and the Mutual Company are registered with the OTS and are subject to the OTS regulations, examinations, supervisions and reporting requirements. In addition, the OTS has enforcement authority over the Company and the Mutual Company and any nonsavings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. As federal corporations, the Company and the Mutual Company are generally not subject to state business organization law.

PERMISSIBLE ACTIVITIES.

Under the HOLA and OTS regulations and policies, a federal mid-tier holding company such as the Company is permitted to, among other things: (i) own a savings association or savings bank; (ii) acquire a mutual institution; (iii) merge with or acquire another mutual holding company, one of whose subsidiaries is a savings institution; (iv) acquire non-controlling amounts of the stock of savings institutions and savings institution holding companies, subject to certain restrictions; (v) invest in any corporation that a savings association may invest in under federal law or under the law of any state where the savings association has its home office; (vi) furnish or perform management services for a savings institution subsidiary; (vii) hold, manage or liquidate assets owned or acquired from a savings institution subsidiary of such company; (viii) hold or manage properties used or occupied by a savings institution subsidiary of such company; and (ix) act as trustee under deed or trust. In addition, a federal mutual holding company may engage in any other activity that is permissible for bank holding companies under the Bank Holding Company Act, or in which multiple savings and loan companies may engage. Finally, under recently enacted financial modernization legislation, federal mutual holding companies may engage in any activity in which a financial holding company may engage, including maintaining an insurance agency, escrow business and underwriting securities and insurance. Moreover, a federal mutual holding company may engage in the activities of a financial holding company without having to make financial holding company election that is applicable to bank holding companies. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed above, and has a period of two years to cease any nonconforming activities and divest of any nonconforming investments.

HOLDING COMPANY REGULATORY CAPITAL REQUIREMENTS.

The Company, as a mutual savings and loan holding company, does not have any regulatory capital requirements.

Mergers and Acquisitions.

The Home Owners' Loan Act prohibits a savings and loan holding company, including the Company and Mutual Holding Company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings institution or holding company thereof, without prior written approval of the OTS. The Home Owners' Loan Act also prohibits a savings and loan holding company from, directly or indirectly, acquiring more than 5% of the voting stock of another savings association or savings and loan holding company, or from acquiring such an institution or company by merger, consolidation, or purchase or its assets, without the prior written approval of the OTS. In evaluating applications by holding companies to acquire other financial institutions, the OTS considers the financial and managerial resources and future prospects of the acquiror and the merging institution, the convenience and needs of the community and competitive factors.

The OTS is prohibited from approving any acquisitions that would result in multiple savings and loan holding companies controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (ii) the acquisition of a savings institution in another state if the laws of the state or target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

PAYMENT OF CASH DIVIDENDS.

OTS regulations generally do not restrict the ability of a savings and loan holding company to pay dividends. However, federal and state law do impose certain limitations on the payment by the Bank, the Company's principal operating subsidiary, of cash dividends to the Company (described herein).

WAVIERS OF DIVIDENDS BY THE MUTUAL COMPANY.

OTS regulations require the Mutual Company to notify the OTS of any proposed waiver of its right to receive dividends. The OTS reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the mutual holding company's board of directors determines that such waiver is consistent with such director's fiduciary duties to the mutual holding company's members; (ii) for as long as the savings association subsidiary is controlled by the mutual holding company, the dollar amount of dividends waived by the mutual holding company are considered as a restriction to the retained earnings of the savings association, which restriction, if material is disclosed in the public financial statements of the savings association as a note to the financial statements; (iii) the amount of any dividend waived by the mutual holding company is available for declaration as a dividend solely to the mutual holding company, and, in accordance with SFAS 5, where the savings association determines that the payment of such dividend to the mutual holding company is probable, an appropriate dollar amount is recorded as a liability; and (iv) the amount of any waived dividend is considered as having been paid by the savings association in evaluating any proposed dividend under OTS capital distribution regulations.

CONVERSION OF THE MUTUAL COMPANY TO STOCK FORM.

OTS regulations permit the Mutual Company to convert from the mutual to the stock form of ownership (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention to plan to undertake a Conversion Transaction. In a Conversion Transaction a new holding company would be formed as the successor to the Company (the "New Holding Company"), the Mutual Holding Company's corporate existence would end, and certain depositors of the Bank would receive the right to subscribe for additional shares of the New Holding Company. Based upon the current OTS policy, in a Conversion Transaction, each share of Common Stock held by the Company's public stockholders ("Minority Shareholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant an exchange ratio that ensures that after the Conversion Transaction, subject to any adjustment to reflect the receipt of cash in lieu of fractional shares, the percentage of the to-be outstanding shares of the New Holding Company issued to Minority Shareholders in exchange for their Common Stock would be equal to the percentage of the outstanding shares of Common Stock held by Minority Shareholders immediately prior to the Conversion Transaction. The total number of shares held by Minority Stockholders after the Conversion Transaction would also be affected by any purchases by such persons in the offering that would be conducted as part of the Conversion Transaction.

