FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
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FILER

FINANCIAL BANCORP INC

CIK:**855932**| IRS No.: **061391814** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-K** | Act: **34** | File No.: **000-18126** | Film No.: **96687615**
SIC: **6035** Savings institution, federally chartered

Mailing Address
45-25 QUEENS BLVD
LONG ISLAND CITY NY 11104

Business Address
45-25 QUEENS BLVD
LONG ISLAND CITY NY 11104
7187295002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report pursuant to Section 13 of the
Securities Exchange Act of 1934

For the fiscal year ended September 30, 1996
Commission File No.: 0-18126

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

DELAWARE	06-1391814
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

42-25 Queens Boulevard, Long Island City, New York 11104
(Address of principal executive offices)

Registrant's telephone number, including area code: (718) 729-5002
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 $0.01 per share
(Title of Class)

Indicate by check mark 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 |_|

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was $25,341,447, based upon the last sales price as quoted on the Nasdaq National Market for December 3, 1996.

The number of shares outstanding of the registrant's Common Stock as of December 20, 1996 was 1,747,686.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the year ended September 30, 1996 are incorporated by reference into Part II of this Form 10-K.

Portions of the Proxy Statement for the 1997 Annual Meeting of Stockholders to be held on January 22, 1997 are incorporated by reference into Parts II and III of this Form 10-K.

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Part I

PART I

Item 1. BUSINESS OF THE COMPANY

General

Financial Bancorp, Inc. (the "Company"), was formed in February 1994 as the holding company for Financial Federal Savings Bank (the "Bank") in connection with the conversion of the Bank from mutual to stock form of ownership on August 17, 1994. Effective October 20, 1994, the Bank changed its name from Financial Federal Savings and Loan Association to Financial Federal Savings Bank. The Company is headquartered in Long Island City, New York and its principal business currently consists of the operations of the Bank. The Company, as a savings and loan holding company, and the Bank are subject to the regulation of the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). The Company is listed on the Nasdaq Stock Market under the symbol "FIBC". The Company does not transact any material business other than through its subsidiary, the Bank. The Bank's primary sources of funds are retail deposits, loan repayments and borrowings. The principal business of the Bank is attracting retail deposits from the areas surrounding its branch office. The Bank may borrow funds from the Federal Home Loan Bank of New York ("FHLB") and the Federal Reserve Bank of New York ("FRB") or through reverse repurchase agreements. These funds are then primarily invested in fixed-rate and adjustable-rate loans on one- to four-family residences, multi-family loans, commercial real estate mortgage loans, and to a lesser extent construction loans and other consumer loans. The Bank's revenues are derived principally from interest on loans, mortgage-backed securities, interest and dividends on investment securities and short-term investments, and other fees and service charges.

Market Area and Competition

The Bank has been, and continues to be, a community-oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. Its primary market areas are the areas surrounding its offices, while its lending activities extend throughout the New York City metropolitan area. In addition to its principal office in the Long Island City section of Queens, the Bank operates four other retail offices, three in Queens and one in Brooklyn.

The New York City metropolitan area has a high density of financial institutions, most of which are significantly larger and 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 mortgage banking companies, commercial banks, savings banks and savings and loan associations. The Bank's most direct competition for savings comes from commercial banks, savings banks, savings and loan associations and credit unions. The Bank also faces competition for savings from other financial intermediaries such as brokerage firms and insurance companies.

The Bank serves its market area with a wide selection of lending and deposit products and other retail financial services. Management considers the Bank's reputation for customer service and its strong branch network as its major competitive advantages in attracting and retaining customers in its market areas. The Bank also believes it benefits from its community orientation as well as its established deposit base and significant levels of core deposits.

Lending Activities

Loan and Mortgage-Backed Securities Portfolio Composition. The Bank's loan portfolio consists primarily of conventional fixed-rate and adjustable-rate, first and second mortgage loans secured by one- to four-family owner-occupied residences, multi-family real estate loans, commercial real estate loans, and to a lesser extent construction/land loans, other consumer loans and commercial business loans. At September 30, 1996, the Bank's total loans receivable equalled $144.7 million, of which $115.5 million, or 79.8%, were one- to four-family residential first mortgage loans. Of the one- to four-family residential first mortgage loans outstanding at that date, $56.5 million, or 48.9% were adjustable-rate mortgage ("ARM") loans. At September 30, 1996, the Bank's loan portfolio also included $2.8 million of one- to four-family residential second mortgage loans, $5.6 million of multi-family loans, $15.3

million of commercial real estate loans, $4.9 million of construction/land loans and $568 thousand of other consumer and commercial business loans.

The types of loans that the Bank may originate are regulated by federal laws and regulations. Interest rates charged by the Bank on loans are affected principally by the demand for such loans and market conditions. These factors are, in turn, affected by general and economic conditions, monetary policies of the federal government, legislative and tax policies and governmental budgetary matters.

The following table sets forth the composition of the Bank's loan portfolio and mortgage-backed securities portfolio in dollar amounts and in percentages of the portfolio at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,					
	1996		1995		1994	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:						
Residential one- to four-family:						
First mortgages..........	$115,300	79.68%	$ 93,361	82.55%	$72,669	85.29%
Second mortgages.........	2,980	2.06	3,806	3.36	4,491	5.27
Multi-family...............	5,622	3.89	4,296	3.80	3,213	3.77
Commercial.................	15,302	10.58	8,031	7.10	2,940	3.45
Construction/land loans.....	4,920	3.40	3,080	2.72	1,455	1.71
Total real estate loans	144,124	99.61	112,574	99.53	84,768	99.49
Consumer/commercial business:						
Consumer....................	400	0.27	404	0.36	400	0.47
Commercial business.........	168	0.12	123	0.11	35	0.04
Total consumer/commercial business loans..........	568	0.39	527	0.47	435	0.51
Total loans receivable..	144,692	100.00%	113,101	100.00%	85,203	100.00%
Less:						
Loans in process..........	2,509		1,485		352	
Unearned discounts and net deferred loan fees......	296		311		226	
Allowance for loan losses	1,573		1,243		1,120	
	4,378		3,039		1,698	
Total loans receivable, net	$140,314		$110,062		$83,505	
Mortgage-backed securities:						
GNMA	27,106	49.41%	$33,144	53.45%	$26,749	53.67%
FHLMC (1)...................	23,015	41.96	22,979	37.06	15,816	31.74
FNMA........................	2,697	4.92	3,388	5.46	4,368	8.76
Others......................	2,035	3.71	2,497	4.03	2,906	5.83
Total mortgage-backed securities (2)	$ 54,853	100.00%	$62,008	100.00%	$49,839	100.00%

</TABLE>

	At September 30,			
	1993		1992	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Real estate loans:				
Residential one- to four-family:				
First mortgages..........	$72,274	85.41%	$80,695	84.75%
Second mortgages.........	6,429	7.60	8,556	8.99
Multi-family...............	2,320	2.74	2,574	2.70
Commercial.................	3,091	3.65	3,008	3.16
Construction/land loans.....	109	0.13	--	--

Total real estate loans.	84,223	99.53	94,833	99.60
Consumer/commercial business:				
Consumer....................	332	0.40	344	0.36
Commercial business.........	62	0.07	32	0.04
Total consumer/commercial business loans..........	394	0.47	376	0.40
Total loans receivable..	84,617	100.00%	95,209	100.00%
Less:				
Loans in process..........	44		--	
Unearned discounts and net deferred loan fees......	143		158	
Allowance for loan losses.	1,005		343	
	1,192		501	
Total loans receivable, net	$83,425		$94,708	
Mortgage-backed securities:				
GNMA	$24,156	48.89%	$17,354	42.47%
FHLMC (1)....................	16,065	32.52	15,456	37.82
FNMA.........................	5,741	11.62	4,052	9.92
Others.......................	3,446	6.97	4,000	9.79
Total mortgage-backed securities (2)	$49,408	100.00%	$40,862	100.00%

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(1) Includes $5.0 million in Mortgage-backed securities available for sale as of September 30, 1996.

(2) Mortgage-backed securities are net of premiums and discounts.

Loan and Mortgage-Backed Security Maturity and Repricing

The following table shows the maturity or period to repricing of the Bank's loan and mortgage-backed security portfolio at September 30, 1996. Loans and mortgage-backed securities that have adjustable rates are shown as being due in the period during which the interest rates are next subject to change. The table does not include prepayments or scheduled principal amortization. Prepayments and scheduled principal amortization on mortgage loans and mortgage-backed securities totaled $17.1 and $12.2 million respectively, for the twelve months ended September 30, 1996.

<TABLE>
<CAPTION>

	Mortgage Loans and Other Loans At September 30, 1996							
	1 - 4 Family	Multi-Family	Commercial Real Estate	Construction/Land	Consumer	Commercial Other	Total Loans	Mortgage-Backed Securities
	(In thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Amounts due:								
Within one year	$ 32,206	$ --	$ 617	$4,920	$ 41	$ 49	$ 37,833	$29,081
After one year:								
One to three years	10,523	39	--	--	182	--	10,744	581
Three to five years	14,794	651	1,168	--	36	119	16,768	2,222
Five to ten years	12,382	1,137	1,014	--	62	--	14,595	2,762
After ten years	48,375	3,795	12,503	--	79	--	64,752	20,207
Total due or repricing after one year	86,074	5,622	14,685	--	359	119	106,859	25,772
Total amounts due or repricing, gross	$118,280	$5,622	$15,302	$4,920	$400	$168	$144,692	$54,853

</TABLE>

The following table sets forth at September 30, 1996, the dollar amount of all loans and mortgage-backed securities due after September 30, 1997 and indicates whether such loans and mortgage-backed securities have fixed or adjustable interest rates.

	Due After September 30, 1997		
	Fixed	Adjustable	Total
	(In thousands)		
Mortgage loans:			
One- to four-family	$59,913	$26,161	$ 86,074
Multi-family	4,988	634	5,622
Commercial real estate	13,031	1,654	14,685
Other loans	226	252	478
Total loans	$78,158	$28,701	$106,859
Mortgage-backed securities	$25,772	$ --	$ 25,772

Set forth below is a table showing the Bank's loan origination, purchase and sales activity and activity in mortgage-backed security portfolio for the periods indicated.

	For the Years Ended September 30,		
	1996	1995	1994
	(In thousands)		
Loans receivable at beginning of period	$ 113,101	$ 85,203	$ 84,617
Originations:			
First mortgages	21,241	19,344	9,523
Second mortgages	342	354	--
Multi-family	2,058	1,136	1,200
Commercial	7,491	5,187	100
Construction/land	2,870	4,364	1,455
Consumer loans	212	279	184
Student loans	54	49	127
Commercial business	69	120	21
Loan purchases	14,848	9,045	--
Total originations and purchases	49,185	39,878	12,610
Transfer of mortgage loans to foreclosed real estate	(100)	(682)	(568)
Loans charged-off	(327)	(219)	(70)
Repayments	(17,167)	(11,079)	(11,386)
Loan sales	--	--	--
Total reductions	(17,594)	(11,980)	(12,024)
Total loans receivable at end of period	$ 144,692	$ 113,101	$ 85,203
Mortgage-backed securities at beginning of period	$ 62,008	$ 49,839	$ 49,408
Purchases	5,068	19,294	8,082
Repayments	(12,214)	(7,169)	(7,536)
Discount (premium) amortization	(19)	44	(115)
Unrealized gain	10	--	--
Mortgage-backed securities at end of period	$ 54,853	$ 62,008	$ 49,839

One- to Four-Family Residential Mortgage Lending. The Bank offers first mortgage loans primarily secured by one- to four-family residences. Loan originations are obtained from existing customers, referrals from real estate brokers and builders and through advertising and general solicitations. The Bank originates both ARM loans and fixed-rate loans. At September 30, 1996, first mortgage loans secured by residential one- to four-family real estate totalled $115.5 million, or 80.14% of total real estate loans at such date. Of the Bank's first mortgage loans secured by one- to four- family residences, $56.5 million, or 48.89% were ARM loans.

The Bank has, from time to time, purchased one- to four-family mortgage loans which generally include loans secured by properties located outside the Bank's market area. All loans purchased by the Bank must generally meet the same underwriting criteria as loans originated by the Bank. At September 30, 1996, the Bank had $27.2 million in one- to four-family purchased mortgage loans and single-family loan participations serviced by others.

The Bank underwrites all mortgage loans generally in conformance with secondary market guidelines and internally generated policies and procedures. Upon receipt of a completed loan application from a prospective borrower, a credit report is ordered, income and certain other information is verified, and additional financial information is requested, if deemed necessary. An independent appraisal of the real estate intended to secure the loan is undertaken by an independent appraiser previously approved by the Board. It is the Bank's policy to obtain title insurance on all real estate mortgage loans. Borrowers must also obtain hazard/flood insurance prior to closing. Borrowers generally are required to advance funds on a monthly basis to a mortgage escrow account, from which the Bank makes disbursements for items such as real estate taxes, hazard/flood insurance premiums and private mortgage insurance premiums as they become due.

The Bank generally makes mortgage loans secured by owner-occupied one- and two-family residences in amounts up to 95% of the appraised value or sales price of the property on loans that do not exceed $300,000. Mortgage loans originated under the Bank's First Time Home Buyers' Program may be in amounts of up to 89% of property values, with additional monthly principal repayments required for a specified time in lieu of private mortgage insurance coverage. Except for the loans originated under the Bank's First Time Home Buyers' Program, mortgage loans on one- to four-family, owner-occupied residences are originated for up to 95% of the property value provided that mortgage insurance on the amount in excess of 80% is obtained. The Bank's one- to four-family residential mortgage loans do not provide for negative amortization. When the information is obtained and an appraisal is completed, loans are presented for approval to the Bank's Loan Committee. The Loan Committee consists of two outside directors, the Chief Executive Officer and the Chief Operating Officer.

The Bank offers adjustable-rate first mortgage loans with interest rates which adjust periodically based upon a spread above an agreed upon index, such as a U.S. Treasury constant maturity index. ARM loans may carry an initial interest rate which is less than the fully indexed rate for the loan. Borrowers of ARM loans, that reset every twelve months, or less are qualified at the lesser of the first rate adjustment or the fully indexed rate in an effort to reduce the risk

of default as the interest rate and underlying payments increase. ARM loans have periodic caps ranging from 1.0% to 2.5% per adjustment period and lifetime caps of 5.0% to 6.0% over the initial rate. The Bank has two additional ARM loan products: a 10/1 mortgage loan which provides for an initial 10 year fixed rate period, thereafter adjusting each year, and a 6 month ARM which provides for interest rate adjustments every six months.

Equity and Second Mortgage Loans. The Bank originates equity and second mortgage loans on one- to four-family residences. These loans generally are originated as either fixed-rate or adjustable-rate loans secured by owner-occupied one- to four-family residences with terms from 10 to 25 years. The Bank offers equity and second mortgage loans with maximum combined loan-to-value ratios of up to 80%, or 85% if the borrower has the first mortgage with the Bank. At September 30, 1996, the Bank had $3.0 million, or 2.06% of total one- to four-family loans in equity and second mortgage loans, including $1.9 million of purchased second mortgage loans, which are subject to recourse against the seller.

Multi-Family and Commercial Real Estate Loans. The Bank also originates multi-family and commercial real estate loans. As of September 30, 1996, the Bank's total loan portfolio contained $5.6 million, or 3.89% of multi-family loans, and $15.3 million, or 10.58% of commercial real estate loans. The commercial real estate and multi-family loans in the Bank's portfolio consist of both fixed-rate and adjustable-rate loans which were originated at prevailing market rates. The Bank's policy has been to originate commercial real estate and multi-family loans primarily in its market area. In making commercial real estate and multi-family loans, the Bank considers the ability of net operating income generated by the real estate to support the debt, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the borrower.

Construction and Land Loans. The Bank originates loans, on a selected basis, to finance the construction of one- to four-family homes and other properties in its market areas. As of September 30, 1996, the Bank's portfolio contained $4.9 million, or 3.4% of construction loans. Construction loans generally provide for interest-only payments and are originated for a short-term. Borrowers must contribute equity in the construction projects to establish acceptable loan-to-value ratios. The Bank generally requires personal guarantees from the principals of the borrowing entity. Loan proceeds are disbursed in stages as construction progresses and as inspections warrant.

Consumer/Commercial Business Lending. The Bank also offers secured and unsecured personal loans and commercial business loans. At September 30, 1996, the Bank's consumer and commercial business loans totalled $568 thousand, or .39% of the Bank's total loan portfolio. Of that amount, $400 thousand consisted of home improvement, personal, passbook and student loans; and $168 thousand of commercial business loans.

Mortgage-backed Securities. The Bank invests in a variety of mortgage-backed securities, 96.28% of which were insured or guaranteed by the FHLMC, GNMA or FNMA at September 30, 1996. The remaining 3.72% was invested in a privately issued mortgage pass-through

security. At September 30, 1996, mortgage-backed securities totalled $54.9 million, or 20.56% of total assets, $5.0 million of which are classified by the Bank as available for sale. Of the $54.9 million in mortgage-backed securities, $29.1 million, or 53.0% were adjustable-rate and will reprice within one year. During the year ended September 30, 1996, the Bank purchased $5.1 million of mortgage-backed securities and received prepayments and scheduled principal amortization of $12.2 million.

Asset Quality

Loan Collection. When a borrower fails to make a required payment, the Bank generally takes immediate steps to induce the borrower to cure the delinquency and restore the loan to a current status. The Bank will send a late notice and contact the borrower in order to determine the reason for the delinquency and to effect a cure. In most cases delinquencies are cured promptly; however, if a loan has been delinquent for more than 60 days, the Bank reviews the loan status more closely and, where appropriate, appraises the condition of the property and the financial circumstances of the borrower. Based upon the results of any such investigation, the Bank may: (1) accept a repayment program for the arrearage from the borrower; (2) seek evidence, in the form of a listing contract, of efforts by the borrower to sell the property if the borrower has stated that he is attempting to sell; (3) request a deed in lieu of foreclosure; or (4) initiate foreclosure proceedings.

When a loan payment is delinquent for three or more monthly installments, the Bank may initiate foreclosure proceedings. The Bank continues to accrue interest until foreclosure proceedings have commenced, at which time the accrual is excluded from income by an offsetting increase in a special reserve account. Under certain circumstances prior to commencement of foreclosure proceedings or prior to the loan becoming 90 days delinquent, when recovery of interest is doubtful, the Bank will immediately offset such interest in a special reserve account. If such interest is ultimately collected, it is credited to income in the period of recovery.

At September 30, 1996, the Bank had 19 loans delinquent 90 days or more totalling $2.0 million, of which $1.7 million are attributed to one- to four-family mortgage loans and $2.5 million in participation loans on which the FDIC is disputing the original servicing agreement which call for current payment on principal and interest. At September 30, 1996, the Bank's real estate owned totalled $378 thousand.

TASCO Loan Participations. TASCO was a service corporation which was formed by 36 savings banks and savings and loan associations located in the State of New York. Member institutions participated in loans through TASCO in various projects, including condominium and cooperative projects, construction of new condominiums and hotel renovations. TASCO provided a means by which smaller institutions could invest in larger projects. TASCO was dissolved on November 11, 1994. The Bank presently has $922,000 or .64% of its total loan portfolio invested in one TASCO project. The Bank has established loss reserves of $504,000 on this loan participation. As of September 30, 1996, the Bank's net exposure on the existing TASCO loan participation was $418 thousand. This loan was restructured pursuant to which the interest rate on the loan was reduced to 2.0% (currently 4.0%) based upon the loan balance of $922,000. At September 30, 1996, the loan was performing under the restructured terms, and therefore, is no longer classified as non-performing. The Bank has not participated in a new TASCO project since the mid-1980s.

Delinquent and Non-Performing Loans. At September 30, 1996, 1995 and 1994, delinquencies in the Bank's loan portfolio were as follows:

<TABLE>
<CAPTION>

	At September 30, 1996				At September 30, 1995			
	60 - 89 Days		90 Days or More		60 - 89 Days		90 Days or More	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
				(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Residential one- to four-family:								
First mortgages	1	$ 175	16	$3,955(1)	1	$ 2	13	$1,216
Second mortgages	--	--	1	200	2	55	--	--
Multi-family residential ..	--	--	2	350	--	--	3	677
Commercial real estate	--	--	--	--	--	--	1	38
Consumer loans	--	--	4	11	--	--	4	11
Commercial Business	--	--	1	45	--	--	--	--
Total loans	1	$ 175	24	$4,561	3	$ 57	21	$1,942
Delinquent loans and non-performing loans to total		0.12%		3.15%		0.05%		1.72%

</TABLE>

	At September 30, 1994			
	60 - 89 Days		90 Days or More	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
		(Dollars in thousands)		
Residential one- to four-family:				
First mortgages	--	$ --	12	$1,199
Second mortgages	2	34	2	29
Multi-family residential	--	--	3	426
Commercial real estate	--	--	--	--
Consumer loans	--	--	4	5
Commercial Business	--	--	--	--
Total loans	2	$ 34	21	$1,659
Delinquent and non-performing loans to total loans		0.04%		1.95%

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(1) Includes $2.5 million loan participation certificates at September 30, 1996.

The following table sets forth information regarding non-accrual mortgage loans, loans delinquent 90 days or more and still accruing interest, investments in real estate, real estate owned ("REO") and in-substance foreclosure loans. The Bank continues to accrue interest on loans delinquent 90 days or more until commencement of foreclosure proceedings or until recovery of interest is considered by the Bank to be doubtful based on the value of the property and other considerations. During the years ended September 30, 1996, 1995 and 1994, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totalled $256,000, $171,000 and $165,000, respectively. The Bank collected interest income on such non-accrual loans in the amounts of $43,000, $24,000 and $17,000 during the years ended September 30, 1996, 1995 and 1994, respectively.

<TABLE>
<CAPTION>

	At September 30,				
	1996	1995	1994	1993	1992
			(In thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual delinquent mortgage loans	$4,380	$1,794	$1,624(1)	$2,008(1)	$3,904

Delinquent other loans	56	11	5	11	24
Mortgage loans delinquent 90 days or more and accruing	125	137	30	166	550
Total non-performing loans	4,561	1,942	1,659	2,185	4,478
Investment in real estate (2)	3,308	3,531	2,789	3,153	--
In-substance foreclosures (3)	--	--	--	--	148
Real estate owned	378	591	620	650	185
Total non-performing assets	$8,247	$6,064	$5,068	$5,988	$4,811
Non-performing loans to total loans	3.15%	1.72%	1.95%	2.58%	3.07%
Total non-performing assets to total assets	3.09%	2.65%	2.95%	4.05%	4.70%

</TABLE>

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(1) A TASCO commercial loan with a balance of $922,000, which previously had been delinquent, but was restructured in fiscal 1993.

