

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
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### FILER

#### LITTLE FALLS BANCORP INC

CIK: **1001427** | IRS No.: **223402073** | State of Incorporation: **NJ** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-27010** | Film No.: **96666691**  
SIC: **6035** Savings institution, federally chartered

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LITTLE FALLS NJ 07424

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LITTLE FALLS NJ 07424  
2012566100

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1996  
-----

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27010  
-----

LITTLE FALLS BANCORP, INC.

-----  
(Exact name of registrant as specified in its charter)

New Jersey 22-3402073  
(State or other jurisdiction of (I.R.S. employer identification no.)  
incorporation or organization)

86 Main Street, Little Falls, New Jersey 07424  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (201) 256-6100  
-----

N/A

-----  
Former name, former address and former fiscal year,  
if changed since last report.

Indicate by check x/ 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 preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No  
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's  
classes of common stock, as of the latest practicable date November 8, 1996.

Class	Outstanding
-----	-----
\$.10 par value common stock	2,745,180 shares

LITTLE FALLS BANCORP, INC.  
FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 1996

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BANCORP, INC.

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SIGNATURES

LITTLE FALLS BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

<TABLE>  
<CAPTION>

	September 30, 1996 ----	December 31, 1995* -----
<b>ASSETS</b>		
<S>	<C>	<C>
Cash and due from banks.....	\$2,258,072	\$ 2,518,055
Interest-bearing deposits in other banks.....	5,374,656	11,101,033
Federal funds sold.....	6,000,000	39,800,000
	-----	-----
Total cash and cash equivalents.....	13,632,728	53,419,088
Investment securities held-to-maturity net (estimated fair values \$26,065,000 (1996) and \$29,856,000 (1995)).....	26,370,960	29,999,470
Mortgage-backed securities held to maturity, net (estimated fair values \$115,777,000 (1996) and \$118,842,000 (1995)).....	116,573,220	118,020,300
Loans receivable, net.....	111,194,407	96,229,678
Premises and equipment, net.....	2,799,232	2,789,468
Investment in real estate, net.....	539,181	546,786
Foreclosed real estate, net.....	1,006,829	1,500,825
Interest receivable, net.....	1,754,213	1,717,349
Federal Home Loan Bank of New York stock, at cost.....	2,075,700	1,395,200
Excess of cost over assets acquired.....	3,307,213	3,577,800
Other assets.....	1,347,852	1,158,999
	-----	-----
TOTAL ASSETS.....	\$280,601,535 =====	\$310,354,963 =====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits.....	\$236,935,100	\$247,851,373
Advances by borrowers for taxes.....	--	701,773
Stock subscriptions payable.....	--	44,831,296
Accounts payable and other liabilities.....	1,899,281	747,298
	-----	-----
Total liabilities.....	238,834,381	\$294,131,740 -----
<b>Stockholders' Equity:</b>		
Preferred stock; 5,000,000 authorized shares; none outstanding.....	--	--
Common stock, par value \$.10; 10,000,000 authorized shares; shares issued 3,041,750; shares outstanding 2,889,663.....	304,175	--
Additional paid-in-capital.....	28,980,035	--
Retained earnings.....	16,505,156	16,327,286
Unearned ESOP shares.....	(2,311,730)	-
Minimum pension liability net of deferred taxes.....	(104,063)	(104,063)
Treasury stock, at cost; 152,087 shares.....	(1,606,419)	--
	-----	-----
Total stockholders' equity.....	41,767,154	16,223,223 -----

</TABLE>

\* The consolidated balance sheet at December 31, 1995 has been taken from the audited balance sheet at that date.

See notes to unaudited consolidated financial statements.