STOCK REPURCHASES.

The OTS imposes no restrictions on stock repurchases by the Company.

QUALIFIED THRIFT LENDER TEST.

In order for the Company to be regulated as a savings and loan holding company by the OTS (rather than as a bank holding company by the Federal Reserve Board), the Bank must qualify as a "qualified thrift lender" under OTS regulations or satisfy the "domestic building and loan association" test under the Internal Revenue Code. Under the qualified thrift lender test, a savings institution is required to maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangible, including goodwill; and (iii) the value of property used to conduct business) in certain " qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine out of each 12 month period. The Bank currently maintains the majority of its portfolio assets in qualified thrift investments and has met the qualified thrift lender test in each of the last 12 months.

FEDERAL SECURITIES LAW

The common stock of the Company is registered with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

The Company common stock held by persons who are affiliates (generally officers, directors and principal shareholders) of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. If the Company meets specified current public information requirements, each affiliate of the Company is able to sell in the public market, without registration, a limited number of shares in any three-month period.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act establishes: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws. Many of the provisions became effective immediately while other provisions become effective over a period of 30 to 270 days and are subject to rulemaking by the Securities and Exchange Commission. Although we anticipate that we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

COMMUNITY REINVESTMENT ACT

Under the Community Reinvestment Act, as amended (the "CRA"), as implemented by FDIC regulations, a savings bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA requires the FDIC, in connection with its examination of a savings institution to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The Bank's latest CRA rating was "outstanding".

The Bank is also subject to provisions of the New York State Banking Law which impose continuing and affirmative obligations upon banking institutions organized in New York State to serve the credit needs of its local community ("NYCRA") which are substantially similar to those imposed by the CRA. The NYCRA also requires the Superintendent to consider a bank's NYCRA rating when reviewing a bank's application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices or automated teller machines, and provides that such assessment may serve as a basis for the denial of any such application.

The Bank's NYCRA rating as of its latest examination was "outstanding".

FEDERAL HOME LOAN BANK SYSTEM

The Bank is a member of the FHLB of New York, which is one of 12 regional FHLBs, that administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing.

As a member, the Bank is required to purchase and maintain stock in the FHLB of New York. At June 30, 2002, the Bank had $1,121,100 of FHLB stock. The dividend rate from FHLB stock was 3.67% at June 30, 2002. No assurance can be given that such dividends will continue in the future at such levels.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to low and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

REPORTS TO SECURITY HOLDERS

The Company files annual and quarterly reports with the SEC on Forms 10-KSB and 10-QSB, respectively. The Company also files current reports on the Form 8-K with the SEC. Finally, the Company files preliminary and definitive proxy materials with the SEC.

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the site is http://www.sec.gov.

ITEM 2. PROPERTIES

The Bank currently conducts its business through six full-service banking offices. Both the Company and the Bank maintain their executive offices at the Operations Center, 302 Main Street, Catskill, New York. The following table sets forth the Bank's offices as of June 30, 2002. The Bank's current facilities are considered by management to be adequate for the needs of the Bank and the Company in the foreseeable future.

Location	Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration	Net Book Value Of Property or Leasehold Improvements
(Dollars in thousands)				
Main Office (1) Main & Church Streets Catskill, NY 12414	Owned	1963	---	$245
Full Service Branches				
Coxsackie Branch Route 385 West Coxsackie, NY 12051	Owned	1974	---	$111
Cairo Branch Main Street Cairo, NY 12413	Owned	1988	---	$360
Greeneville Branch Route 32 Greeneville, NY 12083	Owned	1997	---	$1,012
Tannersville Branch Main Street Tannersville, NY 12485	Owned	2000	---	$1,298
Westerlo Branch Routes 141 & 143 Westerlo, NY 12193	Leased	2001	November 30, 2005	$100
Operations Center 302 Main Street Catskill, NY 12414	Owned	1999	---	$554

ITEM 3. Legal Proceedings

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which, in the aggregate, involve amounts which are believed by management to be immaterial to the financial condition and results of operations of the Company.

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

No matters were submitted to a vote of shareholders during the fourth quarter of the fiscal year under report.

PART II

ITEM 5. Market for Company's Common Stock and Related Security Holder Matters

The "Common Stock and Related Matters" section of the Company's Annual Report to Shareholders is incorporated herein by reference.

ITEM 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. Selected Financial Data

The selected financial information for the year ended June 30, 2002 is filed as part of the Company's Annual Report to Shareholders and is incorporated by reference.

ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

The "Proposal I - Election of Directors" section of the Company's definitive Proxy Statement for the Company's 2002 Annual Meeting of Shareholders (the "2002 Proxy Statement") is incorporated herein by reference.

ITEM 10. Executive Compensation

The "Proposal I - Election of Directors" section of the Company's 2002 Proxy Statement is incorporated herein by reference.

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

The "Proposal I - Election of Directors" section of the Company's 2002 Proxy Statement is incorporated herein by reference.

ITEM 12. Certain Relationships and Related Transactions

The "Transactions with Certain Related Persons" section of the Company's 2002 Proxy Statement is incorporated herein by reference.

ITEM 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Financial Statements

The exhibits and financial statement schedules filed as a part of this Form 10-KSB are as follows, all of which are included in the Annual Report to Shareholders (Exhibit 13):

(A) Report of Independent Accountants

(B) Consolidated Statements of Condition

(C) Consolidated Statements of Operations

(D) Consolidated Statements of Changes in Equity

(E) Consolidated Statements of Cash Flows

(F) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements. The remaining information appearing in the Annual Report to Shareholders for the year ended June 30, 2002 is not deemed to be filed as part of this report except as expressly provided herein.

(b) Reports on Form 8-K

None

(c) Exhibits

3.1 Certificate of Incorporation of Greene County Bancorp, Inc. (incorporated herein by reference to the Company's registration statement on SB-2, file No. 333-63681 (the "SB-2")).

3.2 Bylaws of Greene County Bancorp, Inc. (incorporated herein by reference to the Company's SB-2)

4.0 Form of Stock Certificate of Greene County Bancorp, Inc. (incorporated herein by reference to the Form SB-2)

10.1 Employment Agreement with J. Bruce Whittaker (incorporated herein by reference to the Company's SB-2)

10.2 Employee Stock Ownership Plan (incorporated herein by reference to the Company's SB-2)

13.0 Annual Report to Shareholders

21.0 Subsidiaries of the Company

23.0 Consent of Experts

99.1 Additional Exhibit

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREENE COUNTY BANCORP, INC.

Date: September 26, 2002 By:

/s/J. Bruce Whittaker
President and Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: ------------------------------

/s/Michelle Plummer
Chief Financial Officer

Date: September 26, 2002

By: ------------------------------

/s/Walter H. Ingalls
Chairman of the Board

Date: September 26, 2002

By: ------------------------------

/s/Paul Slutzky
Director

Date: September 26, 2002

By: ------------------------------

/s/Raphael Klein
Director

Date: September 26, 2002

By: ------------------------------

/s/David H. Jenkins, DVM
Director

Date: September 26, 2002

By: ------------------------------

/s/Dennis R. O'Grady
Director

Date: September 26, 2002

By: ------------------------------

/s/Martin C. Smith
Director

Date: September 26, 2002

Certification pursuant to Rule 13a-14

of the Securities Exchange Act of 1934, as Amended,
as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, J. Bruce Whittaker, Chief Executive Officer of Greene County Bancorp, Inc., certify that:

1. I have reviewed this annual report on Form 10-KSB of Greene County Bancorp, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this annual report.

Date: September 26, 2002 /s/J. Bruce Whittaker

Chief Executive Officer

Certification pursuant to Rule 13a-14
of the Securities Exchange Act of 1934, as Amended,
as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Michelle Plummer, Chief Financial Officer of Greene County Bancorp, Inc., certify that:

1. I have reviewed this annual report on Form 10-KSB of Greene County Bancorp, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all

material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this annual report.

Date: September 26, 2002	/s/ Michelle Plummer
	Chief Financial Officer

EXHIBIT 13
ANNUAL REPORT TO SHAREHOLDERS

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

Company	Percent Owned
The Bank of Greene County	100.0% owned by the Company

EXHIBIT 23
CONSENT OF EXPERTS

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-51538) of Greene County Bancorp, Inc. of our report dated July 26, 2002 relating to the financial statements of Greene County Bancorp, Inc., which appears in the Annual Report to Shareholders, which is included in this Form 10-KSB.

PricewaterhouseCoopers LLP
/s/

Albany, New York
September 26, 2002

EXHIBIT 99.1

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

J. Bruce Whittaker, Chief Executive Officer and President and Michelle Plummer, Chief Financial Officer and Treasurer of Greene County Bancorp, Inc. (the "Company") each certify in his/her capacity as an officer of the Company that he has reviewed the annual report on Form 10-KSB for the fiscal year ended June 30, 2002 and that to the best of his/her knowledge:

(1) the report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 26, 2002

J. Bruce Whittaker,

Chief Executive Officer
and President

Date: September 26, 2002

Michelle Plummer,

Chief Financial Officer
and Treasurer