(2) Investments in real estate through the Bank's subsidiaries are classified as non-performing assets.

(3) Represents reclassification of delinquent TASCO projects, net of specific reserves.

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

Recorded investment in impaired loans:	
With recorded allowance	$922
Without recorded allowance	--
Total impaired loans	922
Recorded allowances for loan losses	504
Net impaired loans	$418

For the year ended September 30, 1996, interest income that would have been recognized for these loans had they been performing in accordance with the original terms was approximately $78,000 and interest income recognized when received was $31,000.

The average balance of impaired loans during the years approximated $933,000.

Classified Assets. Federal regulations and the Bank's Classification of Assets Policy require the classification of loans and other assets, such as debt and equity securities considered to be of lesser quality, as "Substandard," "Doubtful" or "Loss" assets. An asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified "Substandard," with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as "Loss" are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "Special Mention" or placed on an in-house "Watch List" by management. When the Bank determines that an asset should be classified, it generally does not establish a specific allowance for such asset unless it determines that such asset may result in a loss. The Bank may, however, increase its general valuation allowance in an amount deemed prudent. The Bank believes that its policies are consistent with regulatory requirements regarding classified assets.

At September 30, 1996, classified assets totalled $8.2 million, or 3.1% of total assets, of which $1,000 classified as "Doubtful" and the remaining classified as "Substandard" consisted of 14 one- to four-family loans totalling $1.8 million, 2 multi-family loans totalling $350,000, 1 commercial real estate loan totalling $418,000, 1 building loan for $598,000 and a participation in one- to four-family loans totalling $2.5 million, 3 foreclosed real estate properties totalling $378,000 and $2.2 million in investment real estate. Real estate owned and investment in real estate are carried at the lower of cost or fair value less costs of disposal. Assets classified as "Doubtful" include 1 consumer loan for $1,000. Assets designated as "Special Mention" totalled $1.2

million, of which represents single family loans.

Allowances for Losses on Loans, Investments in Real Estate and Real Estate Owned.

The Bank's allowance for loan losses is maintained at a level considered adequate to absorb future loan losses. Management of the Bank, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the general economic and real estate market conditions. The Bank utilizes a two tiered approach in determining its allowance: (1) identification of problem loans and establishment of appropriate loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of its loan portfolio. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such system takes into consideration, among other things, delinquency status, amount, type of collateral and financial condition of the borrower. Loan loss allowances are established for identified loans based on a review of such data and/or estimates of the fair value of the underlying collateral. General loan loss allowances are based upon a combination of

factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

While the Bank believes it utilized the best information available and that 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 materially increase its allowance for loan losses, thereby negatively affecting the Bank's financial condition and earnings at that time. Although management believes that an adequate allowance for loan losses has been established, actual losses are dependent upon future events and, as such, further additions and/or adjustments to the specific and general loan loss allowances may become necessary.

REO consists of real estate acquired by foreclosure or a deed in lieu of foreclosure and is initially recorded at the lower of cost or fair value at the date of acquisition or in-substance foreclosure. Real estate owned is carried at the lower of cost or fair value less estimated selling costs. Loans foreclosed in-substance consist of loans accounted for as foreclosed property even though actual foreclosure has not taken place. Investments in real estate include investments in non-consolidated joint ventures. These investments are recorded at the lower of cost or fair value. The amounts ultimately recoverable from investments in real estate could differ from the net carrying value of the assets. See "Subsidiary and Joint Venture Activities -- FinFed Development Corp."

The following table sets forth the Bank's allowances for loan losses at the dates indicated:

<TABLE>
<CAPTION>

	Year Ended September 30,				
	1996	1995	1994	1993	1992
	(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for loan losses:					
Balance at beginning of period	$1,243	$1,120	$1,005	$ 343	$ 295
Charge-Offs:					
One- to four-family	--	31	51	50	26
Multi-family	213	189	--	--	--
Consumer and other loans	--	--	19	20	1
Total charge-offs	213	220	70	70	27
Recoveries	--	1	2	--	--
Provision for loan losses	543	342	183	732	75
Balance at end of period (1)	$1,573	$1,243	$1,120	$1,005	$ 343
Ratio of total charge-offs during the period to average loans outstanding during the period	0.17%	0.23%	0.08%	0.08%	0.03%
Ratio of allowance for loan losses to total loans at the end of the period	1.09%	1.10%	1.31%	1.20%	0.36%
Ratio of allowance for loan losses to non-performing loans at the end of the period	34.50%	63.97%	67.48%	46.00%	7.66%

</TABLE>

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(1) Includes $504,000, $717,000, $739,000 and $739,000, which are attributable

to TASCO loan participation(s), at September 30, 1996, 1995, 1994 and 1993.

The following table sets forth the allocation of the allowance for loan losses by loan category and the percent of loans in each category to total loans receivable at the dates indicated. The portion of the allowance for loan losses allocated to each loan category does not represent the total available for future losses which may occur within the loan category since the total loan loss reserve is a valuation reserve applicable to the entire loan portfolio.

	At September 30, 1996 Amount	1996 % of Loans in each category to total loans	1995 Amount	1995 % of Loans in each category to total loans	1994 Amount	1994 % of Loans in each category to total loans	1993 Amount	1993 % of Loans in each category to total loans	1992 Amount	1992 % of Loans in each category to total loans
	(Dollars in thousands)									
Real Estate Loans:										
Residential one- to four-family	$ 650	81.74%	$ 305	85.91%	$ 293	90.56%	$ 235	93.01%	$ 254	93.75%
Multi-family	53	3.89	218	3.80	278	3.77	250	2.74	79	2.70
Commercial	757	10.57	686	7.10	529	3.45	500	3.65	--	3.16
Commercial business loans	57	0.12	12	0.11	4	0.04	--	0.07	--	0.03
Construction/land	53	3.40	17	2.72	9	1.71	--	0.13	--	--
Consumer	3	0.28	5	0.36	7	0.4	20	0.40	10	0.36
Total allowance for loan losses (1)	$1,573	100.00%	$1,243	100.00%	$1,120	100.00%	$1,005	100.00%	$ 343	100.00%

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(1) Includes $504,000, $717,000, $739,000 and $739,000, which are attributable to TASCO loan participations at September 30, 1996, 1995, 1994 and 1993. See "Asset Quality -- TASCO Loan Participations."

Investment Activities

The Bank is required to maintain liquid assets at minimum levels which vary from time to time. The Bank increases or decreases its liquid investments depending on the availability of funds and comparative yields on liquid investments relative to the return on loans. The Bank's liquid investments primarily include United States Government and agency securities, overnight federal funds and repurchase agreements. Historically, the Bank has maintained its liquid assets at levels above the minimum regulatory requirements. At September 30, 1996, $23.8 million, or 8.9% of the Bank's total assets were invested in investment securities and other short-term investments that mature in five years or less.

The following table sets forth certain information regarding the carrying and market values of the Bank's portfolio of investment securities at the dates indicated:

	At September 30, 1996 Carrying Value	1996 Market Value	1995 Carrying Value	1995 Market Value	1994 Carrying Value	1994 Market Value
	(In thousands)					

Investment Securities held to maturity:						
U.S. Government and agency obligations	$51,122	$49,903	$38,921	$38,842	$16,509	$16,157
Common stock (1)	--	--	15	15	24	24
Total investment securities held to maturity ..	$51,122	$49,903	$38,936	$38,857	$16,533	$16,181
Available for sale:						
U.S. Treasury securities	$ 2,908	$ 2,908	--	--	--	--
Equity securities	700	700	--	--	--	--
Total investment securities available for sale	$ 3,608	$ 3,608	--	--	--	--

</TABLE>

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(1) Investment in TASCO common stock written down to estimated fair value.

The following table sets forth the carrying values, market values and average yields for the Bank's debt security portfolio by maturity, call date or repricing date, whichever is first, at September 30, 1996.

<TABLE>
<CAPTION>

	Less than One Year			One to Five Years			Total Investment Portfolio		
	Carrying Value	Market Value	Average Yield	Carrying Value	Market Value	Average Yield	Carrying Value	Market Value	Average Yield
				(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Debt securities:									
U.S. Government agency securities...	$48,556	$47,428	7.33%	$2,566	$2,475	8.05%	$51,122	$49,903	7.37%
U.S. Government treasury securities.	--	--	--	2,908	2,908	6.35	2,908	2,908	6.35
Total.........................	$48,556	$47,428	7.33%	$5,474	$5,383	7.15%	$54,030	$52,811	7.32%

</TABLE>

Sources of Funds

General. The Bank's lending and investment activities are predominantly funded by savings deposits, interest and principal payments on loans and other investments, FHLB advances, other borrowings and proceeds from the maturities of securities.

Deposits. The Bank offers a variety of deposit accounts having a wide range of interest rates and terms. The Bank's deposits consist of savings and club accounts, interest-bearing and non-interest-bearing demand deposit accounts, money market deposit accounts and certificates of deposit. In addition to the standard certificate of deposit, the Bank has designed special flexible certificates of deposit ("CDs") to accommodate its customers. The Bank's Golden Advantage program pays a bonus rate of 1/8 of 1% (.125%) over the standard time deposit rate for seniors who have direct deposit of their social security and/or pension benefits to a Bank deposit account. The Bank also offers the Silver Certificate of Deposit to all direct deposit customers 62 years of age or older. This twelve month time deposit allows one withdrawal of principal per quarter without an early withdrawal penalty. As of September 30, 1996, Silver Certificates of Deposit represented $15.4 million, or 14.9% of certificates outstanding. The Bank only solicits deposits from its market area and does not use brokers to obtain deposits. The Bank relies primarily on competitive pricing policies, advertising and customer service to attract new and retain existing deposits.

On February 24, 1995, the Bank consummated the purchase of certain deposit liabilities from the East New York Savings Bank and consolidated these deposit liabilities into Financial Federal Savings Bank's Greenpoint, Brooklyn branch. Deposits totalling $14.8 million were acquired, for which the Bank paid a premium of $127,000. The transaction was accounted for under the purchase method of accounting.

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

	For the Years Ended September 30,		
	1996	1995	1994
	(In thousands)		
Deposits	$ 267,595	$ 264,455(1)	$ 138,174
Withdrawals	258,815	224,272	138,546
Net increase (decrease) before interest credited	8,780	40,183	(372)
Interest credited	7,612	6,127	3,916
Net increase (decrease) in deposits	$ 16,392	$ 46,310	$ 3,544

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(1) Includes $14.8 million of deposits purchased in February 1995.

The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more by the time remaining until maturity as of September 30, 1996.

	(In thousands)
Maturity Period:	
Three months or less......................	$ 1,373
Over three through six months............	1,252
Over six through 12 months................	2,299
Over 12 months............................	4,608
Total..............................	$ 9,532

The following table sets forth the distribution of the Bank's deposit accounts for the periods indicated and the weighted average nominal interest rates on each category of deposits presented at the dates indicated.

<TABLE>
<CAPTION>

	For the year ended September 30,								
	1996			1995			1994		
	Percent	Amount	Weighted Average Rate	Percent	Amount	Weighted Average Rate	Percent	Amount	Weighted Average Rate
	(Dollars in thousands)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Non-interest-bearing demand	3.52%	$ 7,156	0.00%	1.98%	$ 3,688	0.00%	1.07%	$ 1,495	0.00%
Interest-bearing demand....	9.18	18,622	2.18	8.91	16,623	2.29	12.36	17,322	2.24
Savings and club...........	36.52	74,084	2.11	41.49	77,370	2.44	57.25	80,262	2.26
Certificates of deposit....	50.78	103,022	5.85	47.62	88,811	5.98	29.32	41,103	4.41
Total deposits........	100.00%	$202,884	3.94%	100.00%	$186,492	4.06%	100.00%	$140,182	2.86%

</TABLE>

The following table presents the amount of the Bank's certificates of deposit outstanding, based upon weighted-average rate categories, at September 30, 1996, 1995 and 1994, and based upon contractual periods to maturity, at September 30, 1996.

<TABLE>
<CAPTION>

	Period to Maturity from September 30, 1996						At September 30,		
	Less Than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	After Five Years	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Certificate accounts:									
2.99% or less	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ 416
3.00% to 3.99%	163	--	--	--	--	--	163	1,121	17,175
4.00% to 4.99%	24,117	598	61	--	--	--	24,776	10,896	13,689

5.00% to 5.99%	25,549	17,782	5,191	616	1,165	165	50,468	36,702	4,893
6.00% to 6.99%	2,418	4,373	677	1,548	989	680	10,685	23,712	2,939
7.00% to 7.99%	930	415	--	10,373	5,131	30	16,879	16,313	3
8.00% to 8.99%	--	--	--	--	51	--	51	67	1, 988
Total	$ 53,177	$ 23,168	$ 5,929	$ 12,537	$ 7,336	$ 875	$103,022	$ 88,811	$ 41,103

</TABLE>

Borrowings

Advances From Federal Home Loan Bank of New York. In the past and from time to time, the Bank has obtained fixed-rate advances from the Federal Home Loan Bank of New York ("FHLB") as a source of funding in order to take advantage of favorable rates of interest in comparison to its other sources of funds. The Bank's FHLB advances are generally secured by the Bank's mortgage loans and the Bank's investment in the stock of the FHLB. In addition, the Bank has available an overnight line of credit with the FHLB, subject to the terms and conditions of the lender's overnight advance program, in the amount of $24.3 million. Advances under this line of credit, which expires on December 22, 1996, are made for one-day periods. As of September 30, 1996, advances were secured by stock of Federal Home Loan Bank in the amount of $1.7 million and mortgage loans with an unpaid balance of $25.2 million. Information concerning advances from FHLB are summarized as follows:

Maturity	Interest Rate	September 30, 1996	September 30, 1995
		(In Thousands)	
Overnight advances due October 1995.............	6.625%	$ --	$5,375
Overnight advances due October 1996.............	6.125%	525	--
Notes maturing in February 1997............	5.133%	1,200	--
Notes maturing in December 1997............	5.597%	2,000	--
Notes maturing in December 1998............	5.670%	6,000	--
		$9,725	$5,375

There were no borrowings from the FHLB during the year ended September 30, 1994.

Securities Sold Under Agreements to Repurchase. Borrowings under reverse repurchase agreements involve the delivery of investment securities to broker-dealers who arrange the transactions. The securities remain registered in the name of the Bank, and are returned to the Bank upon the maturities of the agreements. Information concerning borrowings collateralized by securities sold under agreements to repurchase are summarized as follows:

Maturity	Interest Rate	September 30, 1996	September 30, 1995
		(In Thousands)	
November 1995	5.78%	$ --	$5,112
January 1996	5.75%	--	2,014
December 1996	5.44%	14,046	--
		$14,046	$7,126

There were no borrowings under reverse repurchase agreements during the year ended September 30, 1994.

Information concerning borrowings collateralized by securities sold under agreements to repurchase is summarized as follows:

Year Ended September 30,

	1996	1995
	(In Thousands)	
Average balance during the year....................	$8,228	$1,876
Average interest rate during the year............	5.70%	6.01%
Maximum month end balance during the year....	15,064	$9,229
Investment securities underlying the agreement at year end:		
Carrying value..........	$15,120	$6,988
Estimated market value..	$14,520	$7,047

Treasury Tax and Loan Amount and Other Short Term Borrowings

At September 30, 1996, the Bank had borrowings from Federal Reserve Bank of New York under Treasury and Depository program in the amount of $9,880,970 at an interest rate of 5.20% per annum payable on demand. These borrowings are secured by investment securities with a carrying value of $10,972,000 and fair value of $10,570,000.

Subsidiary and Joint Venture Activities

The following is a description of the current subsidiaries (the "Subsidiaries") of the Company and Bank. The Bank uses the equity method of accounting to account for the Subsidiary's investment in the joint venture. The Subsidiary's joint venture real estate development activity involves risks which may adversely affect the profitability of the Bank. Real estate development joint ventures generally incur substantial costs to acquire land, design projects, install site improvements and engage in marketing activities prior to commencement of development. Because the joint venture is unable to repay the Subsidiary's loans and/or the Subsidiary's capital investments until the sales of the lots are actually closed, there is negative cash flow in the early stages of the project. In general, a Subsidiary's profit potential on any given project may vary, if overruns are experienced, the underlying value of the property declines or a combination of these factors occurs.

842 Manhattan Avenue Corp. 842 Manhattan Avenue, a wholly-owned subsidiary of the Company, was incorporated in October, 1995, for the purpose of holding a Bank owned property for lease. At September 30, 1996, this subsidiary's investment consists of the building located at 842 Manhattan Avenue, Greenpoint, Brooklyn.

FinFed Funding Ltd. FinFed Funding Ltd., a wholly-owned subsidiary of the Bank, was incorporated in March 1985. It serves as a conduit for funding investments through the Bank's real estate development subsidiary. As of September 30, 1996, the subsidiary is inactive.

FinFed Development Corp. This wholly-owned subsidiary of the Bank was incorporated in May 1985 for the purpose of participating as a general partner in a real estate joint venture, AFT Associates, with another New York City metropolitan area financial institution and a local real estate developer. In May 1985, AFT Associates acquired a parcel of land for the development of approximately 400 lots designated for both detached residences and condominiums. In July 1996, AFT Associates received the required approvals necessary to develop the land for resale. Development of this property may require additional contributions by FinFed Development and its partners to the joint venture. FinFed Development Corp. has invested $3.4 million, which represents 44.0% of the capital of the joint venture at September 30, 1996. The subsidiary has a one-third interest in any profits realized from the sale of the developed property. The investment in AFT Associates has been classified as substandard. Furthermore, based upon a current appraisal of the value of real estate owned by the joint venture, an additional $298,000 in provisions for losses on investment in real estate were established for the fiscal year ended September 30, 1996. It is also expected that the Bank's

subsidiary, FinFed Development Corp., will be contributing its share of the normal operating costs of the joint venture.

FS Agency Inc. This wholly-owned subsidiary of the Bank was formed in August 1988 as a conduit to the Bank for commissions on the sale of tax deferred annuities and life insurance. As of September 30, 1996, its total assets were $30,400.

FinFed Staten Island Corp. FinFed Staten Island Corp. was incorporated in May 1985 for the purpose of developing for sale five acres of real estate on

Staten Island. It entered into a joint venture as a general partner, with Salamander Associates, in May 1985, in which FinFed Staten Island Corp. had a 50% interest. This property was sold in December 1993, which resulted in an allocated loss to FinFed Staten Island Corp. of $362,300. The corporation was dissolved on September 30, 1994.

At September 30, 1996, the Bank's loans to and investments in one of its wholly owned subsidiaries, FS Agency Inc., were not subject to the deduction from capital in accordance with FIRREA. However, the Bank's other wholly owned subsidiaries, FinFed Funding Ltd. and FinFed Development Corp. are, or have been, engaged in real estate development activities that are not permitted for a national bank, and thus are subject to the general rule requiring the Bank's loans to and investments in the subsidiaries to be deducted from capital.

Personnel

As of September 30, 1996 the Bank had 55 full-time employees and 4 part-time employees.

REGULATION AND SUPERVISION

General

The Company, as a savings and loan holding company, is required to file certain reports with, and otherwise comply with the rules and regulations of the Office of Thrift Supervision ("OTS") under the Home Owners' Loan Act, as amended (the "HOLA"). In addition, the activities of savings institutions, such as the Bank, are governed by the HOLA and the Federal Deposit Insurance Act ("FDI Act").

The Bank is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as the deposit insurer. The Bank is a member of the Federal Home Loan Bank ("FHLB") System and its deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") managed by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct

periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or the Congress, could have a material adverse impact on the Company, the Bank and their operations. Certain of the regulatory requirements applicable to the Bank and to the Company are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company.

Holding Company Regulation

The Company is a nondiversified unitary savings and loan holding company within the meaning of the HOLA. As a unitary savings and loan holding company, the Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender ("QTL"). See "Federal Savings Institution Regulation - QTL Test." Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the QTL test and is deemed to be a savings institution by the OTS, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would be subject to extensive limitations on the types of business activities in which it could engage. The HOLA limits the activities of a multiple savings and loan holding company and its non-insured institution subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act ("BHC Act"), subject to the prior approval of the OTS, and certain activities authorized by OTS regulation.

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

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company 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 of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, HOLA does prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days before declaring any dividend to the Company. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Federal Savings Institution Regulation

Capital Requirements. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 3% leverage (core) capital ratio and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage (core) capital ratio (3% for institutions receiving the highest rating on the CAMEL financial institution rating system), and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain purchased mortgage servicing rights and credit card relationships. The OTS regulations also require that, in meeting the tangible, leverage (core) and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, as assigned by the OTS capital regulation based on the risks OTS believes are inherent in the type of asset. The components of Tier I (core) capital are equivalent to those discussed earlier. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock and the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS regulatory capital requirements also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings

institution's interest rate risk is measured by the decline in the net portfolio value of its assets (i.e., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that would result from a hypothetical 200 basis point increase or decrease in market interest rates divided by the estimated economic value of the institution's assets. In calculating its total capital under the risk-based capital rule, a savings institution whose measured interest rate risk exposure exceeds 2% must deduct an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the institution's assets. The Director of the OTS may waive or defer a savings institution's interest rate risk component on a case-by-case basis. A savings institution with assets of less than $300 million and risk-based capital ratios in excess of 12% is not subject to the interest rate risk component, unless the OTS determines otherwise. For the present time, the OTS has deferred implementation of the interest rate risk component. At September 30, 1996, the Bank met each of its capital requirements, in each case on a fully phased-in basis and it is anticipated that the Bank will not be subject to the interest rate risk component.

The following table presents the Bank's capital position at September 30, 1996 relative to fully phased-in regulatory requirements. For a description of the Bank's delayed phase-in schedule, see "Business of the Bank - Subsidiary and Joint Venture Activities."