LITTLE FALLS BANCORP, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1996	1995	1996	1995
Interest income:				
<S>	<C>	<C>	<C>	<C>
Loans receivable.....	\$2,108,759	\$1,867,215	\$6,016,945	\$5,635,713
Mortgage backed securities.....	2,014,796	1,108,813	6,073,012	2,766,172
Investment securities and other interest earning assets.....	490,555	561,367	1,905,197	1,534,005
Total interest income.....	4,614,110	3,537,395	13,995,154	9,935,890
Interest expense:				
Deposits.....	2,721,029	2,383,449	8,384,704	6,648,365
Net interest income .....	1,893,081	1,153,946	5,610,450	3,287,525
Provision for loan losses.....	152,900	106,839	182,900	391,564
Net interest income after provision for loan losses.....	1,740,181	1,047,107	5,427,550	2,895,961
Non-interest income				
Income (expense) on foreclosed real estate	(26,976)	(187,337)	(6,317)	(192,103)
Other.....	66,531	112,917	201,370	184,637
Total non-interest income.....	39,555	( 74,420)	195,053	( 7,466)
Non-interest expense:				
Compensation and employee benefits.....	633,518	369,916	1,843,683	1,151,295
Occupancy, net.....	92,380	36,216	302,213	120,940
Equipment.....	96,359	44,623	290,301	164,558
Deposit insurance premiums.....	1,303,927	106,500	1,549,366	319,500
Amortization of intangibles.....	90,197	--	270,586	--
Other.....	320,473	152,694	934,566	668,017
Total non-interest expense.....	2,536,854	709,949	5,190,715	2,424,310
Income (loss) before provision for income taxes.....	(757,118)	262,738	431,888	464,185
Provision (benefit) for income taxes.....	(275,526)	138,242	177,974	198,320
Net income (loss).....	(481,592)	124,496	253,914	265,865
Weighted average number of common shares outstanding.....	2,732,507	N/A	2,766,472	N/A
Earnings (loss) per share.....	\$ (0.18)	N/A	\$0.09	N/A

See notes to unaudited consolidated financial statements.

LITTLE FALLS BANCORP, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	For the Nine Months Ended September 30,	
	1996	1995
	----	----
Cash flows from operating activities:		
<S>	<C>	<C>
Net income.....	\$ 253,914	\$ 265,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	110,745	72,266
Provision for loan losses.....	182,900	391,564
Amortization of intangibles.....	270,586	--
Amortization (accretion) of deferred fees, premiums and discounts, net	45,680	(1,451)
Amortization of unearned ESOP shares.....	128,321	--
Gain on sale of foreclosed real estate.....	(4,455)	--
Increase in other assets.....	(611,483)	(676,734)
Increase in interest receivable, net.....	(36,864)	(113,817)
Increase in interest payable.....	157,977	8,981
Increase in accounts payable and other liabilities.....	1,194,147	242,814
	1,691,468	189,488
	-----	-----
Cash flows from investing activities:		
Purchase of mortgage-backed securities held to maturity.....	(16,073,205)	(20,530,434)
Principal collections on mortgage-backed securities held to maturity..	17,407,442	4,474,146
Net (increase) decrease in loans receivable.....	(15,418,684)	2,625,474
Maturity of investments held to maturity.....	9,000,000	9,000,000
Purchase of investments held to maturity.....	(5,342,000)	(8,000,000)
Purchases of premises and equipment.....	(112,904)	(329,995)
Proceeds from sale of foreclosed real estate.....	807,179	284,764
Redemption (purchases) of Federal Home Loan Bank of New York stock....	(680,500)	116,100
	(10,412,672)	(12,359,945)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in deposits.....	(8,214,792)	14,924,394
Decrease in advances from borrowers.....	(743,937)	(80,324)
Refund of oversubscribed stock subscription.....	(19,706,653)	--
Costs of issuance of common stock.....	(717,311)	--
Repurchase of common stock.....	(1,606,419)	--
Cash dividends paid.....	(76,044)	--
	(31,065,156)	14,844,070
	-----	-----
Increase (decrease) in cash and cash equivalents.....	(39,786,360)	2,673,613
Cash and cash equivalents:		
Beginning of period.....	53,419,088	4,065,128
	-----	-----
End of period.....	\$13,632,725	\$6,738,741
	=====	=====
Supplemental disclosures:		
Cash paid during the year for:		
Interest.....	\$8,226,727	\$ 6,639,384
Income taxes.....	403,000	375,339
Loans receivable transferred to foreclosed real estate.....	308,728	607,655
Issuance of common stock:		
Deposits used for stock purchase.....	2,859,458	--
Stock subscriptions used for stock purchase.....	25,124,642	--
Deferred costs.....	(422,630)	--

</TABLE>

See notes to unaudited consolidated financial statements.