				Capital	
	Actual Capital	Required Capital	Excess (Deficiency) Amount	Actual Percent	Required Percent
			(Dollars in thousands)		
Tangible.....	$18,209	$3,908	$14,301	6.99%	1.50%
Core (Leverage)	$18,209	$7,816	$10,393	6.99%	3.00%
Risk-based...	$19,230	$8,337	$10,893	18.45%	8.00%

Prompt Corrective Regulatory Action. Under the OTS prompt corrective action regulations, the OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution is considered "well capitalized" if its ratio of total capital to risk-weighted assets is at least 10%, its ratio of Tier I (core) capital to risk-weighted assets is at least 6%, its ratio of core capital to total assets is at least 5%, and it is not subject to any order or directive by the OTS to meet a specific capital level. A savings institution generally is considered "adequately capitalized" if its ratio of total capital to risk-weighted assets is at least 8%, its ratio of Tier I (core) capital to risk-weighted assets is at least 4%, and its ratio of core capital to total assets is at least 4% (3% if the institution receives the highest CAMEL rating). A savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to

total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the banking regulator is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Insurance of Deposit Accounts. Deposits of the Bank are presently insured by the SAIF, except for deposits acquired in a branch purchase from East New York Savings Bank which are insured by the Bank Insurance Fund ("BIF"). Both the SAIF and the BIF, (the deposit insurance fund that covers most commercial bank deposits), are statutorily required to be recapitalized to a 1.25% of insured reserve deposits ratio. Until recently, members of the SAIF and BIF were paying average deposit insurance premiums of between 24 and 25 basis points. The BIF met the required reserve in 1995, whereas the SAIF was not expected to meet or exceed the required level until 2002 at the earliest. This situation was primarily due to the statutory requirement that SAIF members make payments on bonds issued in the late 1980s by the Financing Corporation ("FICO") to recapitalize the predecessor to the SAIF.

In view of the BIF's achieving the 1.25% ratio, the FDIC ultimately adopted a new assessment rate schedule of 0 to 27 basis points under which 92% of BIF members paid an annual premium of only $2,000. With respect to SAIF member institutions, the FDIC adopted a final rule retaining the previously existing assessment rate schedule applicable to SAIF member institutions of 23 to 31 basis points. As long as the premium differential continued, it may have had adverse consequences for SAIF members, including reduced earnings and an impaired ability to raise funds in the capital markets. In addition, SAIF members, such as the Bank could have been placed at a substantial competitive disadvantage to BIF members with respect to pricing of loans and deposits and the ability to achieve lower operating costs.

On September 30, 1996, the President signed into law the Deposit Insurance Funds Act of 1996 (the "Funds Act") which, among other things, imposed a special one-time assessment on SAIF member institutions, including the Bank, to recapitalize the SAIF. As required by the Funds Act, the FDIC imposed a special assessment of 65.7 basis points on SAIF assessable deposits held as of March 31, 1995, payable November 27, 1996 (the "SAIF Special Assessment"). The SAIF Special Assessment was recognized by the Bank as an expense during

the quarter ended September 30, 1996 and is generally tax deductible. The SAIF Special Assessment recorded by the Bank amounted to $1.1 million on a pre-tax basis and $598,000 on an after-tax basis.

The Funds Act also spreads the obligations for payment of the FICO bonds across all SAIF and BIF members. Beginning on January 1, 1997, BIF deposits will be assessed for FICO payments of 1.3 basis points, while SAIF deposits will pay 6.48 basis points. Full pro rata sharing of the FICO payments between BIF and SAIF members will occur on the earlier of January 1, 2000 or the date the BIF and SAIF are merged. The Funds Act specifies that the BIF and SAIF will be merged on January 1, 1999, provided no savings associations remain as of that time.

As a result of the Funds Act, the FDIC recently voted to effectively lower SAIF assessments to 0 to 27 basis points as of January 1, 1997, a range comparable to that of BIF members. However, SAIF members will continue to make the FICO payments described above. The FDIC also lowered the SAIF assessment schedule for the fourth quarter of 1996 to 18 to 27 basis points. Management cannot predict the level of FDIC insurance assessments on an on-going basis, whether the savings association charter will be eliminated or whether the BIF and SAIF will eventually be merged.

The Bank's assessment rate for fiscal 1996 was 23 basis points and the premium paid for this period was $$387,065, exclusive of the $1,115,000 or 65.7 basis points one-time SAIF special assessment.

Under the FDI Act, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Thrift Rechartering Legislation. The Funds Act provides that the BIF and SAIF will merge on January 1, 1999 if there are no more savings associations as of that date. That legislation also requires that the Department of Treasury to submit a report to Congress by March 31, 1999 that makes recommendations regarding a common financial institutions charter, including whether the separate charters for thrifts and banks should be abolished. Various proposals to eliminate the federal thrift charter, create a uniform financial institutions charter and abolish the OTS were introduced in the 104th Congress. It is likely that legislation will be introduced in the new Congress addressing the elimination of the savings association charter. However, the Bank is unable to predict whether such legislation would be enacted and, if so, the extent to which the legislation would restrict or disrupt its operations.

Loans to One Borrower. Under the HOLA, savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. Generally, savings institutions may not make a loan or extend credit to a single or related group of borrowers in excess of 15%

of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily-marketable collateral, which is defined to include certain financial instruments and bullion. At September 30, 1996, the Bank's limit on loans to one borrower was $3.2 million. At September 30, 1996, the Bank's largest aggregate outstanding balance of loans to one borrower was $2.4 million.

QTL Test. The HOLA requires savings institutions to meet a QTL test. Under the QTL test, a savings and loan association 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) intangibles, 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 securities) in at least 9 months out of each 12 month period.

A savings institution that fails the QTL test is subject to certain operating restrictions and may be required to convert to a bank charter. As of September 30, 1996, the Bank maintained 82.7% of its portfolio assets in qualified thrift investments and, therefore, met the QTL test.

Limitation on Capital Distributions. OTS regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The rule establishes three tiers of institutions, which are based primarily on an institution's capital level. An institution that exceeds all fully phased-in capital requirements before and after a proposed capital distribution ("Tier 1 Bank") and has not been advised by the OTS that it is in need of more than normal supervision, could, after prior notice but without obtaining approval of the OTS, make capital distributions during a calendar year equal to the greater of (i) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year or (ii) 75% of its net income for the previous four quarters. Any additional capital distributions would require prior regulatory approval. In the event the Bank's capital fell below its regulatory requirements or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice. In December 1994, the OTS proposed amendments to its capital distribution regulation that would generally authorize the payment of capital distributions without OTS approval provided that the payment does not cause the institution to be undercapitalized within the meaning of the prompt corrective action regulation. However, institutions in a holding company structure would still have a prior notice requirement. At September 30, 1996, the Bank was a Tier 1 Bank.

Liquidity. The Bank is required to maintain an average daily balance of specified liquid assets equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus short-term borrowings. This liquidity requirement is currently 5% but may be changed from time to time by the OTS to any amount within the range of 4% to 10%

depending upon economic conditions and the savings flows of member institutions. OTS regulations also require each member savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable deposit accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet these liquidity requirements. The Bank's liquidity and short-term liquidity ratios for September 30, 1996 were 13.9% and 3.2% respectively, which exceeded the applicable requirements. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirements.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly thrift financial report. The assessments paid by the Bank for the fiscal year ended September 30, 1996 totalled $64,000.

Branching. OTS regulations permit nationwide branching by federally chartered savings institutions to the extent allowed by federal statute. This permits federal savings institutions to establish interstate networks and to geographically diversify their loan portfolios and lines of business. The OTS authority preempts any state law purporting to regulate branching by federal savings institutions.

Transactions with Related Parties. The Bank's authority to engage in transactions with related parties or "affiliates" (e.g.., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by Sections 23A and 23B of the Federal Reserve Act ("FRA"). Section 23A limits the aggregate amount of covered transactions with any individual affiliate to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and 10% shareholders, as well as entities such persons control, is governed by Sections 22(g) and 22(h) of the FRA and Regulation O thereunder. Among other things, such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and to not involve more than the normal risk of repayment. Regulation O also places individual and aggregate limits on the amount of loans the Bank may make to such persons based, in part, on the Bank's capital position and requires certain board approval procedures to be followed.

Enforcement. Under the FDI Act, the OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. Under the FDI Act, the FDIC has the authority to recommend to the Director of the OTS enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines Prescribing Standards for Safety and Soundness ("Guidelines") and a final rule to implement safety and soundness standards required under the FDI Act. 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; and compensation, fees and benefits. 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 the FDI Act. The final rule establishes deadlines for the submission and review of such safety and soundness compliance plans when such plans are required.

Federal Reserve System

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). During fiscal 1996, the Federal Reserve Board regulations generally required that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating $52.0 million or less (subject to adjustment by the Federal Reserve Board) the reserve requirement is 3%; and for accounts aggregating greater than $52.0 million, the reserve requirement is $1.6 million plus 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of $52.0 million. The first $4.3 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The Bank is in compliance with the foregoing requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the OTS.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank report their income on a consolidated/unconsolidated basis and the accrual/cash method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company. The Bank has not been audited by the Internal Revenue Service ("IRS") during the last seven years. For its 1996 taxable year, the Bank is subject to a maximum federal income tax rate of 34%.

Bad Debt Reserves. For fiscal years beginning prior to December 31, 1995, thrift institutions which qualified under certain definitional tests and other conditions of the Internal Revenue Code of 1986 (the "Code") were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans (generally secured by interests in real property improved or to be improved) under (i) the Percentage of Taxable Income Method (the "PTI Method") or (ii) the Experience Method. The reserve for nonqualifying loans was computed using the Experience Method.

The Small Business Job Protection Act of 1996 (the "1996 Act"), which was enacted on August 20, 1996, requires savings institutions to recapture (i.e., take into income) certain portions of their accumulated bad debt reserves. The 1996 Act repeals the reserve method of accounting for bad debts effective for tax years beginning after 1995. Thrift institutions that would be treated as small banks are allowed to utilize the Experience Method applicable to such institutions, while thrift institutions that are treated as large banks (those generally exceeding $500 million in assets) are required to use only the specific charge-off method. Thus, the PTI Method of accounting for bad debts is no longer available for any financial institution.

Use of the PTI Method had the effect of reducing the marginal rate of federal tax on the Bank's income to 32.2%, exclusive of any minimum or environmental tax, as compared to the maximum corporate federal income tax rate of 35%.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in method of accounting, initiated by the taxpayer, and having been made with the consent of the IRS. Any Section 481(a) adjustment required to be taken into income with respect to such change generally will be taken into income ratably over a six-taxable year period, beginning with the first taxable year beginning after 1995, subject to the residential loan requirement.

Under the residential loan requirement provision, the recapture required by the 1996 Act will be suspended for each of two successive taxable years, beginning in 1996 or 1997 in which

the Bank's loan originations is at least equal to the average of the principal amounts of such loans made by the Bank during its six most recent tax years prior to 1996.

The provisions of the 1996 Act are effective for the Bank's taxable year beginning October 1, 1996, and the Bank is permitted to make additions to bad debt reserves based on experience method only. In addition, the Bank is required to recapture (i.e. take into taxable income) over a six year period or not more than an eight year period if residential loan requirements are met, the excess of the balance of its bad debt reserves as of September 30, 1996 (other than its supplemental reserves for losses on loans) over the balance of such reserves for the base year (i.e. the last year beginning before 1988). Since the percentage of taxable income method for Federal tax bad debt deduction and the corresponding increase in the Federal tax bad debt reserve in excess of the base year has been recorded as temporary differences pursuant to SFAS 109, this change in the tax law is not expected to have a material adverse effect on the Bank's statement of operations.

Distributions. Under the 1996 Act, if the Bank makes "non-dividend distributions" to the Company, such distributions will be considered to have been made from the Bank's unrecaptured tax bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and then from the Bank's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a non-dividend distribution to the Company, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. The Banks does/does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

SAIF Recapitalization Assessment. The Funds Act levies a 65.7-cent fee on every $100 of thrift deposits held on March 31, 1995. For financial statement purposes, this assessment must be reported as an expense for the quarter ended September 30, 1996. The Funds Act includes a provision which states that the amount of any special assessment paid to capitalize SAIF under this legislation is deductible under Section 162 of the Code in the year of payment.

State and Local Taxation

New York State and New York City Taxation. The Bank is subject to the New York State Franchise Tax on Banking Corporations in an amount equal to the greater of (i) 9.0% of "entire net income" allocable to New York State during the taxable year, or (ii) the applicable alternative

minimum tax. The alternative minimum tax is generally the greater of (a) 3.0% of "alternative entire net income" allocable to New York State, (b) 0.01% of the Bank's assets allocable to New York State, or (c) $250. Entire net income is similar to federal taxable income, subject to certain modifications (including the addition of interest income on state and municipal obligations, the partial exclusion of interest income on certain United States Treasury, New York State, and New York City obligations, and an additional New York State bad debt deduction). Alternative entire net income is equal to entire net income without certain deductions which are allowable for the calculation of entire net income. New York State also imposes several surcharges on the Franchise Tax on Banking Corporations including a 17.0% Metropolitan Transportation Business Tax Surcharge and an additional 2.5% surcharge which currently apply to the Bank.

The Bank is also subject to the New York City Financial Corporation Tax calculated, subject to a New York City income and expense allocation, on a similar basis as the New York State Franchise Tax. Currently, New York City does not impose surcharges applicable to the Bank.

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

Impact of New Accounting Standards

In March 1995, the FASB issued SFAS 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of." SFAS 121 established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS 121 does not apply to financial instruments, long-term customer relationships of a financial institution (i.e. core deposit intangibles), mortgage and other servicing rights, or deferred tax assets. SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, an impairment loss is to be recognized if the carrying value of such asset exceeds its fair value. In regard to long-lived assets to be disposed of either through sales or abandonment, such assets are to be carried at the lower of cost or fair value less costs to sell. SFAS 121 is effective for fiscal years beginning after December 15, 1995 and restatement of previously issued financial statements is not permitted. SFAS 121 was adopted effective October 1, 1996 and such adoption did not have a material adverse effect on the Company's consolidated financial condition or results of operations.

In June 1995, the FASB issued SFAS 122, "Accounting for Mortgage Servicing Rights." SFAS 122 amends SFAS 65, "Accounting for Certain Mortgage Banking Activities," to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights were acquired, should such loans be sold or securitized and the related mortgage servicing rights retained. The servicing rights are to be recorded based on an allocation of the total investment in related loans to the relative fair values of the loans and

the separated servicing rights retained, providing it is practical to estimate those fair values. SFAS 122 is effective prospectively in fiscal years beginning after December 15, 1995. Retroactive capitalization of mortgage servicing rights retained in transactions in which a mortgage banking enterprise originates mortgage loans and sells or securitizes those loans before adoption of SFAS 122 is prohibited. SFAS 122 was adopted effective October 1, 1996 and such adoption did not have a material adverse effect on the Company's consolidated financial condition or results of operations.

In October 1995, the FASB issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 establishes financial accounting and reporting standards for stock-based employees compensation plans. SFAS 123 encourages all entities to adopt the "fair value base method" of accounting for employee stock compensation plans.. However, SFAS 123 also allows an entity to continue to measure compensation cost under such plans using the "intrinsic value based method." Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and its recognized over the service period, usually the vesting period. Fair value is determined using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividends on it, and the risk free interest rate over the expected life of the option. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Most stock plans have no intrinsic value at date of grant, and under previous accounting guidance, no compensation cost was to be recognized.

The accounting requirements of SFAS 123 are effective for transactions entered into in fiscal years that begin after December 15, 1995. The Company intends to continue accounting for compensation cost under the intrinsic value based method and will provide pro forma disclosures for all awards granted after October 1, 1996. Such disclosures include net income and earnings per share as if the fair value based method of accounting has been applied.

In September 1996, the FASB issued SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). This Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished. The financial-components approach focuses on the assets and liabilities that exist after the transfer. Many of these assets and liabilities are components of financial assets that existed prior to the transfer. If a transfer does not meet the criteria for a sale, the transfer is accounted for as a secured borrowing with a pledge of collateral. SFAS 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and should be applied prospectively. Earlier or retroactive application of

SFAS 125 is not permitted. SFAS 125, when adopted, is not expected to have a material adverse effect on the Company's consolidated financial condition or results of operations.

Additional Item. Executive Officers Who Are Not Directors

The following table sets forth certain information regarding executive officers of the Company, at September 30, 1996, who are not also directors.

Name	Age	Position Held
P. James O'Gorman	37	Senior Vice President, Chief Financial Officer and Treasurer
Robert E. Adamec	53	Senior Vice President and Corporate Secretary

P. James O'Gorman. Mr. O'Gorman joined the Bank in 1990 as Controller. In March 1991, he was promoted to Treasurer of the Bank. From November 1993 to March 1994, Mr. O'Gorman served as Vice President and Treasurer of the Bank. Since March 1994, Mr. O'Gorman has served as Senior Vice President, Chief Financial Officer and Treasurer of the Bank and is a Certified Public Accountant.

Robert E. Adamec. Mr. Adamec has been employed with the Bank since July 1990. From October 1990 to November 1993, he served as Vice President of the Bank. In November 1993, Mr. Adamec was elected Senior Vice President and Corporate Secretary of the Bank.

Item 2. Properties

The Bank conducts its business through its main office and four full-service branch offices. Loan originations are processed at the main office. The Bank believes that its current facilities are adequate to meet the present and immediately foreseeable needs of the Bank and the Company.

Location	Owned/ Leased	Date Acquired or Leased	Lease Expiration Date Including Options	Net Book Value September 30, 1996
				(In thousands)
Main Office:				
Long Island City				
42-25 Queens Boulevard	Owned	1962	--	$ 579
Branches:				
Long Island City				
45-14 46th Street....	Leased	1976	2001	10
Jackson Heights				
75-23 37th Avenue....	Leased	1990	2005	213
Flushing				
59-23 Main Street....	Leased	1974	1999	159
Brooklyn				
814 Manhattan Avenue.	Owned	1995	--	1,117
Total				$2,078

Item 3. Legal Proceedings

Neither the Company nor the Bank are 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 the operation of the Company and the Bank.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholders Matters

Information relating to the market for Registrant's common stock and related stockholder matters appears under Common Stock Information in the Registrant's 1996 Annual Report to Stockholders on page 41 and is incorporated herein by reference.

Item 6. Selected Financial Data

The selected financial data appears under Selected Consolidated Financial and Other Data of the Bank in the Registrant's 1996 Annual Report to Stockholders on pages 6 through 7 and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The above-captioned information appears under Management's Discussion and Analysis of Financial Condition and Results of Operations in the Registrant's 1996 Annual Report to Stockholders on pages 8 through 15 and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements and related notes thereto of Financial Bancorp, Inc. and its subsidiaries, together with the report thereon by Radics & Co., LLC, appears in the Registrant's 1996 Annual Report to Stockholders on pages 16 through 40 and are incorporated herein by reference.

Item 9. Change In and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information relating to Directors and Executive Officers of the Registrant is incorporated herein by reference to the Registrant's Proxy Statement for the 1997 Annual Meeting of Stockholders to be held January 22, 1997 pages 5 through 6.

Item 11. Executive Compensation

The information relating to executive compensation is incorporated herein by reference to the Registrant's Proxy Statement for the 1997 Annual Meeting of Stockholders to be held on January 22, 1997 at pages 7 through 8 and 13 through 17, excluding the Compensation Committee Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the Registrant's Proxy Statement for the 1997 Annual Meeting of Stockholders to be held on January 22, 1997 at pages 3 through 6.

Item 13. Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement for the 1997 Annual Meeting of Stockholders to be held on January 22, 1997 at page 17.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 10-K.

(a) The following documents are filed as a part of this report:

(1) Consolidated Financial Statements of Financial Bancorp, Inc. are incorporated by reference to the indicated pages of the 1996 Annual Report to Stockholders.

The remaining information appearing in the 1996 Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report:

3.1 Certificate of Incorporation of Financial Bancorp, Inc.*

3.2 Bylaws of Financial Bancorp, Inc.*

4.0 Stock Certificate of Financial Bancorp, Inc.*

10.1 Financial Federal Savings Bank Recognition and Retention Plan**

10.2 Financial Bancorp, Inc. 1995 Incentive Stock Option Plan***

10.3 Financial Bancorp, Inc. 1995 Stock Option Plan for Outside Directors**

10.4 Financial Savings and Loan Association Employee Stock Ownership Plan and Trust*

10.5 Salary Continuation Agreement between Financial Bancorp, Inc., Financial Savings and Loan Association and Frank S. Latawiec (filed herewith)

10.6 Employment Agreement between Financial Federal Savings and Loan Association and Irene C. Greco****

10.7 Employment Agreement between Financial Federal Savings and Loan Association and P. James O'Gorman****

10.8 Employment Agreement between Financial Federal Savings and Loan Association and Robert E. Adamec****

10.9 Employment Agreement between Financial Bancorp, Inc. and Irene C. Greco****

10.10 Employment Agreement between Financial Bancorp, Inc. and P. James O'Gorman****

10.11 Employment Agreement between Financial Bancorp, Inc. and Robert E. Adamec****

10.12 Financial Federal Savings and Loan Association Outside Directors' Consultation and Retirement Plan*

11.0 Computation of earnings per share (filed herewith)

13.0 Annual Report to Stockholders for the year ended September 30, 1996 (filed herewith)

21.0 Subsidiary information is incorporated herein by reference to "Subsidiaries"

23.0 Consent of Radics & Co., LLC (filed herewith)

99.0 Proxy Statement for 1997 Annual Meeting*****

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* Incorporated herein by reference into this document from the Exhibits to Form S- 1, Registration Statement and amendments thereto, initially filed on March 18, 1994, Registration No. 33-76664.

** Incorporated herein by reference into this document from the Proxy Statement for the January 17, 1996 Annual Meeting of Stockholders filed on December 18, 1995.

*** Incorporated herein by reference into this document from the Proxy Statement for the January 26, 1995 Annual Meeting of Stockholders filed on December 15, 1994.

**** Incorporated herein by reference into this document from the Annual Report on Form 10-K for the fiscal year ended September 30, 1994 filed with the SEC on December 20, 1994.

***** Incorporated herein by reference into this document from the Proxy Statement for the January 22, 1997 Annual Meeting of Stockholders filed with the SEC on December 23, 1996.

(b) Reports on Form 8-K

SIGNATURES

Pursuant to the requirements of Section 13 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.

FINANCIAL BANCORP, INC.

By:/s/Frank S. Latawiec

Frank S. Latawiec

President, Chief Executive
Officer and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/Frank S. Latawiec ----------------------- Frank S. Latawiec	President, Chief Executive Officer and Director (Principal Executive Officer)	December 30, 1996
/s/P. James O'Gorman ----------------------- P. James O'Gorman	Senior Vice President, Chief Financial Officer and Treasurer (Principal Accounting Officer)	December 30, 1996
/s/Irene C. Greco ----------------------- Irene C. Greco	Executive Vice President, Chief Operating Officer and Director	December 30, 1996
/s/Dominick L. Segrete ----------------------- Dominick L. Segrete	Chairman of the Board	December 30, 1996
/s/Peter S. Russo ----------------------- Peter S. Russo	Director	December 30, 1996
/s/Richard J. Hickey ----------------------- Richard J. Hickey	Director	December 30, 1996
/s/Raymond M. Calamari ----------------------- Raymond M. Calamari	Director	December 30, 1996

Exhibit 10.5 Salary Continuation Agreement between Financial Bancorp, Inc., Financial Savings and Loan Association and Frank S. Latawiec

FINANCIAL FEDERAL SAVINGS BANK

SALARY AND BENEFITS CONTINUATION AGREEMENT

This Agreement is made effective as of September 24, 1996 by and among Financial Federal Savings Bank (the "Bank"), a federally chartered savings institution, Financial Bancorp, Inc. (the "Holding Company"), a corporation organized under the laws of Delaware, with both their principal administrative offices located at 42-25 Queens Boulevard, Long Island City, New York, and Frank Latawiec (the "Executive").

WHEREAS, both the Bank and the Holding Company respectively have retained Executive as President and Chief Executive Officer; and

WHEREAS, the Bank and the Holding Company wish to provide Executive with salary continuation and continuation of other benefits enumerated herein in the event of a change in control of either organization;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and upon the terms and conditions hereinafter provided the parties hereby agree as follows:

1. Position and Responsibility.

During the period of employment hereunder, Executive agrees to serve as President and Chief Executive Officer of both the Bank and the Holding Company. Executive shall render administrative and management services to each entity such as are customarily performed by persons in a similar executive capacity. Executive also agrees to serve, if elected, as an Officer and/or Director of any subsidiary of the Bank or the Holding Company.

2. Change in Control.

In the event of a change in control of either the Bank or the Holding Company ("Change in Control") occurs, then subject to the terms and conditions of this Agreement, Executive shall be entitled to the payments and benefits set forth in Sections 3. and 4. of this Agreement. For purposes of this Agreement a Change in Control of the Bank or the Holding Company shall be of a nature that: (i) would be required to be reported in response to Item 1(a) of the current report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or (ii) results in a Change in Control of the Bank or the Holding Company within the meaning of the Home Owner's Loan Act of 1933, as amended, and the Rules and

Regulations promulgated by the Office of Thrift Supervision ("OTS") (or its predecessor agency), as in effect on the date hereof (provided that in applying the definition of change in control as set forth under the rules and regulations of the OTS, the Board shall substitute its judgment for that of the OTS); or (iii) without limitation such a Change in Control shall be deemed to have occurred at such time as (a) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Bank or the Holding Company representing 20% or more of the combined voting power of the Bank's or the Holding Company's outstanding securities except for any securities of the Bank purchased by the Holding Company in connection with the conversion of the Bank to the stock form and any securities purchased by any tax qualified employee benefit

plans of the Bank; or (b) individuals who constitute the Board on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Holding Company's stockholders was approved by the same Nominating Committee serving under an Incumbent Board, shall be, for purposes of this clause; (b) considered as though he were a member of the Incumbent Board; or (c) a plan for reorganization, merger, consolidation, sale of all or substantially all the assets of the Bank or the Holding Company or similar transaction has been approved by the Incumbent Board and the shareholders, or otherwise occurs upon which the Board so notifies the OTS of such occurrence, and in which the Bank or Holding Company is not the resulting entity; or (d) a proxy statement soliciting proxies from shareholders of the Holding Company, by someone other than the current management of the Holding Company, seeking stockholder approval of a plan of reorganization, merger or consolidation of the Holding Company or Bank or similar transaction with one or more corporations as a result of which the outstanding shares of the class of securities then subject to the plan or transaction are exchanged for or converted into cash or property or securities not issued by the Bank or the Holding Company shall be distributed; or (e) a tender offer is made for 20% or more of the voting securities of the Bank or the Holding Company.

3. Salary Continuation Payments.

In the event a Change in Control of either the Bank or the Holding Company occurs before September 24, 1998, Executive shall receive payment of his then current base salary through September 24, 1998, made to him in a single sum payment (subject to applicable withholding) on the date of the Change in Control, without discount for early payment. Executive shall have no duty to mitigate the amount of the payment or other benefits received hereunder, it being agreed and understood that Executive's acceptance of other employment shall not reduce the obligation of the Bank or the Holding Company hereunder.

4. Medical and Other Benefits.

In addition to any statutory right, if applicable, that Executive may have with respect to the continuation of medical or other benefits, the Bank and the Holding Company shall continue to provide Executive with life, medical, dental and disability coverage substantially identical to the coverage maintained by the Bank or the Holding Company immediately prior to the Change in Control through September 24, 1998.

5. Source of Payments.

All payments to be made and benefits to be provided in this Agreement shall be timely paid in cash or check from the general funds of the Bank and provided by the Bank. The Holding Company, however, unconditionally guarantees payment and provision of all amounts and benefits due hereunder to Executive and, if such amounts and benefits due from the Bank are not timely paid or provided by the Bank for any reason, such amounts and benefits shall be paid or provided by the Holding

Company. It is agreed and understood that the Executive is not entitled to duplicate payments from both the Bank and the Holding Company.

6. Entire Agreement.

(a) This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Bank or any predecessor of the Bank and Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind elsewhere provided. No provision of this Agreement shall be interpreted to mean that Executive is subject to receiving fewer benefits than those available to him without reference to this Agreement.

(b) This Agreement shall be binding upon, and inure to the benefit of, Executive and the Bank and the Holding Company and their respective successors and assigns.

7. Modification and Waiver.

(a) This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(b) No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific

term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived.

8. Termination of Employment.

The Bank may terminate Executive's employment at any time. Executive shall only be entitled to the payments and benefits hereunder in the event a Change in Control occurs prior to a termination of employment.

9. Required Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Bank and, in the event of a conflict between a Required Provision and another provision of this Agreement, the Required Provision shall supersede such other provision and be applied to the extent required by the law, rule or regulation applicable to the Bank.

(a) If Executive is suspended from office and/or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under Section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. ss.1818(e)(3) or (g)(1), the Bank's obligations under this contract shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank shall (i) pay Executive all of the compensation withheld while their contract obligations were suspended and (ii) reinstate any of the obligations which were suspended.

(b) If Executive is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under Section

8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. ss.1818(e)(4) or (g)(1), all obligations of the Bank under this contract shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(c) If the Bank is in default as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, 12 U.S.C. ss.1813(x)(1) all obligations of the Bank under this contract shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the contracting parties.

(d) All obligations of the Bank under this contract shall be terminated, except to the extent determined that continuation of the contract is necessary for the continued operation of the institution, (i) by the Director of the OTS (or his designee), the FDIC or the Resolution Trust Corporation, at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, 12 U.S.C. ss.1823(c); or (ii) by the Director of the OTS (or his designee) at the time the Director (or his designee) approves a supervisory merger to resolve problems related to the operations of the Bank or when the Bank is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by such action.

(e) Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. ss.1828(k) and any rules and regulations promulgated thereunder.

(f) In no event shall the aggregate dollar amount of the compensation and benefits, if applicable, payable to the Executive under Sections 3. and 4. hereof constituting "parachute payments" within the meaning of Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended, exceed three times the Executive's average annual total compensation for the last five consecutive calendar years ending prior to his termination of employment with the Bank (or his entire period of employment with the Bank if less than five calendar years).

10. Severability.

If, for any reason, any provision of this Agreement, or any part of any provision, is held invalid, such invalidity shall not affect any other provision of this Agreement or any part of such provision not held so invalid, and each such other provision and part thereof shall to the full extent consistent with law continue in full force and effect.

11. Headings For Reference Only.

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

12. Governing Law.

The validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of New York, but only to the extent not superseded by federal law.

13. Arbitration.

Any dispute or controversy arising or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Executive within fifty (50) miles from the location of the Bank, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

14. Payment of Costs and Legal Fees.

All reasonable costs and legal fees paid or incurred by Executive pursuant to any dispute or question of interpretation relating to this Agreement shall be paid or reimbursed by the Bank if Executive is successful on the merits pursuant to a legal judgment, arbitration or settlement.

15. Successor to the Bank.

The Bank shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Bank or the Holding Company, expressly and unconditionally to assume and agree to perform the Bank's obligations under this Agreement, in the same manner and to the same extent that the Bank would be required to perform if no such succession or assignment had taken place.

IN WITNESS WHEREOF, Financial Federal Savings Bank and Financial Bancorp,

Inc. have caused this Agreement to be executed by their duly authorized director, and Executive has signed this Agreement, on the _____ day of _________, 1996.

ATTEST: FINANCIAL FEDERAL SAVINGS BANK

______________________ By: ______________________________
Dominick L. Segrete

ATTEST: FINANCIAL BANCORP, INC.

________________________ By: ________________________________
Dominick L. Segrete

WITNESS:

________________________ ____________________________________
Frank Latawiec

Exhibit 11 Computation of Earnings Per Share

Exhibit 11
Computation of Earnings Per Share

	For the Year Ended September 30,	
	1996	1995
	(Dollars in thousands, except per share amounts)	
Net Income	$1,153	$1,206
Weighted average common shares outstanding	1750	1,975
Common stock equivalents due to dilutive effect of stock options	41	65
Total weighted average common shares and common share equivalents outstanding	1,790	2,040
Earnings per common share and common share equivalents	$ 0.64	$ 0.59

Exhibit 13.0 Annual Report to Stockholders for the year ended September 30, 1996

FINANCIAL BANCORP, INC.

[Graphic]

FINANCIAL FEDERAL
SAVINGS BANK

Bank on our strength to build your dreams

1996 ANNUAL REPORT

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA OF THE BANK

The following table sets forth certain summary historical financial information concerning the financial position of Financial Bancorp, Inc. (the "Company"), including its subsidiary, Financial Federal Savings Bank (the "Bank"), for the period and at the dates indicated. The financial data is derived in part from, and should be read in conjunction with, the consolidated financial statements and related notes of the Company contained elsewhere herein. (In Thousands) At September 30,

(In Thousands)	At September 30,				
	1996	1995	1994	1993	1992
Financial Condition Data:					
Total assets	$266,763	$228,823	$171,642	$147,871	$156,749
Total loans receivable, net ..	140,314	110,062	83,505	83,425	94,708
Investment securities(1)	56,406	40,359	17,801	5,435	11,561
Mortgage-backed securities(2)	54,853	62,008	49,839	49,408	40,862
Deposits	202,884	186,492	140,182	136,638	146,823
Borrowed funds	33,652	12,501	--	--	--
Stockholders' equity	25,787	27,179	29,300	9,374	7,696

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(In Thousands)	Year Ended September 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Selected Operating Data:					
Interest income	$ 17,823	$ 14,256	$ 10,490	$ 11,305	$ 12,275
Interest expense	8,691	6,286	4,000	4,383	6,569
Net interest income	9,132	7,970	6,490	6,922	5,706
Provision for loan losses	543	342	183	732	75
Non-interest income:					
Fees, service charges, gain (loss) on sales and other income	490	309	355	1,063	1,087
(Loss) from real estate operations	(313)	(618)	(300)	(380)	--
Total non-interest income (loss):	177	(309)	55	683	1,087
Non-interest expense:					
Salaries and employee benefits	3,048	2,619	2,301	1,967	1,909
Premises and equipment	1,064	1,048	826	920	984
Advertising	70	129	41	19	19
Loss (income) from real estate owned	84	77	(12)	183	(2)
Federal insurance premiums(3)	1,502	390	360	306	314
Miscellaneous	1,170	1,014	668	700	646
Total non-interest expense	6,938	5,277	4,184	4,095	3,870
Income before income taxes	1,828	2,042	2,178	2,778	2,848
Income tax expense(4)	675	836	921	1,099	1,308

Net income	$ 1,153	$ 1,206	$ 1,257	$ 1,679	$ 1,540

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	At Year Ended September 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Selected Financial Ratios and Other Data:					
Retained earnings to assets at period end	9.67%	11.88%	17.07%	6.34%	4.91%
Return on average assets	0.47	0.60	0.79	1.09	1.00
Return on average equity	4.31	4.18	9.76	19.71	22.21
Average equity to average assets	10.97	14.27	8.08	5.54	4.49
Net interest rate spread	3.48	3.70	4.12	4.63	3.78
Net interest margin	3.91	4.18	4.29	4.74	3.88
Operating expenses to average assets(5)(7)	2.20	2.57	2.63	2.55	2.51
Efficiency ratio(7)	56.01	62.81	61.29	53.38	62.68
Non-performing assets to total assets	3.09	2.65	2.95	4.05	3.07
Non-performing loans to total loans	3.15	1.72	1.95	2.58	4.70
Allowance for loan losses to total loans .	1.09	1.10	1.31	1.18	0.36
Allowance for loan losses to non-performing assets(6)	19.08	20.50	22.09	16.78	7.13
Number of full-service facilities	5	5	5	5	6

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(1) Includes Federal Home Loan Bank of New York ("FHLB") stock and investment securities available for sale.

(2) Includes mortgage-backed securities available for sale.

(3) Includes non-recurring SAIF assessment of $1,115,000 for the year ended September 30, 1996.

(4) Includes for the year ended September 30, 1993, an income tax benefit of $196,665, which reflects the cumulative effect of a change in accounting for income taxes resulting from the adoption of Statement of Financial Accounting Standards ("FASB") 109 as of October 1, 1992.

(5) Operating expenses represent total non-interest expenses excluding (income) loss from real estate owned.

(6) Non-performing assets for the years ended September 30, 1996, 1995, 1994 and 1993, include investments in real estate.

(7) Excludes non-recurring SAIF assessment of $1,115,000 and severance payment of $369,000 for the year ending September 30, 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Financial Bancorp, Inc. (the "Company"), is the holding company for Financial Federal Savings Bank (the "Bank"), which converted to a federally chartered stock savings association on August 17, 1994 and to a federally chartered stock savings bank on October 20, 1994. The Company is headquartered in Long Island City, New York and its principal business currently consists of the operations of the Bank. The Bank's results of operations are primarily dependent on net interest income, which is the difference between income earned on its loan, mortgage-backed securities and investment securities portfolio, and its cost of funds, consisting primarily of the interest paid on its deposits and borrowings. The Bank's results of operations are also affected by its provision for loan losses. The Bank's non-interest expenses principally consists of salaries and employee benefits, occupancy and equipment expenses, federal deposit insurance premiums, and other general and administrative expenses. The Bank's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities.

FINANCIAL CONDITION

As of September 30, 1996, total assets were $266.8 million, which represents a

$38.0 million, or a 16.6%, increase from $228.8 million as of September 30, 1995. During the same period, deposits increased by $16.4 million, or 8.8%, to $202.9 million as of September 30, 1996 from $186.5 million at September 30, 1995. Furthermore, advances from the Federal Home Loan Bank of New York ("FHLB") increased by $4.3 million to $9.7 million, at September 30, 1996, as compared to $5.4 million at September 30, 1995. The treasury tax and loan account and other short-term borrowings increased to $9.9 million at September 30, 1996, from zero at September 30, 1995. Securities sold under agreements to repurchase increased by $6.9 million, to $14.0 million at September 30, 1996, from $7.1 million at September 30, 1995. Asset growth was funded by a combination of both the $16.4 million increase in the Bank's deposit base, the $4.3 million increase in FHLB advances, in addition to the $16.8 million increase in other short-term borrowings and securities sold under agreements to repurchase.

At September 30, 1996, cash and cash equivalents totalled $5.1 million, which represents a $2.8 million, or a 35.0%, decrease from $7.9 million, from the same period in 1995. This decrease primarily resulted from the cash utilized to fund the Company's stock repurchase programs.

Investment securities available for sale increased to $3.6 million, at September 30, 1996, as compared to zero at September 30, 1995. Furthermore, mortgage-backed securities available for sale increased to $5.0 million, at September 30, 1996, as compared to zero at September 30, 1995. In accordance with an implementation guide for Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities," released by the Financial Accounting Standards Board ("FASB") on November 15, 1995, which permitted a one-time reassessment and related reclassification, no later than December 31, 1995, the Bank, during this window period, realigned its investment securities portfolio to provide greater flexibility and maximize its total rate of return by transferring $2.0 million of U.S. Treasury Securities from the held to maturity to the available for sale portfolio.

As of September 30, 1996, investment securities, including available for sale, consisted primarily of medium-term U.S. Government Agency obligations, with features such as calls and/or interest rate "step-ups," and Treasury Securities increased $15.8 million, or 40.6%, to $54.7 million from $38.9 million as of September 30, 1995. Mortgage-backed securities decreased by $12.2 million, or 19.6%, to $49.8 million as of September 30, 1996, from $62.0 million as of September 30, 1995, exclusive of $5.0 million in mortgage-backed securities which were classified as available for sale. Loans receivable increased by $30.3 million, or 27.5%, to $140.3 million as of September 30, 1996, from $110.0 million as of September 30, 1995. This $30.3 million, or 27.5% increase in loans receivable primarily resulted from the origination of $34.3 million in mortgage loans, and the purchase of $14.3 million of one- to-four family, adjustable rate residential mortgage loans, partially offset by normal amortization, prepayments and satisfactions.

Non-performing loans totaled $4.6 million, or 3.15% of total loans at September 30, 1996 as compared to $1.9 million, or 1.72% of total loans at September 30, 1995. The increase in non-performing loans represents the balance of Thrift Association Service Corporation ("TASCO") pass-through securities. In May 1996, the FDIC stated that they would not continue the scheduled pass-through of principal and interest payments whether or not collected. At September 30, 1996, the FDIC continued to withhold principal and interest payments on these securities. At September 30, 1996, nonperforming assets totalled $8.2 million, or 3.09% of total assets as compared to $6.1 million, or 2.65% of total assets as of September 30, 1995. The Company's allowance for loan losses totalled $1.6 million at September 30, 1996, which represents a ratio of allowance for loan losses to nonperforming assets and to total loans of 19.08% and 1.09%, respectively, as compared to 20.51% and 1.10%, respectively, at September 30, 1995. Of the $1.6 million in allowance for loan losses, $504,000 is attributable to one loan participation with Tasco.

Total stockholders' equity was $25.8 million at September 30, 1996, reflecting a $1.4 million, or 5.2%, decrease from the prior year. The decrease in stockholders' equity was the result of the Company's repurchase of

192,266 shares as part of the Company's two, five percent repurchase programs, each for five percent of the then outstanding common stock, at a total cost of $2.5 million. As of September 30, 1996, the Company has repurchased 18.5% of the total shares issued in the initial public offering. At September 30, 1996, the Company had 1,790,622 common shares outstanding and the stated book value per common share was $14.40, an increase of $0.62 per common share, or 4.5%, from $13.78 per common share at September 30, 1995.

INTEREST RATE SENSITIVITY ANALYSIS

The Bank is subject to interest rate risk to the extent that its interest-bearing liabilities reprice or mature more or less frequently than its interest-earning assets. The Bank's interest rate risk management policy has been structured to monitor and maintain the Bank's interest rate sensitivity to within Board prescribed limits while attempting to maximize net interest income. In connection with its interest rate risk management strategy, management has emphasized the purchase of adjustable rate-mortgage loans, and has limited its other investments to medium-term, U.S. Government Agency securities with an average maturity of five years or less. This strategy is necessary to offset the significant amount of fixed-rate loan origination activity. On the liability side, management has closely monitored the pricing of its deposit products, and has made a conscious effort to extend deposit maturities, and secure fixed-rate borrowings when market conditions are favorable. In addition, the Bank has had tremendous success in growing its noninterest-bearing demand accounts and utilizing low cost sources of overnight and short-term borrowings to fund short-to medium-term investments.

The table below summarizes the estimated contractual maturities of the Bank's interest-earning assets and interest-bearing liabilities at September 30, 1996. Maturities are adjusted using assumptions for prepayments and decay rates as researched and developed by the Bank. The assumptions for prepayments on fixed-rate mortgage loans and mortgage-backed securities range from 15% to 20% dependent upon the type of property (single-family or multi-family) and type of lien (first or second). The assumptions for deposits are: (i) certificate accounts are not withdrawn prior to maturity; and (ii) the decay rates for NOW accounts, money market and regular savings accounts range from 17% to 79% per year. The table does not necessarily indicate the impact of general interest rate movements on the Company's net interest income because the actual repricing dates of various assets and liabilities are subject to customer discretion and competitive and other pressures and, therefore, actual prepayment and withdrawal experience may vary from that indicated.

The effect of these assumptions is to quantify the dollar amounts of items that are interest-sensitive and can be repriced within each of the periods specified. The difference, or "gap," provides an indication of the extent to which the Bank's net interest income may be affected by future changes in interest rates. The Bank's cumulative one-year gap, as a percent of total interest-earning assets, increased to a positive 11.12% at September 30, 1996 from a positive 8.97% at September 30, 1995. A positive gap denotes asset sensitivity, which in a given period will result in more assets subject to repricing than liabilities. Generally, asset sensitive gaps will result in a net positive effect on net interest income and consequently, net income in an increasing interest rate environment. Alternatively, asset sensitive gaps will generally result in a net negative effect on net interest income and consequently, net income in a decreasing interest rate environment.