LITTLE FALLS BANCORP, INC.  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of and for the three month and nine month periods ended September 30, 1996 include the accounts of Little Falls Bancorp, Inc. (the "Company") and its subsidiary, Little Falls Bank (the "Bank") which, as discussed in Note 3, became the wholly owned subsidiary of the Company on January 5, 1996. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - BASIS OF PRESENTATION

The accompanying consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all information necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the periods ended September 30, 1996 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period.

NOTE 3 - CONVERSION FROM MUTUAL SAVINGS BANK TO STOCK SAVINGS BANK AND FORMATION OF SAVINGS AND LOAN HOLDING COMPANY

On January 5, 1996, the Bank consummated its conversion from a federally chartered mutual savings bank to a stock savings bank pursuant to a Plan of Conversion (the "Conversion") via the issuance of common stock. In connection with the Conversion, the Company sold 3,041,750 shares of common stock which, after giving effect to offering expenses of \$1.1 million and 243,340 shares issued to the Bank's Employee Stock Ownership Plan ("ESOP"), resulted in net proceeds of \$26.8 million. Pursuant to the Conversion, the Bank transferred all of its outstanding shares to a newly organized holding company, Little Falls Bancorp, Inc., in exchange for 50% of the net proceeds.

Upon consummation of the Conversion, the preexisting liquidation rights of the depositors of the Bank were unchanged. Specifically, such rights were retained and will be accounted for by the Bank for the benefit of such depositors in proportion to their liquidation interests as of the eligibility and supplemental eligibility record dates as required by Office of Thrift Supervision ("OTS") regulations.

NOTE 4 - EARNINGS PER SHARE

Earnings per share for the three and nine month periods ended September 30, 1996 are calculated by dividing the net loss and net earnings for the periods from July 1, 1996 and January 1, 1996 (the beginning of the Company's fiscal year) to September 30, 1996 of \$(481,592) and \$253,914, respectively, by the weighted average number of shares outstanding during these same periods (as if the Conversion had taken place on January 1, 1996) of 2,732,507 and 2,766,472 shares, respectively. The weighted average number of common shares outstanding is adjusted for the

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unallocated portion of shares held by the ESOP. Earnings per share is not presented for the 1995 period as the Bank was a mutual savings bank at that time and no common stock was outstanding.

NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1995, the Bank adopted FASB Statement Nos. 114, "Accounting by Creditors for Impairment of a Loan" and 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." The provision of these statements are applicable to all loans, uncollateralized as well as collateralized, except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and loans that are measured at fair value or

at the lower of cost or fair value. Additionally, such provisions apply to all loans that are renegotiated in troubled debt restructurings involving a modification of terms.

Statement No. 114 requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, except that loans renegotiated as part of a troubled debt restructuring subsequent to the adoption of Statement Nos. 114 and 118 must be measured for impairment by discounting the total expected cash flow under the renegotiated terms at each loan's original effective interest rate.

A loan evaluated for impairment pursuant to Statement No. 114 is deemed to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. An insignificant payment delay, which is defined by the Bank as up to ninety days, will not cause a loan to be classified as impaired. A loan is not impaired during the period of delay in payment if the Bank expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. Thus, a demand loan or other loan with no stated maturity is not impaired if the Bank expects to collect all amounts due, including interest accrued at the contractual interest rate, during the period the loan is outstanding. All loans identified as impaired are evaluated independently. The Bank does not aggregate such loans for evaluation purposes.

The adoption of Statement Nos. 114 and 118 did not have a material adverse impact on financial condition or operations.

Payments received on impaired loans are applied first to interest receivable and then to principal.

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LITTLE FALLS BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
-----

General

The Company is a New Jersey corporation organized in August 1995 at the direction of the Board of Directors of the Bank to acquire all of the capital stock of the Bank issued in the Conversion. The Company is a unitary savings and loan holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage provided that the Bank retains a specified amount of its assets in housing-related investments.