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(Dollars in Thousands) At September 30, 1996

	Three Months or Less	More than Three Months to Twelve Months	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Ten Years	More than Ten Years	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:							
Mortgage and other loans	$ 9,651	$ 40,874	$ 31,012	$ 27,688	$ 24,708	$ 10,759	$144,692
Investment securities	34,988	13,568	2,566	2,908	--	--	54,030
Mortgage-backed securities	17,348	14,765	5,347	5,665	7,750	3,978	54,853
Repurchase agreements	2,185	--	--	--	--	--	2,185
FHLB stock and equity securities	--	--	--	--	--	2,376	2,376
Total interest-earning assets	$ 64,172	$ 69,207	$ 38,925	$ 36,261	$ 32,458	$ 17,113	$258,136
Interest-bearing liabilities:							
Savings and club accounts	$ 4,208	$ 9,306	$ 18,843	$ 12,982	$ 17,422	$ 11,323	$ 74,084
NOW accounts	738	2,214	3,030	1,203	713	79	7,977
Money market accounts	2,102	6,306	2,137	94	6	--	10,645
Certificates of deposit	15,514	37,663	29,097	19,873	875	--	103,022
Borrowed funds	24,452	1,200	8,000	--	--	--	33,652
Total interest-bearing liabilities	$ 47,014	$ 56,689	$ 61,107	$ 34,152	$ 19,016	$ 11,402	$229,380
Interest-sensitivity gap	$ 17,158	$ 12,518	$(22,182)	$ 2,109	$ 13,442	$ 5,711	$ 28,756
Cumulative interest-sensitivity gap	$ 17,158	$ 28,676	$ 7,494	$ 9,603	$ 23,045	$ 28,756	
Cumulative interest-sensitivity gap as a percentage of total assets	6.43%	11.12%	2.81%	3.60%	8.64%	10.78%	
Cumulative net interest-earning assets as a percentage of interest-bearing liabilities	136.50%	128.62%	104.55%	104.83%	110.57%	112.54%	

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

The following table sets forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and the average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average month-end balances, except for federal funds, and borrowed funds which are derived from average daily balances. Management does not believe that the use of average monthly balances instead of average daily balances on all other accounts has caused any material differences in the information presented. The yields and costs include fees which are considered adjustments to yields. (Dollars in Thousands) Year Ended September 30,

<TABLE>
<CAPTION>

(Dollars in Thousands)	Year Ended September 30,								
	1996			1995			1994		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:									
Federal funds sold and securities purchased under agreements to resell...	$ 659	$ 38	5.72%	$ 2,296	$ 136	5.91%	$ 5,476	$ 194	3.55%
Investment securities(1).......	48,728	3,444	7.07	33,059	2,381	7.20	15,659	935	5.97
Loans receivable(2)...........	127,050	10,316	8.12	93,592	7,551	8.07	82,568	6,752	8.18
Mortgage-backed securities(3)..	57,274	4,025	7.03	61,872	4,188	6.77	47,655	2,609	5.48
Total interest-earning assets....	233,711	17,823	7.63	190,819	14,256	7.47	151,358	10,490	6.93
Non-interest-earning assets......	10,202			11,386			8,015		
Total assets.................	$243,913			$202,205			$159,373		
Interest-bearing liabilities:									
NOW and money market deposits..	$ 18,818	436	2.31	$ 16,492	$ 373	2.26	$ 18,623	424	2.28
Savings deposits..............	75,243	1,674	2.22	79,679	1,930	2.42	85,803	1,994	2.32
Certificates of deposit........	95,003	5,483	5.76	67,563	3,816	5.65	38,008	1,582	4.16
Total interest-bearing deposits	189,064	7,593	4.01	163,734	6,119	3.741	42,434	4,000	2.81
Borrowed funds................	19,770	1,098	5.46	2,804	167	5.98	--	--	--
Total interest-bearing liabilities	208,834	8,691	4.15	166,538	6,286	3.771	42,434	4,000	2.81
Non-interest bearing liabilities.	8,313			6,809			4,061		
Total liabilities................	217,147			173,347			146,495		
Stockholders' equity............	26,766			28,858			12,878		
Total liabilities and stockholders' equity.......	$243,913			$202,205			$159,373		
Net interest income.............		$ 9,132			$ 7,970			$ 6,490	
Net interest rate spread(4)......			3.48%			3.70%			4.12%
Net interest-earning assets/net interest margin(5)..	$ 24,877		3.91%	$ 24,281		4.18%	$ 8,924		4.29%
Ratio of average interest-earning assets to average interest-bearing liabilities...	1.12x			1.15x			1.06x		

</TABLE>

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(1) Includes FHLB stock and investment securities available for sale.

(2) Includes non-accrual loans.

(3) Includes mortgage-backed securities available for sale.

(4) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net interest margin represents net interest income as a percentage of average interest-earning assets.

RATE/VOLUME ANALYSIS

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); (iii) the changes attributable to the combined impact of changes in volume and rate; and (iv) the net change.

<TABLE>
<CAPTION>

(In Thousands)	Year Ended September 30, 1996 vs. 1995 Increase (Decrease) Due to				Year Ended September 30, 1995 vs. 1994 Increase (Decrease) Due to			
	Volume	Rate	Rate/Volume	Total	Volume	Rate	Rate/Volume	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income:								
Federal funds sold and securities purchased under agreements to resell	$ (97)	$ (2)	$ 1	$ (98)	$ (113)	$ 130	$ (75)	$ (58)
Investment securities	1,128	(44)	(21)	1,063	1,039	193	214	1,446
Loans receivable	2,700	47	18	2,765	902	(91)	(12)	799
Mortgage-backed securities	(311)	161	(13)	(163)	779	617	183	1,579
Total	3,420	162	(15)	3,567	2,607	849	310	3,766
Interest expense:								
NOW and money market deposits	53	11	2	66	(49)	(3)	1	(51)
Savings deposits	(107)	(159)	9	(257)	(142)	84	(6)	(64)
Certificates of deposit	1,551	81	33	1,665	1,230	565	439	2,234
Total deposits	1,497	(67)	44	1,476	1,039	646	434	2,119
Borrowed funds	1,015	(12)	(22)	831	--	--	167	167
Total	2,512	(79)	(28)	2,405	1,039	646	601	2,286
Net change in net interest income	$ 908	$ 241	$ 13	$ 1,162	$ 1,568	$ 203	$ (291)	$ 1,480

</TABLE>

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND SEPTEMBER 30, 1995.

General. Net income for the year ended September 30, 1996 modestly decreased by $53,000 to $1.15 million, or $0.64 per share, from $1.20 million, or $0.59 per share, for the year ended September 30, 1995. This decrease was primarily due to a $598,000, after-tax, one-time special assessment for the recapitalization of the Savings Association Insurance Fund ("SAIF"), a $369,000 severance payment made to the former president and chief executive officer of the Company and a $201,000 increase in provisions for loan losses, which was partially offset by a $1.2 million increase in net interest income before provision for loan losses. For the year ended September 30, 1996, net income, excluding the $598,000 one-time after-tax special assessment for the recapitalization of the SAIF, was $1.8 million, or $0.98 per share.

Interest Income. Interest income increased by $3.6 million, or 25.0%, to $17.8 million for the year ended September 30, 1996, from $14.2 million for the year ended September 30, 1995. The increase primarily resulted from an increase in interest-earning assets from the continued leveraging and growing of the balance sheet to fund new loan originations, loan purchases and the purchase of investment securities. The average yield on interest-earning assets increased 16 basis points to 7.63%, for the year ended September 30, 1996, from 7.47% from the year ended September 30, 1995. The increase in the average yield primarily resulted from a higher interest rate environment during fiscal 1996 in addition to the Company's investment into higher yielding assets. For the year ended September 30, 1996, average interest-earning assets were $233.7 million, as compared to $190.8 million for the fiscal year ended September 30, 1995, which represents a $42.9 million, or a 22.5% increase. The increase in the average balance of interest-earning assets resulted from an increase in loans receivable and investment securities. Interest income from loans increased by $2.8 million, or 36.6%, to $10.3 million in fiscal 1996 from $7.5 million in fiscal 1995. This increase was due to a $33.5 million, or 35.7%, increase in the average balance of loans and a 5 basis point increase in the average yield on loans to 8.12% for fiscal 1996 from 8.07% for the same period in 1995. The higher average balance of loans receivable was consistent with management's strategy of deploying the Company's funds into loans receivable. In fiscal 1996, interest income from mortgage-backed securities decreased $163,000, or 3.9%, to $4.0 million from $4.2 million for fiscal 1995. This decrease is primarily due to a $4.6 million, or 7.4% decline in the average balance of mortgage-backed securities to $57.3 million in fiscal 1996 from $61.9 million in fiscal 1995, partially offset by a 26 basis point increase in the average yield on such securities to 7.03% for fiscal 1996 from 6.77% for the corresponding period in 1995. Interest income on investment securities increased $1.0 million, or 44.6%, to $3.4 million during fiscal 1996 from $2.4 million during fiscal 1995, primarily due to an increase of $15.7 million, or 47.4%, in the average balance of investment securities, partially offset by a 13 basis point decrease in the average yield on such securities of 7.07% during fiscal 1996 from 7.20% for fiscal year 1995. Interest income from federal funds sold and securities purchased under agreements to resell for fiscal 1996 decreased by $98,000, or 72.1%, to $38,000 in fiscal 1996 from $136,000 for fiscal 1995. This decrease resulted from a

$1.6 million, or 71.3%, decrease in the average asset balance, and a 19 basis point decrease in the average rate earned on such assets from 5.91% to 5.72%.

Interest Expense. Interest expense on total deposits for the year ended September 30, 1996, increased $1.5 million, or 24.1%, to $7.6 million, from $6.1 million for the year ended September 30, 1995. The increase resulted from a 27 basis point increase in the average cost of interest-bearing deposits to 4.01% for fiscal 1996 from 3.74% for fiscal 1995, and a $25.3 million, or 15.5%, increase in the average balance of interest-bearing deposits to $189.0 million in fiscal 1996 from $163.7 million in fiscal 1995. Interest expense on borrowings increased $931,000 to $1.1 million, due to a $17.0 million increase in the average balance of borrowed funds to $19.8 million in fiscal 1996 from $2.8 million in fiscal 1995. The increase in the average cost of interest-bearing liabilities resulted from the continued leveraging and growing of the balance sheet, in addition to competitive pricing of longer-term certificate of deposit accounts. Interest expense on savings accounts decreased $257,000, or 13.3%, to $1.7 million for fiscal 1996 from $1.9 million for fiscal 1995, resulting from a $4.4 million reduction in average balances, in addition to a 20 basis point decrease in the average cost of such deposits. The average balance of savings and club accounts decreased to 39.8% of total average deposits for fiscal 1996, as compared to 48.7% for fiscal 1995. For the year ended September 30, 1996, interest expense on certificates of deposit increased $1.7 million, or 43.7%, to $5.5 million, which resulted from a 40.6% increase in the average balance of these accounts to $95.0 million for fiscal 1996 from $67.6 million in fiscal 1995, and an 11 basis points increase in the average cost of such accounts to 5.76% in fiscal 1996 from 5.65% in fiscal 1995.

Net Interest Income. Net interest income for the year ended September 30, 1996, increased $1.1 million, or 14.6%, to $9.1 million from $8.0 million for fiscal 1995. The Bank's net interest rate spread decreased to 3.48% in fiscal 1996 from 3.70% in fiscal 1995, and its net interest margin decreased to 3.91% in fiscal 1996 from 4.18% in fiscal 1995. During the fiscal year ended September 30, 1996, the narrowing of the net interest rate spread and net interest margin was primarily caused by the Bank's competitive deposit pricing in an effort to attract new certificate of deposits during the first quarter of fiscal 1996 and the simultaneous leveraging of the balance sheet in an effort to increase net interest income. The average yield on interest-earning assets was 7.63% for the year ended September 30, 1996, as compared to 7.47% for the year ended September 30, 1995. The average cost of interest-bearing liabilities was 4.15% for the year ended September 30, 1996, as compared to 3.77% for the corresponding period last year.

Provision for Loan Losses. The provision for loan losses increased by $201,000 to $543,000 for the year ended September 30, 1996 from $342,000 for the year ended September 30, 1995, which resulted in an increase of the Bank's total allowance for loan losses to $1.6 million at September 30, 1996. The increase in the provision for losses is partially attributable to an increase in loss provisions established for participation loans. In addition, the increase in the provisions for losses is reflective of the significant increase in the loan portfolio as a result of an increase in loan originations and the purchase of one-to-four family mortgage loans. In determining its provision for loan losses, management establishes loss allowances on identified problem loans and establishes general allowances on the remainder of the loan portfolio.

Non-Interest Income. Non-interest income for the year ended September 30, 1996, increased $486,000, or 157.1%, to $177,000 from a loss of $309,000 for the year ended September 30, 1995. This significant increase is primarily attributable to the decrease in provisions for losses on investments in real estate, which represents a joint venture project in which a subsidiary of the bank has a one-third interest. In addition, the increase in non-interest income is attributable to a $109,000 increase in fees and service charges and a $37,000 net gain on sale of investment securities after the write-down for the decline in market value of TASCO common stock.

Non-Interest Expenses. Non-interest expense increased $1.66 million, or 31.5%, to $6.9 million for the year ended September 30, 1996 from $5.3 million for the year ended September 30, 1995. Salaries and employee benefits increased $430,000, or 16.4%, to $3.0 million for fiscal 1996 from $2.6 million for fiscal 1995. The increase in salaries and employee benefits is primarily attributable to a one-time charge of $369,000 pursuant to the employment contract with the former president and chief executive officer of the Company and Bank. For the year ended September 30, 1996, office occupancy decreased by $50,000 to $493,000 from $543,000 for the year ended September 30, 1995. The decrease in occupancy expense during fiscal 1996 is partly attributable to the collection of rental income on the Bank owned properties. For the year ended September 30, 1996, equipment expense increased by $65,000 to $571,000 from $506,000 for the fiscal year ended September 30, 1995. The increase in equipment expense represents costs associated with the Company's data processing service, deposit and check processing service fees, automated teller machines ("ATMs") and other vendor related services and contracts. In addition, advertising expense decreased by $60,000 to $69,000 for fiscal 1996 from $129,000 for fiscal 1995. The Company has limited its advertising expense in an effort to bolster earnings. Losses on real estate owned increased $7,000 to $84,000 for fiscal 1996,

as compared to $77,000 in losses realized in fiscal 1995. It is management's objective to dispose of real estate owned as rapidly as possible. For the fiscal year ended September 30, 1996, the federal insurance premium increased by $1.1 million to $1.5 million from $400,000 for fiscal year ended September 30, 1995. The increase is solely attributable to a $1.1 million one-time special assessment to recapitalize the SAIF. Exclusive of the SAIF assessment and the loss from real estate owned, the ratio of operating expenses to average assets decreased by 22 basis points to 2.35% for fiscal 1996 from 2.57% for fiscal 1995.

Income Tax Expense. Income tax expense decreased by $161,000, or 19.2%, to $675,000 in fiscal 1996 from $836,000 in fiscal 1995, due primarily to a decrease in income before income taxes. Income tax expense is indicative of the normal level of income tax expense attributable to pre-tax income for the period.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND SEPTEMBER 30, 1994.

General. Net income for the year ended September 30, 1995 decreased by $51,000 to $1.2 million, or $0.59 per share, from $1.3 million, or $0.62 per share, for the year ended September 30, 1994. This decrease was primarily due to a $318,000 increase in losses from real estate operations, an additional $159,000 in provisions for loan losses, and a $1.1 million increase in non-interest expenses, which was partially offset by a $1.5 million increase in net interest income before provisions for loan losses.

Interest Income. Interest income increased by $3.8 million, or 35.9%, to $14.3 million for the year ended September 30, 1995 from $10.5 million for the year ended September 30, 1994. The increase primarily resulted from an increase in interest-earning assets from the investment of net proceeds from the initial public offering, cash obtained from the Company's purchase of a branch with $14.8 million in deposits, and income earned on the investment of cash realized from borrowings obtained during the fiscal year. The average yield on interest earning assets increased 54 basis points to 7.47%, for the year ended September 30, 1995, from 6.93% from the year ended September 30, 1994. The increase in the average yield primarily resulted from a higher interest rate environment during fiscal 1995. For the year ended September 30, 1995, average interest-earning assets were $190.8 million, as compared to $151.4 million for the fiscal year ended September 30, 1994, which represents a $39.4 million, or a 26.1% increase. The increase in the average balance of interest-earning assets resulted from an increase in loans receivable, investment securities, and mortgage-backed securities. Interest income from loans increased by $799,000, or 11.8%, to $7.6 million in fiscal 1995 from $6.8 million in fiscal 1994. This increase was due to an $11.0 million, or 13.4%, increase in the average balance of loans, offset by an 11 basis point decrease in the average yield on loans to 8.07% for the fiscal 1995 period from 8.18% for the corresponding period in 1994. In fiscal 1995, interest income from mortgage-backed securities increased $1.6 million, or 60.5%, to $4.2 million from $2.6 million for fiscal 1994. This increase is primarily due to an increase in the average yield on such securities of 129 basis points to 6.77%, and by a $14.2 million, or 29.8% increase in the average balance of mortgage-backed securities. Interest income on investment securities increased $1.4 million, or 154.9%, to $2.4 million during fiscal 1995 from $935,000 during fiscal 1994, primarily due to an increase of $17.4 million, or 111.1%, in the average balance of investment securities. The average yield on investment securities increased 123 basis points to 7.20% during fiscal 1995 from 5.97% during fiscal 1994. Interest income from federal funds sold and securities purchased under agreements to resell for fiscal 1995 decreased by $58,000, or 29.9%, to $136,000 in fiscal 1995 from $194,000 for fiscal 1994. This decrease resulted from a $3.2 million, or 58.1%, decrease in the average asset balance, offset by a 236 basis points increase in the average rate earned on such assets from 3.55% to 5.91%.

Interest Expense. Interest expense on total deposits for the year ended September 30, 1995, increased $2.1 million, or 53.0%, to $6.1 million for the year ended September 30, 1995, from $4.0 million for the year ended September 30, 1994. The increase resulted from a 93 basis point increase in the average cost of interest-bearing deposits to 3.74% for fiscal 1995 from 2.81% for fiscal 1994, and a $21.3 million, or 15.0%, increase in the average balance of interest-bearing deposits. Interest expense on borrowings increased $168,000 due to a $2.8 million increase in the average balance of borrowed funds. The increase in the average cost of interest-bearing liabilities resulted from the higher interest rate environment and the Bank's competitive deposit pricing during the fiscal year. Interest expense on savings accounts decreased $64,000, or 3.2%, to $1.9 million for fiscal 1995 from $2.0 million for fiscal 1994, resulting from a $6.1 million reduction in average balances, partially offset by a 10 basis point increase in the average cost of such deposits. The average balance of savings and club accounts decreased to 48.7% of total average deposits for fiscal 1995, as compared to 60.2% for fiscal 1994. For the year ended September 30, 1995, interest expense on certificates of deposit increased $2.2 million, or 141.2%, to $3.8 million, which resulted from a 77.8% increase in the average balance of these accounts to $67.6 million for fiscal 1995 from $38.0 million in fiscal 1994, and a 149 basis points increase in the average cost of such accounts to 5.65% in fiscal 1995 from 4.16% in fiscal 1994.

Net Interest Income. Net interest income for the year ended September 30, 1995, increased $1.5 million, or 22.8%, to $8.0 million for fiscal 1995 from $6.5 million for fiscal 1994. The Bank's net interest rate spread decreased to 3.70% in fiscal 1995 from 4.12% in fiscal 1994, and its net interest margin decreased to 4.18% in fiscal 1995 from 4.29% in fiscal 1994. The narrowing of the net interest margin and spread reflects the impact of several Federal Reserve rate increases during 1994 and the first three months of 1995, an overall flattening of the yield curve, and the Bank's competitive deposit pricing in an effort to attract new certificate of deposit accounts. The average yield on interest-earning assets was 7.47% for the year ended

September 30, 1995, as compared to 6.93% for the year ended September 30, 1994. The average cost of interest-bearing liabilities was 3.77% for the year ended September 30, 1995, as compared to 2.81% for the corresponding period last year.

Provision for Loan Losses. The provision for loan losses increased by $159,000 to $342,000 for the year ended September 30, 1995 from $183,000 for the year ended September 30, 1994, which resulted in an increase of the Bank's total allowance for loan losses to $1.2 million at September 30, 1995. This increase resulted from the decline in value of the Hyde Park Tasco loan participation, along with additional valuation allowances required for the overall increase in mortgage lending activity during fiscal 1995. In determining its provision for loan losses, management establishes loss allowances on identified problem loans and establishes general allowances on the remainder of the loan portfolio.

Non-Interest Income. Non-interest income for the year ended September 30, 1995, decreased $364,000, or 661.8%, to a $309,000 loss from $55,000 in income for the year ended September 30, 1994. This decrease is primarily attributable to an additional $318,000 provision for losses on investment in real estate, which reflects a current appraisal of the value of real estate owned by the joint venture in which a subsidiary of the Bank has a one-third interest. The remainder of the decrease represents a decline in other fees and service charges.

Non-Interest Expenses. Non-interest expenses increased $1.1 million, or 26.1%, to $5.3 million for the year ended September 30, 1995 from $4.2 million for the year ended September 30, 1994. Salaries and employee benefits increased $318,000, or 13.8%, to $2.6 million for fiscal 1995 from $2.3 million for fiscal 1994. The increase in salaries and employee benefits resulted from the establishment and implementation of the Bank's Recognition and Retention Plan (RRP) and the Company's Employee Stock Ownership Plan (ESOP), increased overtime and additional staffing during the first half of 1995. The additional staffing resulted from the temporary operation of two branches in Brooklyn at the time of the purchase of deposits from the East New York Savings Bank. For the year ended

September 30, 1995, office occupancy and equipment expense increased by $122,000 and $100,000, respectively, to $542,000 and $506,000, respectively, from $420,000 and $406,000, respectively, for the year ended September 30, 1994. The increase in occupancy expense represents costs associated with the temporary operation of two branches in Brooklyn at the time of the deposit purchase from the East New York Savings Bank. The increase in equipment expense represents costs associated with the Company's data processing service, automated teller machines ("ATMs") and other vendor related services and contracts. In addition, advertising and miscellaneous expense increased by $88,000 and $346,000, respectively, to $129,000 and $1.0 million, respectively, for fiscal 1995 from $41,000 and $668,000, respectively, for fiscal 1994. The substantial increase in advertising expense represents the Company's gift and advertising campaign associated with the deposit purchase in Brooklyn and a Company-wide campaign emphasizing specific time deposits. The increase in miscellaneous expense is attributable to additional stationery and printing costs associated with the Bank's change of name and logo during the fiscal year, servicing costs related to newly installed ATMs and other costs associated with a publicly traded company, including but not limited to, legal costs. Losses on real estate owned increased $89,000 to $77,000 for fiscal 1995, as compared to $13,000 in net income in fiscal 1994. It is management's objective to dispose of real estate owned as rapidly as possible.

Income Tax Expense. Income tax expense decreased by $85,000, or 9.2%, to $836,000 in fiscal 1995 from $921,000 in fiscal 1994, due primarily to a decrease in income before income taxes. Income tax expense is indicative of the normal level of income tax expense attributable to pre-tax income for the period.

LIQUIDITY AND CAPITAL RESOURCES

The Bank is required to maintain an average daily balance of liquid assets (as defined in the regulations) equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus short-term borrowings. This liquidity requirement is currently 5%. OTS regulations also require each member savings institution to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable deposit accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet these liquidity requirements. The liquidity of the Bank at September 30, 1996 was 13.9%, which exceeded the then applicable 5.0% liquidity requirement. Its short-term liquidity ratio at September 30, 1996 was 3.2%.