The Bank is a federally chartered stock savings bank headquartered in Little Falls, New Jersey. The Bank was founded in 1887 and its deposits are federally insured by the Savings Association Insurance Fund ("SAIF") and the Bank is a member of the Federal Home Loan Bank ("FHLB") System. The Bank is a community oriented, full service retail savings institution offering traditional mortgage loan products. It is the Bank's intent to remain an independent community savings bank serving the local banking needs of its community.

The Bank attracts deposits from the general public and has historically used such deposits primarily to originate loans secured by first mortgages on owner-occupied one- to four-family residences in its market area and to purchase mortgage-backed securities. The Bank also originates a limited number of commercial real estate, residential construction, and consumer loans, which mainly consist of home equity lines of credit.

The largest components of the Bank's net income are net interest income, which is the difference between interest income and interest expense, and noninterest income derived primarily from fees. Consequently, the Bank's earnings are dependent on its ability to originate loans, net interest income, and the relative amounts of interest-earning assets and interest-bearing liabilities. The Bank's net income is also affected by its provision for loan losses and foreclosed real estate as well as the amount of non-interest expenses, such as compensation and benefit expense, occupancy and equipment expense and deposit insurance premium expenses. Earnings of the Bank also are affected significantly by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions

of regulatory authorities.

Comparison of Financial Condition

Total assets decreased by \$29.8 million to \$280.6 million at September 30, 1996 from \$310.3 million at December 31, 1995. Net loans increased by \$15.0 million primarily due to loan originations of \$23.5 million offset by loan repayments. Mortgage-backed securities decreased by \$1.4 million due to repayments being greater than the \$16.0 million of purchases. Of the securities purchased, \$10.1 million were adjustable rate securities. Total cash and cash equivalents decreased by \$39.8 million due to the \$23.5 million of loans originated, the \$16.0 million mortgage-backed securities purchased, the purchase of \$5.3 million of investment securities, the \$8.1 million outflow of deposits and the refund of \$19.7 million of over-subscribed stock subscriptions partially offset by amortization and repayments on loans and mortgage-backed securities, and maturities of investment securities.

Total deposits decreased by \$10.9 million, due in part to \$2.8 million being used for the purchase of stock in the Conversion. In addition, the decrease was also the result of the Bank's strategy to lower its cost of deposits. This strategy resulted in a decrease of the weighted average rate on total deposits from 4.73% on December 31, 1996 to 4.55% on September 30, 1996.

Total stockholders' equity increased by \$25.5 million, primarily due to the completion of the mutual to stock conversion, partially offset by the repurchase of 152,077 shares of Common Stock at an aggregate cost of \$1.6 million. Earnings for the nine months ended September 30, 1996, also contributed to the increase, although to a much smaller extent.

On October 28, 1996, the Company completed a 5% repurchase of its common stock. A total of 144,483 shares of common stock were repurchased at an average net price of \$11.5625 per share. The total price for all shares was approximately \$1.67 million.

Non-performing Assets

The following table sets forth information regarding non-performing loans and real estate owned. During the periods indicated, the Bank had no restructured loans within the meaning of SFAS No. 15.

<TABLE>  
<CAPTION>

	At September 30, ----- 1996 ----	At December 31, ----- 1995 ----
	(Dollars in Thousands)	
<S>	<C>	<C>
Total non-performing loans.....	\$ 2,314	\$2,447
Real estate owned.....	1,007	1,501
	-----	-----
Total non-performing assets.....	\$ 3,321	\$3,948
	=====	=====
Total non-performing loans to net loans.....	2.08%	2.54%
	=====	=====
Total non-performing loans to total assets...	0.82%	0.79%
	=====	=====
Total non-performing assets to total assets..	1.18%	1.26%
	=====	=====

</TABLE>

Non-performing assets decreased by \$627,000 to \$3.3 million at September 30, 1996. The decrease was due in most part to the sale of six properties previously classified as real estate owned. Of these sales, four were completed in the third quarter.