The primary investment activities of the Bank are the origination of mortgage loans, the purchase of mortgage loans, and the purchase of mortgage-backed securities

and investment securities. During the years ended September 30, 1996, 1995 and 1994, the Bank originated mortgage loans in the amounts of $34.0 million, $30.4 million and $12.3 million, respectively, and purchased mortgage loans in the amounts of $14.8 million, $9.0 million and zero, respectively. Purchases of mortgage-backed securities totalled $5.1 million, $19.3 million, and $8.1 million for the same periods. Other investments primarily include U.S. government and federal agency obligations.

At September 30, 1996, the Bank had outstanding loan commitments of $7.4 million. The Bank anticipates that it will have sufficient funds available to meet its current loan commitments. Certificates of deposit which are scheduled to mature in one year or less from September 30, 1996, totalled $53.2 million.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and Notes presented herein have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Bank's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a greater impact on the Bank's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

IMPACT OF NEW LEGISLATION

Recapitalization of SAIF. On September 30, 1996, the President signed into law the Deposit Insurance Funds Act of 1996 (the "Funds Act") which, among other things, imposes a special one-time assessment on SAIF member institutions, including the Bank, to recapitalize the SAIF. As required by the Funds Act, the FDIC imposed a special assessment of 65.7 basis points on SAIF assessable deposits held as of March 31, 1995. The Special Assessment of $1,115,000 was paid in November 1996 and expensed in the fourth quarter of 1996.

The Funds Act also spreads the obligations for payment of the Financing Corporation ("FICO") bonds across all SAIF and BIF members. Beginning on January 1, 1997, BIF deposits will be assessed for FICO payments at a rate of 20% of the rate assessed on SAIF deposits. Based on current estimates by the FDIC, BIF deposits will be assessed a FICO payment of 1.3 basis points, while SAIF deposits will pay an estimated 6.5 basis points on the FICO bonds. Full pro rata sharing of the FICO payments between BIF and SAIF members will occur on the earlier of January 1, 2000 or the date the BIF and SAIF are merged. The Funds Act specifies that the BIF and SAIF will be merged on January 1, 1999 provided no savings associations remain as of that time.

As a result of the Funds Act, the FDIC recently proposed to lower SAIF assessments to 0 to 27 basis points effective January 1, 1997, a range comparable to that of BIF members. However, SAIF members will continue to make the higher FICO payments described above. Management cannot predict the level of FDIC insurance assessments on an on-going basis whether the savings association charter will be eliminated or whether the BIF and SAIF will eventually be merged.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
Financial Bancorp, Inc. and Subsidiaries

<TABLE>
<CAPTION>

		September 30,	
	Note(s)	1996	1995
<S>	<C>	<C>	<C>
Assets			
Cash and cash amounts due from depository institutions............		$ 2,917,223	$ 2,395,316
Securities purchased under agreements to resell...................	3	2,185,000	5,458,000
Total cash and cash equivalents...............................	1 and 21	5,102,223	7,853,316
Investment securities available for sale..........................		3,608,125	--
Investment securities held to maturity, net; estimated fair value of $49,903,000 and $38,857,000 at September 30, 1996 and 1995, respectively..	1, 4 and 21	51,122,128	38,935,960
Mortgage-backed securities available for sale......................	1, 5 and 21	5,016,112	--
Mortgage-backed securities held to maturity, net; estimated fair value of $49,901,000 and $62,544,000 at September 30, 1996 and 1995, respectively....................	1, 5 and 21	49,836,734	62,008,234
Loans receivable, net..	1, 6 and 21	140,314,158	110,061,579
Real estate owned, net...	1 and 7	377,910	591,027
Investments in real estate.......................................	1, 8 and 20	3,493,153	3,531,166
Premises and equipment, net......................................	1, 9 and 20	2,522,264	1,862,127
Federal Home Loan Bank of New York stock, at cost.................		1,675,800	1,423,000
Accrued interest receivable, net.................................	1, 10 and 21	1,788,970	1,575,020
Other assets...	15 and 19	1,904,945	981,927
Total assets...		$266,762,522	$228,823,356
Liabilities and stockholders' equity			
Deposits...	11, 19 and 21	$202,883,766	$186,491,588
Advance payments by borrowers for taxes and insurance.............		1,063,036	954,080
Advances from Federal Home Loan Bank of New York..................	12 and 21	9,725,000	5,375,000
Securities sold under agreements to repurchase....................	13 and 21	14,046,000	7,126,250
Treasury tax and loan account and other short-term borrowings......	14 and 21	9,880,970	
Other liabilities..	15 and 17	3,376,552	1,697,410
Total liabilities..		240,975,324	201,644,328
Commitments and contingencies....................................	20 and 21		
Stockholders' equity:..	1, 2, 15, 16 17 and 18		
Preferred stock $0.01 par value, 2,500,000 shares authorized; none issued and outstanding..................................		--	--
Common stock $0.01 par value, 6,000,000 shares authorized; 1,790,622 and 1,971,963 shares issued and outstanding at September 30, 1996 and 1995, respectively..................		21,850	21,850
Additional paid-in capital.....................................		20,151,858	20,130,021
Retained earnings--substantially restricted	.	12,218,607	11,544,464
Common stock acquired by Employee Stock Ownership Plan ("ESOP").......................................		(1,173,422)	(1,335,278)
Common stock acquired by Recognition and			

Retention Plan ("RRP")	(454,221)	(590,487)
Treasury stock, at cost; 394,378 and 213,037 shares at September 30, 1996 and 1995	(4,976,986)	(2,591,542)
Unrealized loss on securities available for sale, net of income taxes	(488)	0
Total stockholders' equity	25,787,198	27,179,028
Total liabilities and stockholders' equity	$266,762,522	$228,823,356

</TABLE>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Financial Bancorp, Inc. and Subsidiaries

<TABLE>
<CAPTION>

	Note(s)	Year Ended September 30, 1996	1995	1994
<S>	<C>	<C>	<C>	<C>
Interest income:				
Loans	1 and 6	$10,316,082	$ 7,551,131	$ 6,751,742
Mortgage-backed securities	1	4,025,030	4,187,550	2,609,188
Investments and other interest-earning assets	1	3,443,504	2,381,326	934,295
Federal funds sold and securities purchased under agreements to resell	1	38,354	135,739	194,185
Total interest income		17,822,970	14,255,746	10,489,410
Interest expense:				
Deposits	11	7,592,723	6,118,726	3,999,910
Borrowings		1,098,104	167,609	--
Total interest expense		8,690,827	6,286,335	3,999,910
Net interest income		9,132,143	7,969,411	6,489,500
Provision for loan losses	1 and 6	542,920	341,530	182,763
Net income after provision for loan losses		8,589,223	7,627,881	6,306,737
Non-interest income (loss):				
Fees and service charges		402,813	293,722	306,158
Gain (loss) on sale and write-down of investments	1 and 4	36,089	(8,964)	(2,656)
(Loss) from real estate operations	1 and 8	(313,011)	(618,074)	(299,658)
Miscellaneous		50,635	24,255	51,041
Total non-interest income (loss)		176,526	(309,061)	54,885
Non-interest expenses:				
Salaries and employee benefits	17 and 18	3,048,238	2,618,287	2,300,895
Net occupancy expense of premises	1 and 20	492,507	542,375	420,332
Equipment	1	571,180	505,834	406,238
Advertising		69,510	129,237	40,967
Loss (income) from real estate owned	1 and 7	84,123	76,890	(12,556)
Federal insurance premium		1,502,263	390,011	359,715
Miscellaneous		1,169,816	1,014,132	668,124
Total non-interest expenses		6,937,637	5,276,766	4,183,715
Income before income taxes		1,828,112	2,042,054	2,177,907
Income taxes	1 and 15	675,227	836,092	920,984
Net income		$ 1,152,885	$ 1,205,962	$ 1,256,923
Net income per common share and common stock equivalents	1	$ 0.64	$ 0.59	$ 0.62
Weighted average number of common shares and common stock equivalents outstanding	1	1,790,900	2,039,500	2,033,000

</TABLE>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
Financial Bancorp, Inc. and Subsidiaries

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Retained Earnings-- Substantially Restricted <C>	Common Stock Acquired By ESOP <C>	Common Stock Acquired By RRP <C>	Treasury Stock <C>	Unrealized loss on securities available for sale, net <C>	Total <C>
Balance-- October 1, 1993......	$ --	$ --	$ 9,374,129	$ --	$ --	$ --	$ --	$ 9,374,129
Net income for the year ended September 30, 1994...	--	--	1,256,923	--	--	--	--	1,256,923
Net proceeds from issuance of common stock................	21,850	20,158,395	--	--	--	--	--	20,180,245
Acquisition of common stock by the ESOP....	--	--	--	(1,529,500)	--	--	--	(1,529,500)
ESOP shares committed to be released.......	--	--	--	18,208	--	--	--	18,208
Balance-- September 30, 1994...	21,850	20,158,395	10,631,052	(1,511,292)	--	--	--	29,300,005
Additional conversion expenses.............	--	(43,099)	--	--	--	--	--	(43,099)
Net income for the year ended September 30, 1995...	--	--	1,205,962	--	--	--	--	1,205,962
ESOP shares committed to be released.......	--	14,725	--	176,014	--	--	--	190,739
Acquisition of common stock by the RRP.....	--	--	--	--	(681,331)	--	--	(681,331)
Amortization of cost of common stock acquired by the RRP..	--	--	--	--	90,844	--	--	90,844
Purchase of 213,037 shares of treasury stock.......	--	--	--	--	--	(2,591,542)	--	(2,591,542)
Dividends paid.........	--	--	(292,550)	--	--	--	--	(292,550)
Balance-- September 30, 1995...	21,850	20,130,021	11,544,464	(1,335,278)	(590,487)	(2,591,542)	--	27,179,028
Net income for the year ended September 30, 1996...	--	--	1,152,885	--	--	--	--	1,152,885
ESOP shares committed to be released.......	--	55,705	--	161,856	--	--	--	217,561
Amortization of cost of common stock acquired by the RRP..	--	--	--	--	136,266	--	--	136,266
Purchase of 192,266 shares of treasury stock.......	--	--	--	--	--	(2,522,444)	--	(2,522,444)
Reissue of 10,925 shares of treasury stock for stock options....	--	(33,868)	--	--	--	137,000	--	103,132
Dividends paid.........	--	--	(478,742)	--	--	--	--	(478,742)
Unrealized loss on securities available for sale, net........	--	--	--	--	--	--	(488)	(488)
Balance-- September 30, 1996...	$21,850	$20,151,858	$12,218,607	$(1,173,422)	$(454,221)	$(4,976,986)	$ (488)	$25,787,198

</TABLE>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Financial Bancorp, Inc. and Subsidiaries

<TABLE>
<CAPTION>

	Year Ended September 30, 1996	1995	1994
Cash flows from operating activities:			
Net income	$ 1,152,885	$ 1,205,962	$ 1,256,923
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	298,613	302,168	274,285
Amortization of premiums and accretion of discounts on investment securities, net	(91,107)	2,122	(42,781)
Amortization of premiums and of accretion of discounts on mortgage-backed securities, net	19,268	(44,020)	115,106
Accretion of deferred loan fees and discounts	(84,132)	(39,114)	(45,071)
Amortization of intangible assets	5,373	8,500	--
(Gain) on sale of investment securities available for sale	(51,029)	--	--
Loss (gain) on sale of real estate owned	33,583	24,667	(116,359)
Write-down on investment securities	14,940	8,964	2,656
Provision for loan losses	542,920	341,530	182,763
Provision for losses on real estate owned	--	--	48,195
Deferred income taxes	(1,088,167)	(376,195)	109,427
(Increase) in accrued interest receivable, net	(213,950)	(913,785)	(64,530)
(Increase) decrease in refundable income taxes	(13,693)	123,292	82,985
Decrease (increase) in other assets	173,852	(177,832)	(29,690)
Cost of ESOP and RRP	353,827	281,583	18,208
Increase (decrease) in other liabilities	1,679,142	877,521	(65,633)
Net cash provided by operating activities	2,732,325	1,625,363	1,726,484
Cash flows from investing activities:			
Purchases of investment securities available for sale	(8,596,719)	--	--
Purchases of investment securities held to maturity	(48,040,000)	(28,413,729)	(26,406,271)
Proceeds from maturities of investment securities held to maturity	33,930,000	6,000,000	14,000,000
Proceeds from sale of investment securities available for sale	7,028,594	--	--
Purchases of mortgage-backed securities available for sale	(5,068,148)	--	--
Purchases of mortgage-backed securities held to maturity	--	(19,294,195)	(8,082,017)
Proceeds from principal repayments on mortgage-backed securities available for sale	61,971	--	--
Proceeds from principal repayments on mortgage-backed securities held to maturity	12,152,454	7,168,724	7,536,229
Loan originations, net of repayments	(16,486,091)	(18,521,635)	(853,669)
Purchases of loans	(14,326,221)	(9,019,089)	--
Proceeds from sale of and insurance recoveries on real estate owned	289,116	705,959	748,106
Capitalized expenses on real estate owned	(8,637)	(20,427)	(13,757)
Net (increase) decrease in investments in real estate	217,450	(742,549)	364,729
Additions to premises and equipment	(1,138,187)	(645,783)	(97,622)
(Purchase) redemption of Federal Home Loan Bank of New York stock	(252,800)	(155,100)	80,200
Net cash received on acquisition of branch	--	14,638,010	--
Net cash (used in) investing activities	$(40,237,218)	$(48,299,814)	$(12,724,072)

</TABLE>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Financial Bancorp, Inc. and Subsidiaries

<TABLE>
<CAPTION>

	Year Ended September 30, 1996	1995	1994
Cash flows from financing activities:			
Net increase in deposits	$ 16,392,178	$ 31,496,186	$ 3,543,635
Increase (decrease) in advance payments by borrowers for taxes and insurance	108,956	(340,661)	321,413
Advances from Federal Home Loan Bank of New York	9,200,000	--	--
Net change in short-term borrowings from Federal Home Loan Bank of New York	9,196,000	5,375,000	--

Net change in other borrowings	2,754,720	7,126,250	--
Net proceeds from issuance of common stock	--	--	20,180,245
Additional conversion expenses	--	(43,099)	--
Dividends paid	(478,742)	(292,550)	--
Acquisition of common stock by the ESOP	--	--	(1,529,500)
Acquisition of common stock by the RRP	--	(681,331)	--
Treasury stock acquired	(2,522,444)	(2,591,542)	--
Reissue of treasury stock for stock options	103,132	--	--
Net cash provided by financing activities	34,753,800	40,048,253	22,515,793
Net (decrease) increase in cash and cash equivalents	(2,751,093)	(6,626,198)	11,518,205
Cash and cash equivalents--beginning	7,853,316	14,479,514	2,961,309
Cash and cash equivalents--ending	$ 5,102,223	$ 7,853,316	$ 14,479,514
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to real estate owned	$ 248,945	$ 681,725	$ 29,891
Loans to facilitate sales of real estate owned	$ 148,000	$ --	$ 94,000
Securities transferred to available for sale from held to maturity	$ 1,989,839	$ --	$ --
Unrealized loss on securities available for sale	$ 871	$ --	$ --
Deferred income tax	(383)	--	--
	$ 488	$ --	$ --
Property transferred to investment in real estate, net of accumulated depreciation	$ 190,174	$ --	$ --
Assets acquired in connection with the acquisition of branch:			
Equipment	$ --	$ 4,871	$ --
Other assets	--	70,454	--
	$ --	$ 175,325	$ --
Supplemental disclosures of cash flows information:			
Cash paid (net of refunds received) during the year for:			
Federal, state and city income taxes	$ 1,777,958	$ 1,088,995	$ 728,572
Interest	$ 8,676,430	$ 6,208,733	$ 3,998,039

</TABLE>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Financial Bancorp, Inc. and Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of financial statement presentation

The consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles, include the accounts of Financial Bancorp, Inc. (the "Company"), its wholly owned subsidiaries, 842 Manhattan Avenue Corporation and Financial Federal Savings Bank (the "Bank"), a federally chartered stock savings bank and the Bank's wholly owned subsidiaries, FinFed Development Corp. which participates in a joint venture for development of land and sale of lots, FinFed Funding Ltd., which serves as a conduit for funding investments in FinFed Development Corp. and F.S. Agency Inc., which is engaged in the sale of annuities. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in non-consolidated joint ventures are accounted for using the equity method of accounting.

Effective October 20, 1994, the Bank changed its charter from that of a federally chartered savings and loan association to that of a federally chartered savings bank and changed its name to Financial Federal Savings Bank. Such changes do not materially impact financial condition or operations.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses and the valuation of real estate owned and investments in real estate. Management believes that the allowance for loan losses is adequate and that real estate owned and investments in real estate are appropriately valued. While management uses available information to recognize losses on loans, real estate owned and investments in real estate, future additions to the allowance for loan losses or further writedowns of real estate owned and investments in real estate may be necessary based on changes in economic conditions in the market area.

In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the allowance for loan losses and the valuations of real estate owned and investments in real estate. Such agencies may require additions to the allowance or additional writedowns based on their judgments about information available to them at the time of their examinations.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and amounts due from depository institutions, interest-bearing deposits in other banks, federal funds sold and securities purchased under agreements to resell, all with original maturities of three months or less.

(c) Investments and mortgage-backed securities

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities," which established standards of financial accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Pursuant to SFAS 115, securities are to be classified into one of three categories: held-to-maturity, available-for-sale, or trading.

Investments in debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as held-to-maturity or trading must be classified as available for sale securities and reported at fair value, with unrealized holding gains or losses reported in a separate component of retained earnings.

The Bank adopted SFAS 115, effective October 1, 1994. No securities were classified as available for sale or trading at that time as the Bank elected to maintain its original intent to hold its investments and mortgage-backed securities until maturity. The equity securities have been marked down to fair value as the result of a permanent impairment and are included in investment securities held-to-maturity.

As permitted by FASB's "A guide to Implementation of SFAS 115 on Accounting for Certain Investments in Debt and Equity Securities," the Bank reassessed the classification of its held-to-maturity portfolio during December, 1995 and transferred investment securities with a carrying value of $1,989,839 and a fair value of $2,005,630 from the held to maturity to available-for-sale portfolio.

Premiums and discounts on all securities are amortized/accreted to maturity by use of a method which approximates the level-yield method.

Gains or losses on sales are recognized based on the specific identification method.

In October 1994, the FASB issued Statement of Financial Accounting Standards No. 119 ("SFAS 119"), "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments." SFAS 119 requires disclosure of all derivative financial instruments defined as "futures, forward, swap, and option contracts, and other financial instruments with similar characteristics." SFAS 119 also expands on and amends SFAS's 105 and 107 which dealt with off-balance-sheet risk and disclosing the fair value of financial instruments. The amendments require a distinction as to whether financial instruments are held for sale or issued for trading, or other purposes. The standard is effective for fiscal years ending after December 15, 1994. The adoption of SFAS 119, effective October 1, 1994, did not have a material effect on the Company's consolidated financial condition or results of operations as the statements extends only to financial statement disclosure. Further, the Company does not have any derivative financial instruments, as defined by SFAS 119, at September 30, 1996 and 1995.

(d) Loans receivable, net

Loans receivable is carried at unpaid principal balances less the allowance for loan losses and net deferred loan fees and discounts.

Loan origination fees and certain direct loan origination costs are deferred and amortized as an adjustment of yield over the contractual lives of the related loans.

(e) Allowance for loan losses

An allowance for loan losses is maintained at a level considered adequate to absorb losses inherent in the loan portfolio. Management of the Bank, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the general economic and real estate market conditions. The Bank utilizes a two-tier approach: (1) identification of problem loans and establishment of loss allowances on such loans; and (2) establishment of valuation allowances on the remainder of its loan portfolio. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potential problem loans. Such system takes into consideration, among other things, delinquency status, size of loans, types of collateral and financial condition of the borrowers. Loan loss allowances are established for identified loans based on a review of such data and/or estimates of the fair value of the underlying collateral. Loan loss allowances are established on the remainder of the loan portfolio, based upon a combination of factors including, but not limited to actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment. Although management believes that adequate loan loss allowances are established, actual losses are dependent upon future events and, as such, further additions to the level of the loan loss allowance may be necessary.

Effective October 1, 1995, the Bank adopted Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan"("SFAS 114") and Statement of Financial Accounting Standards No. 118, "Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures"("SFAS 118"). The provisions of these statements are applicable to all loans, uncollateralized as well as collateralized, except 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, and to all loans that are renegotiated in a troubled debt restructuring involving a modification of terms.

SFAS 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 SFAS 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 SFAS 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 as up to ninety days by the Bank, will not cause a loan to be classified as impaired. A loan is not impaired during a 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.

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

(f) Allowances for uncollected interest

The Bank provides an allowance for the loss of uncollected interest on loans where collection of the uncollected interest is doubtful. Such interest ultimately collected is credited to income in the period of recovery.

(g) Real estate owned, net

Real estate owned consists of real estate acquired by foreclosure or deed in lieu of foreclosure. Real estate owned is initially recorded at the lower of cost or fair value at the date of acquisition and subsequently carried at the lower of cost or fair value less estimated selling costs. Fair value is defined as the amount reasonably expected to be received in a current sale between a willing seller and a willing buyer. Cost incurred in developing or preparing properties for sale are capitalized. Income and expense related to operating and holding properties are recorded in operations as incurred. Gains and losses on such properties are recognized as incurred. The amounts ultimately recoverable from real estate owned could differ from the net carrying value of these assets because of weak economic conditions and the current softness in certain geographic real estate markets.

(h) Investments in real estate

Investments in real estate consists of investments in non-consolidated joint ventures and property held by a subsidiary. Investments in non-consolidated joint ventures are recorded at the lower of cost or estimated fair values.

(i) Concentration of risk

Lending and real estate activities are concentrated in real estate and loans secured by real estate located in the State of New York.

(j) Premises and equipment, net

Premises and equipment are comprised of land, at cost, and buildings and improvements, leasehold improvements and furniture, fixtures and equipment, at cost, less accumulated depreciation and amortization. Depreciation and amortization charges are computed on the straight-line method over the following estimated useful lives:

Buildings and improvements	6 to 40 years
Furniture, fixtures and equipment	5 to 10 years
Leasehold improvements	The lesser of useful life or term of lease.