Comparison of Earnings for the Three and Nine Months Ended September 30, 1996 and 1995

Net Income. Net income for the three and nine months ended September

30, 1996 decreased \$606,000 and \$12,000, respectively, to a net loss of \$482,000 and net income of \$254,000, respectively, when compared to the same periods ended September 30, 1995. The decreases were primarily due to a \$1.2 million charge connected with a one time special assessment from the Savings Association Insurance Fund ("SAIF"). This one time assessment was the result of legislation that was signed into law on September 30, 1996 for the purpose of recapitalizing the SAIF. This was partially offset by the increase in net interest income before the provision for loan losses of \$739,000 and \$2.3 million for the three and nine months ended September 30, 1996, respectively, as compared to the same periods in 1995. In addition, the Company recorded a nonrecurring expense of \$195,000 in the second quarter of 1995

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in connection with the implementation of a directors' medical plan. Non-interest expenses, excluding the non-recurring directors' medical expense and the one time SAIF assessment, increased \$659,000 and \$1.8 million for the three and nine months ended September 30, 1996, respectively, as compared to the same periods in 1995.

**Total Interest Income.** Interest income increased by \$1.1 million and \$4.1 million for the three and nine months ended September 30, 1996. These increases were primarily due to the increase of the average balances of interest earning assets of \$65.5 million and \$74.8 million for the three months and nine months ended September 30, 1996, as compared to the same periods in 1995. The primary reasons for the increased average balances of interest earning assets were the receipt of \$50.8 million from the purchase of three branches and their deposits in December 1995 and the receipt of \$26.8 million of net proceeds from the Bank's Conversion on January 5, 1996.

**Total Interest Expense.** Interest expense increased \$338,000, or 14.2% and \$1.7 million or 26.1% for the three and nine month periods ended September 30, 1996, respectively, as compared to the same periods ended September 30, 1995. These increases were primarily due to the increase in the average balances of deposits of \$41.1 million and \$56.2 million, respectively. Deposits increased due to the purchase of three branches and their deposits of \$54.1 million in December 1995. The average rate paid on deposits decreased to 4.61% and 4.68% from 4.97% and 4.85%, respectively, for the three and nine months ended September 30, 1996, as compared to the same periods ended September 30, 1995.

**Net Interest Income.** Net interest income increased \$739,000 or 64.1% and \$2.3 million or 70.1% for the three and nine month periods ended September 30, 1996, respectively, as compared to the same periods ended September 30, 1995. These increases were due in most part to the investment of \$26.8 million received from the Conversion in loans, investment and mortgage-backed securities, as well as a decrease in the average rate paid on savings, as described earlier.

**Provisions for Loan Losses.** A provision for loan losses is charged to operations based on management's evaluation of the potential losses that may be incurred in the Bank's loan portfolio. Such evaluation, which includes a review of certain loans of which full collectibility of interest and principal may not be reasonably assured, considers the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. The provision for loan losses increased \$46,000 and decreased \$209,000 during the three and nine month periods, respectively. The primary cause for the increase for the three month period was the write off of a loan which was a performing loan in the previous quarter. The decrease for the nine month period was due in most part to the decision by the Bank's management during 1995, to establish an increased general reserve for portfolio losses based on an assessment of the risks inherent in the loan portfolio and trends in the local and national economies.

As a result of the declines in regional real estate market values and the significant losses experienced by many financial institutions, there has been a greater level of scrutiny by regulatory authorities of the loan portfolios of financial institutions undertaken as part of the examination of the institution by the FDIC, OTS or other federal or state regulators. Results of recent examinations indicate that these regulators may be applying more conservative criteria in evaluating real estate market values, requiring significantly increased provisions for potential loan losses. While the Bank believes it has established an adequate allowance for loan losses, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not request the Bank to significantly increase its allowance for loan losses, thereby negatively affecting the Bank's financial condition and earnings or that the Bank may not have to increase its level of loan loss allowance in the

Management will continue to review its loan portfolio to determine the extent, if any, to which further additional loss provisions may be deemed necessary. There can be no assurance that the allowance for losses will be adequate to cover losses which may in fact be realized in the future and that additional provisions for losses will not be required.

An analysis of the allowance for loan losses follows:

<TABLE>

<CAPTION>

	Quarter Ended September 30,	
	1996	1995
	----	----
	(In thousands)	
<S>	<C>	<C>
Balance - beginning	\$ 931	\$ 1,015
Provisions charged to operations.....	153	107
Loans charged off, net of recoveries.....	(146)	(107)
	-----	-----
Balance-ending.....	\$ 938	\$ 1,015
	=====	=====

</TABLE>

Impaired loans and related amounts recorded in the allowance for loan losses at September 30, 1996 are summarized as follows (in thousands):

<TABLE>

<CAPTION>

<S>	<C>
With recorded allowances.....	\$ 1,479
Without recorded allowances.....	--
	-----
Total impaired loans.....	1,479
Related allowance for loan losses.....	205
	-----
Net impaired loans.....	\$1,274
	=====

</TABLE>

Non-interest Income. Non-interest income increased \$114,000 and \$203,000 for the three and nine month periods ended September 30, 1996, as compared to the same periods ended September 30, 1995 due primarily to a decrease in expenses on foreclosed properties of \$160,000 and \$186,000 for the three and nine month periods, and to an increase in service fees charged, due in most part to the increase in deposits resulting from the purchase of three branches and their deposits in December, 1995.

Non-interest Expense. Non-interest expense increased \$1.8 million and \$2.8 million for the three and nine months ended September 30, 1996, as compared to the three and nine months ended September 30, 1995 for a number of reasons. Compensation and employee benefits increased by \$264,000 and \$692,000, respectively, due in part to additional employees resulting from the purchase of three branch offices in December, 1995 and the adoption of an employee stock ownership plan ("ESOP") in connection with the Bank's mutual to stock conversion. The ESOP expense was \$42,000 and \$128,000 for the three and nine months ended September 30, 1996, respectively. The acquisition of the branch offices also caused increases in occupancy, equipment and deposit insurance premium expenses, as well as the amortization of goodwill during these periods. In addition, for the nine months ended September 30, 1996, a portion of the increase was due to one time costs associated with new services offered by the Bank. The 1996 increases were partially offset by a nonrecurring 1995 expense of \$195,000 for the implementation of a directors' medical plan, which was recorded during the three months ended June 30, 1995. On August 30, 1996, the Bank closed its Frenchtown office. The decision to close the branch was based on management's evaluation of the purchase of three branch offices in the same county from an unaffiliated commercial bank in December 1995 and the ability of the Bank to decrease expenses and improve efficiencies through consolidation. On October 18 the Bank announced that it plans to close its Mount Holly branch and sell the deposits to another depository institution in the area. The branch

closing and related sale of deposits is expected to result in reduced operating expenses and lower cost of funds. The closing of the office and sale of the related deposits is anticipated to occur no later than December 31, 1996, subject to regulatory approval or non-objection, if any.

Pursuant to the Economic Growth and Paperwork Reduction Act of 1996 (the "Act"), the FDIC imposed a special assessment on SAIF members to capitalize the SAIF at the designated reserve level of 1.25% as of October 1, 1996. Based on the Bank's deposits as of March 31, 1995, the date for measuring the amount of the special assessment pursuant to the Act, the Bank will pay a special assessment of \$1.2 million on or about November 27, 1996 to recapitalize the SAIF. The FDIC is expected to lower the premium for deposit insurance to a level necessary to maintain the SAIF at its required reserve level; however, the range of premiums has not been determined at this time.

Pursuant to the Act, the Bank will pay, in addition to its normal deposit insurance premium as a member of the SAIF, an amount equal to approximately 6.4 basis points toward the retirement of the Financing Corporation bonds ("Fico Bonds") issued in the 1980's to assist in the recovery of the savings and loan industry. Member of the Bank Insurance Fund ("BIF"), by contrast, will pay, in addition to their normal deposit insurance premium, approximately 1.3 basis points. Based on total deposits as of September 30, 1996, had the Act been in effect, the Bank's Fico Bond premium would have been approximately \$37,900 in addition to its normal deposit insurance premium. Beginning no later than January 1, 2000, the rate paid to retire the Fico Bonds will be equal for members of the BIF and the SAIF. The Act also provides for the merging of the BIF and the SAIF by January 1, 1999 provided there are no financial institutions still chartered as savings associations at that time. Should the insurance funds be merged before January 1, 2000, the rate paid by all members of this new fund to retire the Fico Bonds would be equal.

On July 9, 1996, the stockholders of the Company approved the MSBP and a Stock Option Plan. The MSBP will, subject to regulatory non-objection, purchase up to 121,670 shares of Common Stock to be awarded to key employees and directors of the Bank. Such shares will be expensed at fair market value at 20% per year beginning July 1997. The Company expects the MSBP to increase compensation expense over such periods.

Income Tax Expense. Income tax expense decreased \$414,000 and \$20,000, respectively for the three and nine month periods ended September 30, 1996, as compared to the same periods one year ago due to the decrease of pre-tax income for the same periods.

Liquidity and Capital Resources

On September 30, 1996, the Bank was in compliance with its three regulatory capital requirements as follows:

<TABLE>  
<CAPTION>

	Amount ----- (Dollars in thousands)	Percent -----
<S>	<C>	<C>
Tangible capital.....	\$25,235	9.10%
Tangible capital requirement.....	4,161	1.50%
	-----	-----
Excess over requirement.....	\$21,074	7.60%
	=====	=====
Core capital.....	\$25,235	9.10%
Core capital requirement.....	8,321	3.00%
	-----	-----
Excess over requirement.....	\$16,914	6.10%
	=====	=====
Risk based capital.....	\$25,634	29.26%
Risk based capital requirement.....	7,007	8.00%
	-----	-----
Excess over requirement.....	\$18,627	21.26%
	=====	=====

</TABLE>

Management believes that under current regulations, the Bank will continue to meet its minimum capital requirements in the foreseeable future. Events beyond the control of the Bank, such as increased interest rates or a downturn in the economy in areas in which the Bank operates could adversely affect future earnings and as a result, the ability of the Bank to meet its future minimum capital requirements.

The Bank's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost effective manner. The Bank's primary sources of funds are deposits and scheduled amortization and prepayment of loan and mortgage-backed principal. During the past several years, the Bank has used such funds primarily to fund maturing time deposits, pay savings withdrawals, fund lending commitments, purchase new investments, and increase liquidity. The Bank is currently able to fund its operations internally. Additionally, sources of funds include the ability to utilize Federal Home Loan Bank of New York advances and the ability to borrow against mortgage-backed and investment securities. As of September 30, 1996, the Bank had no such borrowed funds. Loan payments, maturing investments and mortgage-backed security prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank anticipates that it will have sufficient funds available to meet its current commitments. As of September 30, 1996, the Bank had mortgage commitments to fund loans of \$4.6 million. Also, at September 30, 1996, there were commitments on unused lines of credit relating to home equity loans of \$2.7 million. Certificates of deposit scheduled to mature in one year or less at September 30, 1996 totaled \$105.7 million. Based on historical deposit withdrawals and outflows, and on internal monthly deposit reports monitored by management, management believes that a majority of such deposits will remain with the Bank. As a result, no adverse liquidity effects are expected. Note, however, that purchases of common stock of the Company pursuant to the repurchase plan and MSBP will require additional liquidity. Management is currently evaluating its options on these matters.

The Bank is required under federal regulations to maintain certain specified levels of "liquid investments," which include certain United States government obligations and other approved investments. Current regulations require the Bank to maintain liquid assets of not less than 5% of its net withdrawable accounts plus short term borrowings. Short term liquid assets must consist of not less than 1% of such accounts and borrowings, which amount is also included within the 5% requirement. Those levels may be changed from time to time by the regulators to reflect current economic conditions. The Bank has maintained liquidity in excess of regulatory requirements.

#### Impact of Inflation and Changing Prices

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

#### Additional Key Operating Ratios

<TABLE>  
<CAPTION>

For the  
Three Months Ended  
September 30,

For the  
Nine Months Ended  
September 30,

	1996(1)	1995(1)	1996(1)	1995(1)
<S>	<C>	<C>	<C>	<C>
Earnings (loss) per common share	\$ (0.18)	N/A	\$0.09	N/A
(2) (3) .....				
Return on average assets.....	(0.68)%	0.24%	0.12%	0.18%
Return on average equity.....	(4.52)%	3.12%	0.78%	2.21%
Interest rate spread.....	2.32%	2.10%	2.27%	2.00%
Net interest margin.....	2.84%	2.39%	2.78%	2.33%
Noninterest expense to average assets.....	3.61%	1.36%	2.48%	1.61%
Noninterest expense, excluding one-time SAIF special assessment, to average assets.....	1.97%	1.36%	1.89%	1.61%
Net charge-offs to average outstanding loans.....	0.54%	0.12%	0.22%	0.78%

</TABLE>

<TABLE>  
<CAPTION>

	At September 30, 1996	At December 31, 1995
<S>	<C>	<C>
Tangible book value per share.....	\$13.31	N/A (2)

</TABLE>

- (1) The ratios for the three- and nine-month periods are annualized.
- (2) There were no shares outstanding prior to the completion of the Company's initial public offering on January 5, 1996.
- (3) The average number of shares outstanding during the three and nine months ended September 30, 1996 was 2,732,507 and 2,766,472, respectively.
- (4) The number of shares issued and outstanding as of September 30, 1996, was 2,889,663.

LITTLE FALLS BANCORP, INC. AND SUBSIDIARY

PART II

ITEM 1. LEGAL PROCEEDINGS

Neither the Company nor the Bank was engaged in any legal proceeding of a material nature at September 30, 1996. From time to time, the Company is a party to legal proceedings in the ordinary course of business wherein it enforces its security interest in loans.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Company held a special meeting of stockholders on July 9, 1996 (the "Special Meeting"). The purpose of the Special Meeting was to seek stockholder approval of the Company's stock option plan (the "Option Plan") and the Association's management stock bonus plan ("MSBP"). The following table indicates the voting on each matter considered.

<TABLE>  
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	For	Against	Abstain
<S>	<C>	<C>	<C>

Option Plan	2,164,539	292,628	11,475
MSBP	1,827,552	627,208	16,091
</TABLE>			

ITEM 5. OTHER MATERIALLY IMPORTANT EVENTS

Recent Developments. In an effort to increase earnings, reduce the Company's interest rate sensitivity, and to better match its interest rate position, on November 13, 1996, the Company entered into a financial transaction whereby it purchased a \$25.0 million fixed-rate Federal National Mortgage Association ("FNMA") note and simultaneously borrowed \$25.0 million from an independent third party, using the FNMA note as collateral. The note has an initial term of ten years at an annual rate of 7.20% and is callable after two years and continuously thereafter. The borrowings are comprised of a combination of repurchase agreements with terms of one year, six months and overnight. The annual rates payable on the one year and six month repurchase agreements are 5.68% and 5.50%, respectively. The effective rate on the overnight repurchase agreement adjusts daily.

Change in Tax Code. Savings associations are subject to the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), in the same general manner as other corporations. However, prior to August 1996, savings associations such as the Bank, which met certain definitional tests and other conditions prescribed by the Code could benefit from certain favorable provisions regarding their deductions from taxable income for annual additions to their bad debt reserve. The amount of the bad debt deduction that a qualifying savings institution could claim with respect to additions to its reserve for

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bad debts was subject to certain limitations. The Bank reviewed the most favorable way to calculate the deduction attributable to an addition to its bad debt reserve on an annual basis.

In August 1996, the Code was revised to equalize the taxation of thrifts and banks. Thrifts, such as the Bank, no longer have a choice between the percentage of taxable income method and the experience method in determining additions to bad debt reserves. Thrifts with \$500 million of assets or less may still use the experience method, which is generally available to small banks currently. Larger thrifts such as the Bank must use the specific charge off method regarding bad debts. Any reserve amounts added after 1987 will be taxed over a six year period beginning in 1996; however, bad debt reserves set aside through 1987 are generally not taxed. An institution may delay recapturing into income its post-1987 bad debt reserves for an additional two years if it meets a residential-lending test. This law is not expected to have a material impact on the Bank. At September 30, 1996, the Bank had approximately \$1.5 million of post 1987 bad-debt reserves.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
  - None.
- (b) Reports on Form 8-K
  - None.

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LITTLE FALLS BANCORP, INC. AND SUBSIDIARY

SIGNATURES

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

LITTLE FALLS BANCORP, INC.

Date: November 14, 1996

By: /s/Leonard G Romaine

-----  
Leonard G. Romaine  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 1996

By: /s/Richard Capone

-----  
Richard Capone  
Senior Vice President and  
Chief Financial Officer  
(Principal Officer)

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