Significant renewals and betterments are capitalized to the premises and equipment account. Maintenance and repairs are charged to expense in the period incurred. Rental income is netted against occupancy costs in the consolidated statements of income.

(k) Income taxes

The Company and its subsidiaries file consolidated federal, state and city income tax returns, except for one of the subsidiaries, which files separate state and city income tax returns. Income taxes are allocated to the Company and its subsidiaries based upon the contribution of their respective income or loss to the consolidated returns. Federal, state and city income taxes have been provided on the basis of reported income. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and tax reporting purposes. In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset which is not likely to be realized. Management believes, based upon current facts, that it is more likely than not that there will be sufficient taxable income in future years to realize the deferred tax assets. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

(l) Net income per common share

Net income per common share is calculated by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding, adjusted for the unallocated portion of shares held by the ESOP in accordance with the American Institute of Certified Public Accountants' ("AICPA") Statement of Position ("SOP") 93-6. Stock options granted are considered common stock equivalents and therefore considered in net income per common share calculation, if dilutive, using the treasury stock method.

Net income per common share for the year ended September 30, 1994 is calculated based on the net income for the entire year. The weighted average number of common shares outstanding, adjusted for the unallocated portion of shares held by the ESOP, from the date of conversion to stock form (August 17, 1994) through September 30, 1994, assume such shares were outstanding for the entire year (as if the conversion had taken place on October 1, 1993).

(m) Fair value of financial instrument

The following methods and assumptions were used by the Bank in estimating the fair value of its financial instruments:

Cash and cash equivalents, term deposits and interest receivable: The carrying amounts reported in the consolidated financial statements for cash and cash equivalents and interest receivable approximate their fair value.

Investment and mortgage-backed securities: Fair value is determined by reference to quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans receivable: The fair value of loans is determined by reference to market prices for similar loans with same maturities and interest rates.

Deposits: The carrying amounts reported in the consolidated financial statements for demand and savings and NOW accounts approximate their fair values. For fixed-maturity time deposits, fair value is estimated using market rates currently offered for deposits of similar remaining maturities.

Advances from Federal Home Loan Bank of New York, Securities sold under agreements to repurchase, Treasury tax and loan account and other short-term borrowings: The fair values are estimated using rates currently available to the Bank for debts with similar terms and remaining maturities.

Commitments to extend credit: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

(n) Impact of new accounting standards

In March 1995, the FASB issued SFAS 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of." SFAS 121 established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS 121 does not apply to financial instruments, long-term customer relationships of a financial institution (i.e. core deposit intangibles), mortgage and other servicing rights, or deferred tax assets. SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, an impairment loss is to be recognized if the carrying value of such asset exceeds its fair value. In regard to long-lived assets to be disposed of either through sales or abandonment, such assets are to be carried at the lower of cost or fair value less costs to sell. SFAS 121 is effective for fiscal years beginning after December 15, 1995 and restatement of previously issued financial statements is not permitted. SFAS 121 was adopted effective October 1, 1996 and such adoption did not have a material adverse effect on the Company's consolidated financial condition or results of operations.

In June 1995, the FASB issued SFAS 122, "Accounting for Mortgage Servicing Rights." SFAS 122 amends SFAS 65, "Accounting for Certain Mortgage Banking Activities," to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights were acquired, should such loans be sold or securitized and the related mortgage servicing rights retained. The servicing rights are to be recorded based on an allocation of the total investment in related loans to the relative fair values of the loans and the separated servicing rights retained, providing it is practical to estimate those fair values. SFAS 122 is effective prospectively in fiscal years beginning after December 15, 1995. Retroactive capitalization of mortgage servicing rights retained in transactions in which a mortgage banking enterprise originates mortgage loans and sells or securitizes those loans before adoption of SFAS 122 is prohibited. SFAS 122 was adopted effective October 1, 1996 and such adoption did not have a material adverse effect on the Company's consolidated financial condition or results of operations.

In October 1995, the FASB issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 establishes financial accounting and reporting standards for stock-based employees compensation plans. SFAS 123 encourages all entities to adopt the "fair value base method" of accounting for employee stock compensation plans. However, SFAS 123 also allows an entity to continue to measure compensation cost under such plans using the "intrinsic value based method." Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and its recognized over the service period, usually the vesting period. Fair value is determined using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividends on it, and the risk free interest rate over the expected life of the option. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Most stock plans have no intrinsic value at date of grant, and under previous accounting guidance, no compensation cost was to be recognized.

The accounting requirements of SFAS 123 are effective for transactions entered into in fiscal years that begin after December 15, 1995. The Company intends to continue accounting for compensation cost under the intrinsic value based method and will provide proforma disclosures for all awards granted after October 1, 1996. Such disclosures include net income and earnings per share as if the fair value based method of accounting has been applied.

In September 1996 the FASB issued SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"("SFAS 125"). This Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished. The financial-components approach focuses on the assets and liabilities that exist after the transfer. Many of these assets and liabilities are components of financial assets that existed prior to the transfer. If a transfer does not meet the criteria for a sale, the transfer is accounted for as a secured borrowing with a pledge of collateral. SFAS 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and should be applied prospectively. Earlier or retroactive application of SFAS 125 is not permitted. SFAS 125, when adopted, is not expected to have a material adverse effect on the Company's consolidated financial condition or results of operations.

(o) Reclassification

Certain amounts for the years ended September 30, 1995 and 1994 have been reclassified to conform to the current period's presentation.

2. STOCK FORM OF OWNERSHIP

On December 21, 1993, the Board of Directors of Financial Federal Savings and Loan Association (the "Association") approved plans to convert the Association from a federally chartered mutual savings association to a federally chartered stock savings association. Concurrent with the conversion, the Company was organized under the laws of the State of Delaware for the purpose of acquiring all of the capital stock of the Association. The shares of the Company were offered for subscription by eligible members of the Association. On August 17, 1994, the Company offered 2,185,000 shares of common stock, at a par value $0.01, at a price of $10.00 per share, resulting in net proceeds, after conversion expenses, of $20,180,000. The ESOP purchased 152,950 shares from the initial offering. Simultaneous with the issuance of common stock, the Company purchased all the capital stock issued by the Association for $10,115,000. The financial position and results of operations of the Company only, as of and for the year ended September 30, 1996 and 1995 and as of and for the period from completion of conversion through September 30, 1994, are presented in Note 22.

At the time of conversion, the Association established a liquidation account in an amount equal to its total retained earnings at June 30, 1994. The liquidation account will be maintained by the Bank for the benefit of eligible account holders who continue to maintain savings accounts with the Bank after conversion. In the unlikely event of a complete liquidation of the Bank, eligible depositors who continue to maintain accounts shall be entitled to receive a distribution from the liquidation account. The total amount of the liquidation account may be decreased if the balances of eligible account holders decreased on the annual determination date. The balance of the liquidation account on September 30, 1996 was $3,143,000. The Bank shall not declare or pay any dividend on or repurchase any of its capital stock if the effect thereof would cause its net worth to be reduced below: 1) the amount required for the liquidation account, or 2) the net worth requirements contained in Section 563.13(b) of the Rules and Regulations of Office of Thrift Supervision.

During the year ended September 30, 1995, the Company approved plans to repurchase 311,635 shares of common stock outstanding, up to five percent (5%) of common stock outstanding at any single instance. In accordance with the plans, 213,037 shares at an aggregate cost of $2,591,542 were purchased in the open market.

During the year ended September 30, 1996 the Company approved similar plans to repurchase 183,199 shares of common stock outstanding and in accordance with the plans, 192,266 shares, at an aggregate cost of $2,522,444, were purchased in the open market. These repurchases are reflected as treasury stock in the consolidated statements of financial condition. Subsequent to September 30, 1996, the Company began purchasing the remaining 89,531 shares of approved repurchases in open market transactions.

3. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

The Company purchases securities under agreements to resell substantially identical securities. These agreements represent short-term loans and are included as cash equivalents in the consolidated statements of financial condition as all such agreements mature within ninety days.

During the years ended September 30, 1996 and 1995, the average balances of securities purchased under agreements to resell totalled $133,000 and $102,000 respectively and the maximum amount outstanding at any month end was $5,240,000 and $7,000,000 respectively. The average interest rate for 1996 and 1995 was 5.89% and 5.70%, respectively.

4. INVESTMENT SECURITIES

<TABLE>
<CAPTION>

September 30, 1996	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale				
U.S. Government obligations maturing within five years	$ 2,919,153	$ --	$ 11,028	$ 2,908,125
Corporate preferred stock	700,000	--	--	700,000
	$ 3,619,153	$ --	$ 11,028	$ 3,608,125
Held to Maturity				
U.S. Government (including agencies):				
After one through five years	$18,000,000	$22,100	$ 25,000	$17,997,100
After five through ten years	11,972,067	--	483,707	11,488,360
After ten years	21,150,061	--	732,805	20,417,256
	$51,122,128	$22,100	$1,241,512	$49,902,716

<CAPTION>

September 30, 1996	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to Maturity				
U.S. Government (including agencies):				
Less than one year	$ 2,494,879	$ --	$ 19,879	$ 2,475,000
After one through five years	15,984,918	42,748	218,506	15,809,160
After five through ten years	19,441,223	137,836	37,308	19,541,751
After ten years	1,000,000	16,240	--	1,016,240
Common stock	14,940	--	--	14,940
	$38,935,960	$196,824	$ 275,693	$38,857,091

</TABLE>

At December 31, 1995, the Bank transferred investment securities with a carrying value of $1,989,839 and a fair value of $2,005,630 from held to maturity to available for sale.

There were no sales of investment securities held to maturity during the years ended September 30, 1996, 1995, and 1994. Proceeds from sales investment securities available for sale during the year ended September 30, 1996 were $7,028,594. Gross gains of $51,029 were realized on these sales. Provision for losses of $14,940, $8,964 and $2,656 representing permanent impairment in the value of common stock, were charged to operations during the years ended September 30, 1996, 1995 and 1994, respectively.

5. MORTGAGE-BACKED SECURITIES

<TABLE>
<CAPTION>

	September 30, 1996			
	Principal Balance	Unamortized Premiums	Unearned Discounts	Carrying Value
<S>	<C>	<C>	<C>	<C>
Available for sale				
Federal Home Loan Mortgage Corporation	$ 4,988,029	$17,926	$ --	$ 5,005,955
Held to maturity				
Government National Mortgage Association	$26,853,877	$304,560	$ 52,458	$27,105,979
Federal Home Loan Mortgage Corporation	18,013,608	20,823	35,545	17,998,886
Federal National Mortgage Association	2,681,985	15,434	--	2,697,419
Other pass-through	2,042,108	--	7,658	2,034,450
	$49,591,578	$340,817	$ 95,661	$49,836,734

<CAPTION>

	September 30, 1996			
	Principal Balance	Unamortized Premiums	Unearned Discounts	Carrying Value
<S>	<C>	<C>	<C>	<C>
Held to maturity				
Government National Mortgage Association	$32,834,845	$371,382	$ 61,871	$33,144,356
Federal Home Loan Mortgage Corporation	23,035,466	26,742	83,363	22,978,845
Federal National Mortgage Association	3,367,166	20,711	--	3,387,877
Other pass-through	2,506,555	--	9,399	2,497,156
	$61,744,032	$418,835	$ 154,633	$62,008,234

<CAPTION>

	September 30, 1996			
		Gross Unrealized		
	Carrying Value	Gains	Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Available for sale				
Federal Home Loan Mortgage Corporation	$ 5,005,955	$10,157	$ --	$ 5,016,112
Held to maturity				
Government National Mortgage Association	$27,105,979	$307,930	$ 215,575	$27,198,334
Federal Home Loan Mortgage Corporation	17,998,886	149,978	189,156	17,959,708
Federal National Mortgage Association	2,697,419	12,211	1,545	2,708,085
Other pass-through	2,034,450	--	--	2,034,450
	$49,836,734	$470,119	$ 406,276	$49,900,577

<CAPTION>

	September 30, 1996			
		Gross Unrealized		
	Carrying Value	Gains	Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Held to maturity				
Government National Mortgage Association	$33,144,356	$496,694	$ 152,628	$33,488,422
Federal Home Loan Mortgage Corporation	22,978,845	360,929	149,089	23,190,685
Federal National Mortgage Association	3,387,877	18,342	38,385	3,367,834
Other pass-through	2,497,156	--	1	2,497,155
	$62,008,234	$875,965	$ 340,103	$62,544,096

</TABLE>

The schedule of maturities as of September 30, 1996 follows (in thousands):

	Carrying Value	Estimated Fair Value
After one through five years	$ 5,903	$ 5,888
After five through ten years	2,762	2,755
After ten years	46,188	46,274
	$54,853	$54,917

There were no sales of mortgage-backed securities available for sale or held to maturity during the years ended September 30, 1996, 1995 and 1994.

6. LOANS RECEIVABLE, NET

	September 30, 1996	September 30, 1995
Real estate mortgages:		
One-to-four family	$115,499,853	$ 93,360,878
Equity and second mortgages	2,779,860	3,806,267
Multi-family	5,622,129	4,295,959
Commercial	15,301,665	8,030,860
	139,203,507	109,493,964
Construction	4,919,747	3,079,975
Consumer:		
Passbook or certificate	171,055	152,374
Home improvement	6,844	9,508
Student education guaranteed by the State of New York	201,789	214,295
Personal	21,468	27,414
	401,156	403,591
Commercial, including lines of credit	167,910	123,050
Total loans	144,692,320	113,100,580
Less: Loans in process	2,508,812	1,485,237
Allowance for loan losses	1,573,338	1,243,068
Deferred loan fees and discounts	296,012	310,696
	4,378,162	3,039,001
	$140,314,158	$110,061,579

At September 30, 1996, 1995 and 1994, loans serviced by the Bank for the benefit of others totalled approximately $10,067,000, $11,877,000 and $13,653,000 respectively.

An analysis of the allowance for loan losses follows:

	Year Ended September 30, 1996	1995	1994
Balance--beginning	$ 1,243,068	$ 1,119,542	$ 1,004,668
Provision for loan losses	542,920	341,530	182,763
Charge-offs	(212,650)	(218,716)	(70,476)
Recoveries	--	712	2,587
Balance--ending	$ 1,573,338	$ 1,243,068	$ 1,119,542

Non-accrual loans totalled approximately $4,380,000, $1,794,000 and $1,629,000 at September 30, 1996, 1995 and 1994, respectively. Interest income that would have been recognized on loans for which the accrual of income has been discontinued totalled approximately $256,000, $171,000 and $165,000 for the years ended September 30, 1996, 1995 and 1994, respectively. Interest income on these loans, which is recorded only when collected, amounted to approximately

$43,000, $24,000 and $17,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

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

Recorded investment in impaired loans:	
With recorded allowance	$922,426
Without recorded allowance	--
Total impaired loans	922,426
Recorded allowances for loan losses	504,095
Net impaired loans	$418,331

For the year ended September 30, 1996 interest income that would have been recognized for these loans had they been performing in accordance with the original terms approximated $78,000 and interest income recognized when received was $31,000.

The average balance of impaired loans during the year ended September 30, 1996 approximated $933,000.

The following is a summary of the loans to the directors and officers (and to any associates of such persons) of the Company and its subsidiaries exclusive of loans to any such persons which in the aggregate did not exceed $60,000:

	Year Ended September 30,	
	1996	1995
Balance--beginning	$ 651,939	$ 351,469
New loans	--	310,000
Repayments	(6,581)	(9,530)
Loans removed	(249,835)	--
Balance--ending	$ 395,523	$ 651,939

7. REAL ESTATE OWNED, NET

Real estate owned is summarized as follows:

	September 30,	
	1996	1995
Acquired by foreclosure	$377,910	$591,027

The following is an analysis of loss (income) from real estate owned:

	Year Ended September 30,		
	1996	1995	1994
Provision for losses	$ --	$ --	$ 48,195
Operational expenses, net of rental income	50,540	52,223	55,608
Loss (gain) on sale and write down	33,583	24,667	(116,359)
Net loss (income)	$84,123	$76,890	$ (12,556)

8. INVESTMENTS IN REAL ESTATE

	September 30,	
	1996	1995
Investment in real estate including:		
Real estate held for rental operations	$ 184,987	$ --
Investment in real estate for development	3,308,166	3,531,166
	$3,493,153	$3,531,166

The Bank's wholly owned subsidiary has entered into joint venture with builders, developers and one financial institution to acquire land, design projects and install site improvements thereon and engage in marketing activities to sell the improved lots. Profits and losses are shared in accordance with partnership agreements, under which the subsidiary shares of 33.33% of profits and losses.

Combined Statements of Financial Condition

	September 30, 1996	1995
Assets		
Cash	$ 19,738	$ 90,489
Investments	133,163	49,507
Land and construction-in-progress:		
Land	7,210,900	7,210,900
Construction-in-progress	7,848,912	7,018,280
	15,059,812	14,229,180
Less allowances for inventory valuation	3,645,000	2,751,000
	11,414,812	11,478,180
Total assets	$11,567,713	$11,618,176
Liabilities and partners' capital		
Liabilities		
Loan payable to Bank's subsidiary	$ 1,256,934	$ 1,256,934
Loan payable to other partner	1,256,934	1,256,934
Loans payable	2,513,868	2,513,868
Other liabilities	1,237,876	619,339
Total liabilities	3,751,744	3,133,207
Partners' capital		
Bank's subsidiaries	2,176,926	2,399,926
Other partners	5,639,043	6,085,043
Total partners' capital	7,815,969	8,484,969
Total liabilities and partners' capital	$11,567,713	$11,618,176

Combined Statements of Income (Loss)

	Year Ended September 30, 1996	1995	1994
Allowance for inventory valuation	$(894,000)	$(1,842,000)	$(909,000)
(Loss) on sale of real estate	--	--	(2,393)
Net (loss)	$(894,000)	$(1,842,000)	$(911,393)

Combined Statements of Partners' Capital

Partners' capital	Bank's Subsidiaries	Others	Total
Balance October 1, 1993	$ 3,153,346	$ 7,229,761	$ 10,383,107
Capital contribution	335,000	522,553	857,553
(Loss) for year ended September 30, 1994	(286,313)	(625,080)	(911,393)

Distribution of capital	(413,416)	--	(413,416)
Balance September 30, 1994	2,788,617	7,127,234	9,915,851
Capital contribution	225,309	185,809	411,118
(Loss) for year ended September 30, 1995	(614,000)	(1,228,000)	(1,842,000)
Balance September 30, 1995	2,399,926	6,085,043	8,484,969
Capital contribution	75,000	150,000	225,000
(Loss) for year ended September 30, 1996	(298,000)	(596,000)	(894,000)
Balance September 30, 1996	$ 2,176,926	$ 5,639,043	$ 7,815,969

See Note 20 to consolidated financial statements regarding related commitments.

9. PREMISES AND EQUIPMENT, NET

	September 30, 1996	1995
Land	$ 220,000	$ 102,000
Buildings and improvements	2,174,114	1,594,663
Leasehold improvements	1,245,011	1,238,491
Furniture, fixtures and equipment	904,034	868,620
	4,543,159	3,803,774
Less accumulated depreciation and amortization..........................	2,020,895	1,941,647
	$2,522,264	$1,862,127

10. ACCRUED INTEREST RECEIVABLE, NET

	September 30, 1996	1995
Loans, net of allowance for uncollected interest of $473,000, and $353,000 at September 30, 1996 and 1995, respectively	$ 605,257	$ 401,176
Mortgage-backed securities	382,225	405,353
Investment securities	801,142	766,741
Other interest-earning assets	346	1,750
	$1,788,970	$1,575,020

11. DEPOSITS

<TABLE>
<CAPTION>

	September 30, 1996			1995		
	Percent	Amount	Weighted Average Rate	Percent	Amount	Weighted Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Non-interest bearing demand	3.52	$ 7,155,614	0.00%	1.98	$ 3,688,019	0.00%
Interest-bearing demand ...	9.18	18,621,553	2.18%	8.911	6,622,561	2.29%
Savings and club	36.52	74,084,490	2.11%	41.49	77,370,417	2.44%
Certificates of deposit ...	50.78	103,022,109	5.85%	47.62	88,810,591	5.98%
Total deposits	100.00	$202,883,766	3.94%	100.00	$186,491,588	4.06%

</TABLE>

The following table presents certificates of deposit outstanding, based upon interest rate ranges, at September 30, 1996 and 1995:

(In Thousands)	September 30, 1996	1995
Certificate accounts:		
3.00% to 3.99%	$ 163	$ 1,121
4.00% to 4.99%	24,776	10,896
5.00% to 5.99%	50,468	36,702
6.00% to 6.99%	10,685	23,712
7.00% to 7.99%	16,879	16,313
8.00% to 8.99%	51	67
	$103,022	$88,811

The scheduled maturities of certificates of deposit were as follows:

(In Thousands)	September 30, 1996	1995
One year or less	$ 53,177	$56,201
One to two years	23,168	11,264
Two to three years	5,929	3,053
Thereafter	20,748	18,293
Total	$103,022	$88,811

Certificates of deposit of $100,000 or more totalled approximately $7,860,000 and $6,677,000 at September 30, 1996 and 1995, respectively.

Interest expense on deposits consists of the following:

	Year Ended September 30, 1996	1995	1994
Demand	$ 439,309	$ 372,698	$ 423,873
Savings and clubs	1,672,529	1,930,106	1,994,256
Certificates of deposit	5,480,885	3,815,922	1,581,781
	$7,592,723	$6,118,726	$3,999,910

12. ADVANCES FROM FEDERAL HOME LOAN BANK OF NEW YORK ("FHLB")

	Interest Rate	September 30, 1996	1995
Overnight advances due:			
October 2, 1995	6.625%	$ --	$5,375,000
October 1, 1996	6.125%	525,000	--
Notes maturing on:			
February 14, 1997	5.133%	1,200,000	--
December 19, 1997	5.597%	2,000,000	--
December 28, 1998	5.670%	6,000,000	--
		$9,725,000	$5,375,000

The Bank has an available overnight line of credit with the FHLB, subject to the terms and conditions of the lender's overnight advance program in the amount of $22,330,400 and $20,956,300, at September 30, 1996 and 1995, respectively. Advances under this line of credit, which expires on December 22, 1996, are made for one-day periods. The advances were secured by stock of the FHLB in the amount of $1,675,000 and $1,423,000 and mortgage loans with an unpaid balance of $5,185,000 and $6,716,000 at September 30, 1996 and 1995, respectively.

13. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Lender	Maturity	Interest Rate	September 30, 1996	1995
Security broker-dealer	November 9, 1995	5.78%	$ --	$5,112,500
Security broker-dealer	January 26, 1996	5.75%	--	2,013,750
Federal Home Loan Bank	December 18, 1996	5.46%	4,600,000	--

Federal Home Loan Bank	December 20, 1996	5.46%	4,768,000	--
Federal Home Loan Bank	December 26, 1996	5.40%	4,678,000	--
			$14,046,000	$7,126,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
Financial Bancorp, Inc. and Subsidiaries

Information concerning borrowings collateralized by securities sold under agreements to repurchase is summarized as follows:

	Year Ended September 30,	
	1996	1995
	(Dollars in Thousands)	
Average balance during the year	$ 8,228	$1,876
Average interest rate during the year	5.70%	6.01%
Maximum month-end balance during the year	$15,064	$9,229
Investment securities underlying the agreement at year end:		
Carrying value	$15,150	$6,988
Estimated fair value	$14,520	$7,047

14. TREASURY TAX AND LOAN ACCOUNT AND OTHER SHORT TERM BORROWINGS

At September 30, 1996, the Bank had borrowings from the Federal Reserve Bank of New York under the Treasury Tax and Depository program in the amount of $9,880,970 at an interest rate of 5.20 per annum payable on demand. These borrowings are secured by investment securities with a carrying value of $10,972,000 and fair value of $10,570,000.

15. INCOME TAXES

The Bank qualifies as a Savings and Loan Association under the provisions of the Internal Revenue Code and was therefore permitted to deduct from taxable income an allowance for bad debts based on the greater of; (1) actual loan losses (the "experience method"); or (2) eight (8) percent of taxable income before such bad debt deduction less certain adjustments (the "percentage of taxable income method"). For the tax years 1996, 1995, and 1994, the Bank used the percentage of taxable income method.

On August 21, 1996, legislation was signed into law which repealed the percentage of taxable income method for tax bad debt deduction. The repeal is effective for the Bank's taxable year beginning October 1, 1996. In addition, the legislation requires the Company to include in taxable income its bad debt reserves in excess of its base year reserves over a six, seven, or eight year period depending upon the attainment of certain loan origination levels. Since the percentage of taxable income method for Federal tax bad debt deduction and the corresponding increase in the Federal tax bad debt reserve in excess of the base year have been recorded as temporary differences pursuant to SFAS 109, this change in the tax law is not expected to have a material adverse effect on the Company's statement of operations.

Retained earnings at September 30, 1996 include approximately $3,127,000 related to bad debt deductions for income tax purposes for which income taxes have not been provided. If such amount is used for purposes other than for bad debt losses, including distributions in liquidation, it will be subject to income tax at the then current rates.

The components of income taxes are summarized as follows:

	Year Ended September 30,		
	1996	1995	1994
Current tax expense:			
Federal income	$ 1,186,475	$ 846,068	$499,873
State and city income	576,919	366,219	311,684
	1,763,394	1,212,287	811,557
Deferred tax expense (benefit):			
Federal income	(609,709)	(220,292)	71,730

State and city income	(478,458)	(155,903)	37,697
	(1,088,167)	(376,195)	109,427
	$ 675,227	$ 836,092	$920,984

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

	Year Ended September 30,		
	1996	1995	1994
Federal income taxes	$ 621,558	$694,298	$ 740,488
Increase (reduction) of income taxes resulting from:			
New York state and city taxes, net of federal income tax effect	79,010	138,809	230,591
ESOP and MRP	(14,835)	--	--
Other	(10,506)	2,985	(50,095)
	$ 675,227	$836,092	$ 920,984

Refundable income taxes of $36,340 and $22,647 at September 30, 1996 and 1995, respectively, and net deferred income taxes of $1,419,226 and $330,676 at September 30, 1996 and 1995, respectively are included in other assets.

The tax effects of existing temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	September 30,	
	1996	1995
Deferred tax assets		
Uncollected interest	$ 219,699	$169,444
Allowance for loss on loans in excess of tax bad debt deductions	352,744	176,505
Deferred loan fees	73,972	108,052
Prepaid pension	93,084	49,824
Depreciation	131,650	104,818
ESOP and RRP cost	99,702	94,387
Special assessment of Federal Insurance	517,452	--
Other	59,922	11,313
	1,548,225	714,343
Deferred tax liabilities		
Deferred premiums and discounts	11,953	12,993
Deferred loss on investments in real estate	117,046	287,600
State and city taxes	--	68,643
Other	--	14,431
	128,999	383,667
Net deferred tax assets (liabilities)	$1,419,226	$330,676

16. REGULATORY CAPITAL

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and the regulations prescribed by the Office of Thrift Supervision (the "OTS") prescribed capital requirements, which include three separate measurements of capital adequacy (the "Capital Rule"). The Capital Rule requires each savings institution to maintain tangible capital equal to at least 1.5% of its adjusted total assets and core capital equal to at least 3.0% of its adjusted total assets. The Capital Rule further requires each savings institution to maintain total capital equal to at least 8.0% of its risk-weighted assets.

The following table sets forth the capital position of the Bank as calculated under the Capital Rule:

<TABLE>
<CAPTION>

	Tangible		Core		Risk-based	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
GAAP stockholders' equity	$ 21,660	8.31	$ 21,660	8.31	$ 21,660	20.78
Less goodwill and other intangibles	(143)	(0.05)	(143)	(0.05)	(143)	(0.14)
Less investment in "non-includable" subsidiaries required to be deducted	(3,308)	(1.27)	(3,308)	(1.27)	(3,308)	(3.17)
Add general valuation allowance	--	--	--	--	1,021	0.98
Capital as calculated under FIRREA	18,209	6.99	18,209	6.99	19,230	18.45
Capital as required under FIRREA	3,908	1.50	7,816	3.00	8,337	8.00
Excess	$ 14,301	5.49	$ 10,393	3.99	$ 10,893	10.45

</TABLE>

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") imposes increased requirements on the operations of financial institutions and mandates the development of regulations designed to empower regulators to take prompt corrective action with respect to institutions that fall below certain capital standards. FDICIA stipulates that an institution with less than 4% core capital is deemed to be undercapitalized.

17. BENEFIT PLANS

Pension Plan

The Bank has a non-contributory defined benefit pension plan covering all eligible employees. The benefits are based upon each employee's years of service. The Bank's policy is to fund the plan with annual contributions equal to the maximum amount deductible for federal income tax purposes.

The following table sets forth the plan's funded status:

	September 30,	
	1996	1995
Actuarial present value of benefit obligation, including vested benefits of $1,840,708 and $1,857,122, respectively	$ 1,903,127	$ 1,922,763
Projected benefit obligation	$(2,299,516)	$(2,318,598)
Plan assets at fair value	2,234,942	2,009,196
Projected benefit obligation in excess of plan assets	(64,574)	(309,402)
Unrecognized (gain) loss	(536,887)	(318,597)
Unrecognized net obligation at October 1, 1988 being amortized over 15 years	197,925	225,225
Unrecognized prior service cost at October 1, 1989 being amortized over 11.1 years	145,598	179,984
Contributions made during the three months ended September 30	57,290	120,527
(Accrued) pension cost included in other liabilities	$ (200,648)	$ (102,263)

Net periodic pension cost included the following components:

Year Ended September 30,

	1996	1995	1994
Service cost	$ 87,457	$ 74,246	$ 70,308
Interest cost	169,729	210,445	199,052
Actual return on plan assets	(217,332)	(141,270)	(147,514)
Net amortization and deferrals	115,821	61,686	61,686
Net periodic pension cost included in salaries and employee benefits	$ 155,675	$ 205,107	$ 183,532

Assumptions used in accounting for the plan are as follows:

	Year Ended September 30,		
	1996	1995	1994
Discount rate	7.50%	8.25%	8.25%
Rate of increase in compensation	5.50%	6.00%	6.00%
Long-term rate of return on plan assets	8.00%	8.00%	8.00%

Savings Incentive Plan

The Bank has a savings incentive plan, pursuant to Section 401(K) of the Internal Revenue Code, for all eligible employees of the Bank. Employees may elect to save from 1% to 15% of their eligible compensation, of which the Bank will match the lesser of 25% of the employees' contribution or 1% of the employees' compensation. The Bank may make a special employer contribution in addition to its matching contribution. Total savings incentive plan expense for the years ended September 30, 1996, 1995 and 1994 was approximately $13,700, $22,000 and $36,000, respectively.

18. STOCK BENEFIT PLANS

Employee Stock Ownership Plan

Effective upon conversion, an ESOP was established for all eligible employees. The ESOP used $1,529,500 of proceeds from a term loan from the Company to purchase 152,950 shares of Company common stock in the initial offering. The term loan from the Company to the ESOP was payable initially over seven annual installments commencing on December 31, 1994. Interest on the term loan is payable annually, commencing on December 31, 1994, at a rate of 7.75 percent per annum. Each year, the Bank intends to make discretionary contributions to the ESOP which will be equal to principal and interest payments required from the ESOP on the term loan less any dividends received by the ESOP on unallocated shares. Shares purchased with the loan proceeds were initially pledged as collateral for the term loan and are held in a suspense account for future allocation among participants. Contributions to the ESOP and shares released from the suspense account will be allocated among the participants on the basis of compensation, as described by the Plan, in the year of allocation. During the years ended September 30, 1996 and 1995, the Bank made $302,190 and $127,284 cash contributions to the ESOP of which $190,184 and $72,833 were applied to the principal. During the year

ended September 30, 1994, no contributions were made to the ESOP and no loan repayments were due. Effective January 1, 1995, the terms of the term loan were renegotiated between the Company and the ESOP and the remaining term to maturity was extended from six to nine years. At September 30, 1996, the loan had an outstanding balance of $1,266,483.

The ESOP is accounted for in accordance with SOP 93-6 "Accounting for Employee Stock Ownership Plans," which was issued by the AICPA in November 1993. Accordingly, the ESOP shares pledged as collateral are reported as unearned ESOP shares in the consolidated statements of financial condition. As shares are committed to be released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for net income per common share computations. Dividends on allocated ESOP shares will be recorded as a reduction of retained earnings. Contributions equivalent to dividends on unallocated ESOP shares are recorded as a reduction of debt. ESOP compensation expenses were $218,000, $191,000 and $18,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

The ESOP shares at September 30, 1996 and 1995 were as follows:

	1996	1995
Allocated shares	26,302	7,283
Shares committed to be released	9,306	12,139
Unreleased shares	117,342	133,528
Total ESOP shares	152,950	152,950
Fair value of unreleased shares	$1,768,344	$1,886,083

Recognition and Retention Plan

On January 26, 1995, the Bank established a Recognition and Retention Plan ("RRP") to provide both key employees and outside directors of the Bank with a proprietary interest in the Company in a manner designed to encourage such persons to remain with the Bank. The Bank contributed $681,331 from available liquid assets to the RRP to enable the trust to acquire 65,550 shares of the Company's common stock in open market transactions. As of September 30, 1995, 3,500 of the total of 4,589 shares allotted to outside directors have been awarded and 54,407 of the total of 60,961 shares allotted to officers and employees have been awarded.

Under the RRP, awards are granted in the form of common stock held by the RRP trust. The awards vest over a period of time not more than five years commencing one year from the date of award. The awards become fully vested upon termination of employment due to death, disability or normal retirement. The awards to officers, employees and outside directors become fully vested upon a change in control of the Bank or the Company. At September 30, 1995, 1,500 shares awarded were vested. During the year ended September 30, 1996, an additional 6,964 shares were awarded to officers and employees and awards for 13,547 shares were forfeited. As of September 30, 1996, 11,274 shares to officers and employees and 1900 shares to outside directors were distributed and 1600 shares to outside directors were vested. $136,266 and $90,844 of expenses related to the RRP shares are included in the consolidated statements of income for years ended September 30, 1996 and 1995, respectively.

Stock Option Plan

The Company has adopted an Incentive Stock Option Plan ("ISO") Plan") authorizing the grant of stock options and limited rights equal to 152,950 shares of common stock to officers and employees of the Bank or the Company. Options granted under the ISO Plan may be either options that qualify as incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or non-statutory options. Options will be exercisable on a cumulative basis in equal installments at the rate of 20% per year commencing one year from the date of grant. All options granted will be exercisable in the event the optionee terminates his employment due to death, disability or normal retirement or in the event of a change in control of the Bank or the Company. The options expire ten years from the date of the grant. Simultaneously with the grant of options, the Company granted "limited rights" with respect to the shares covered by the options, which enables the optionee, upon a change of control of the Bank or the Company, to elect to receive cash for each option granted, equal to the difference between the exercise price of the option and the fair market value of the common stock on the date of the exercise.

As of September 30, 1995, 86,970 shares of common stock had been granted under the ISO Plan at an option price of $9.44 per common share (the market price on the date approved by the stockholders). No options are exercisable as of September 30, 1995 and no options were exercised during the year then ended. During the year ended September 30, 1996, options previously granted for 19,534 shares were canceled. At September 30, 1996, options to purchase 4,064 shares are exercisable.

The Company adopted a stock option plan for outside directors (the "Option Plan") authorizing the grant of non-statutory stock options equal to 65,550 shares of common stock to outside directors of the Bank and/or the Company. Options granted will be exercisable on a cumulative basis in equal installments at the rate of 20% per year commencing one year from the date the individual began serving as outside director, including service prior to adoption of the Plan. All options granted under the Option Plan expire upon the earlier of ten years following the date of grant or one year following the date the optionee ceases to be a Director for any reason other than removal for cause. If Director is removed for cause, all options awarded to him shall expire upon such removal. Upon the death or disability of the participant, all options previously granted would automatically be exercisable. As of September 30, 1995, 43,700 shares of common stock were granted under the Option Plan at an option price of $9.44 per common share (the market price on the date approved by the stockholders). Options to purchase 10,925 shares of common stock were exercised during the year ended September 30, 1996 and options to purchase 32,775 shares are exercisable.

Activity for the stock option plans is as follows:

Stock Options	ISO Plan	Option Plan	Option Price Per Share
Balance at September 30, 1994	--	--	--
Granted	86,970	43,700	$9.44
Exercised	--	--	--
Cancelled	--	--	--
Balance at September 30, 1995	86,970	43,700	$9.44
Exercised	--	10,925	9.44
Cancelled	19,534	--	--
Balance at September 30, 1996	67,436	32,775	$9.44

19. BRANCH ACQUISITION

On February 24, 1995, the Bank purchased deposit liabilities associated with a branch office located in Greenpoint, Brooklyn. The Bank assumed deposit liabilities in the amount of $14,813,000 and paid a premium of $127,000. The premium, along with other costs of acquisition, is amortized on a straight-line basis over a period of ten years. At September 30, 1996, the unamortized premium and other acquisition costs totalling $143,000 are included in other assets. The amortization expense for the years ended September 30, 1996 and 1995 were $19,000 and $9,000, respectively.

20. COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off- balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and purchase securities. The commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but primarily includes residential real estate.

The Bank has the following outstanding commitments to originate conventional mortgage loans. All commitments expire within three months.

	September 30, 1996	September 30, 1995
Conventional mortgages	$7,355,000	$4,122,000

At September 30, 1996, of the $7,355,000 in outstanding commitments to originate loans, $6,768,000 are at a fixed rate within ranges from 7.08% to 10.00% and $587,000 are at adjustable rates with initial rates within a range from 6.23% to 8.00%.

Rentals under long-term operating leases for certain branch offices amounted to approximately $144,000, $142,000 and $109,000 for the years ended September 30, 1996, 1995 and 1994, respectively. At September 30, 1996, the minimum rental commitments under all non-cancelable leases with initial or remaining terms of more than one year and expiring through August 31, 2005 are as follows:

Year Ending

September 30,	Minimum Rent
1997	$179,000
1998	187,000
1999	190,000
2000	139,000
Thereafter	299,000
	$994,000

At September 30, 1996, a real estate joint venture, in which FinFed Development Corp. ("FDC") is a partner, may require additional contributions to the joint venture over the next two-year period to enable development of the property, and its share of the normal operating costs of the joint venture.

The Bank also has, in the normal course of business, commitments for services and supplies. Management does not anticipate losses on any of these transactions.

The Company and is subsidiaries, in the conduct of their business, are involved in normal litigation matters. In the opinion of management, the ultimate disposition of such litigation should not have a material adverse effect on the consolidated financial position or results of operations of the Company and Subsidiaries.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the corporation's financial instruments at September 30, 1996 are as follows:

	Carrying Value	Fair Value
	(In Thousands)	
Financial assets		
Cash and cash equivalents	$ 5,102	$ 5,102
Investment securities	54,730	53,511
Mortgage-backed securities	54,853	54,917
Loans receivable	140,314	140,464
Interest receivable	1,789	1,789
Financial liabilities		
Deposits	202,884	203,510
Advances and borrowings	33,652	33,486
Commitments		
To originate loans	7,355	7,355

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Further, the foregoing estimates may not reflect the actual amount that could be realized if all or substantially all of the financial instruments were offered for sale.

In addition, the fair value estimates were based on existing on-and-off balance sheet financial instruments without attempting to value the anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment and advances from borrowers for taxes and insurance. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of the active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

22. PARENT ONLY FINANCIAL INFORMATION

Financial Bancorp, Inc. operates two wholly owned subsidiaries, Financial Federal Savings Bank, and 842 Manhattan Avenue Corp. ("Corporation"). The earnings of the subsidiaries are recognized by the holding company using the equity method of accounting. Accordingly, earnings of the subsidiaries are recorded as increases in the Company's investment in the Subsidiary. The following are the condensed financial statements for Financial Bancorp, Inc. (Parent company only) as of September 30, 1996 and 1995 and for the periods then ended. The Company had no operations prior to the Bank's conversion to stock form on August 17, 1994.

Statements of Financial Condition

	September 30, 1996	September 30, 1995
Assets		
Cash and amounts due from depository institutions	$ 6,475	$ 536
Repurchase agreements	2,185,000	5,458,000
Cash and cash equivalents	2,191,475	5,458,536
Accrued interest receivable	75,058	86,184
ESOP loan to Financial Federal Savings Bank	1,266,483	1,456,667
Investment in Financial Federal Savings Bank	21,660,028	20,090,937
Investment in 842 Manhattan Avenue Corp.	232,193	--
Other assets	401,809	86,704
Total assets	$ 25,827,046	$ 27,179,028
Liabilities and stockholders' equity		
Other liabilities	$ 39,360	$ --
Total liabilities	39,360	--
Stockholders' equity		
Common stock	21,850	21,850
Paid-in capital	20,151,858	20,130,021
Retained earnings	12,218,607	11,544,464
Employees Stock Ownership Plan	(1,173,422)	(1,335,278)
Recognition and Retention Plan	(454,221)	(590,487)
Treasury stock	(4,976,986)	(2,591,542)
Total stockholders' equity	25,787,686	27,179,028
Total liabilities and stockholders'	$ 25,827,046	$ 27,179,028

Statements of Income
<TABLE>
<CAPTION>

	Year Ended September 30, 1996	Year Ended September 30, 1995	From Inception August 17, to September 30, 1994
<S>	<C>	<C>	<C>
Interest income	$ 112,031	$ 119,883	$ 14,817
Equity in undistributed earning of the subsidiaries	1,211,457	1,262,813	382,243
	1,323,488	1,382,696	397,060
Expenses	201,401	226,383	2,180
Income before income taxes	1,122,087	1,156,313	394,880
Income tax (benefit) expense	(30,798)	(49,649)	5,932
Net income	$ 1,152,885	$ 1,205,962	$388,948

</TABLE>

Statements of Cash Flows

<TABLE>
<CAPTION>

	Year Ended September 30, 1996	Year Ended September 30, 1995	From Inception August 17, to September 30, 1994

<S> <C> <C> <C>

Cash flows from operating activities:			
Net income	$ 1,152,885	$ 1,205,962	$ 388,948
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed earnings of the subsidiary ..	(1,211,457)	(1,262,813)	(382,243)
Decrease (increase) in accrued interest receivable ..	11,126	(71,367)	(14,817)
(Increase) in other assets	(315,105)	(80,818)	(5,886)
Increase (decrease) in other liabilities	39,360	(5,932)	5,932
Net cash (used in) operating activities	(323,191)	(214,968)	(8,066)
Cash flows from investing activities:			
Purchase of all outstanding stock of the Bank	--	--	(10,114,817)
Decrease (increase) in ESOP loan receivable	190,184	72,833	(1,529,500)
Capital contribution to 842 Manhattan Avenue Corp.	(236,000)	--	--
Net cash (used in) provided by investing activities	(45,816)	72,833	(11,644,317)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	--	--	20,180,245
Acquisition of treasury stock	(2,522,444)	(2,591,542)	--
Payment of dividends on common stock	(478,742)	(292,550)	--
Payment of conversion expenses	--	(43,099)	--
Treasury stock reissued for stock options	103,132	--	--
Net cash (used in) provided by financing activities	(2,898,054)	(2,927,191)	20,180,245
Net (decrease) increase in cash and cash equivalents	(3,267,061)	(3,069,326)	8,527,862
Cash and cash equivalents--beginning	5,458,536	8,527,862	--
Cash and cash equivalents--ending	$ 2,191,475	$ 5,458,536	$ 8,527,862

</TABLE>

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

Year ended September 30, 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, except per share data)			
Interest income	$4,212	$4,393	$ 4,532	$ 4,686
Interest expense	2,071	2,170	2,131	2,319
Net interest income	2,141	2,223	2,401	2,367
Provision for loan losses	54	76	159	254
Non-interest income (loss)	77	92	(110)	117
Non-interest expenses	1,301	1,353	1,332	2,951
Income taxes	379	391	295	(390)
Net income (loss)	$ 484	$ 495	$ 505	$ (331)
Net income (loss) per common share and common stock equivalents	$ 0.26	$ 0.27	$ 0.29	$ (0.19)

Year ended September 30, 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, except per share data)			
Interest income	$2,978	$3,388	$ 3,844	$ 4,046
Interest expense	1,079	1,442	1,788	1,977
Net interest income	1,899	1,946	2,056	2,069
Provision for loan losses	30	36	32	244
Non-interest income (loss)	12	45	60	(426)
Non-interest expenses	1,265	1,384	1,332	1,296
Income taxes	259	240	317	20
Net income	$ 357	$ 331	$ 435	$ 83
Net income per common share and common stock equivalents	$ 0.18	$ 0.16	$ 0.21	$ 0.04

INDEPENDENT AUDITORS'

REPORT

To The Board of Directors
Financial Bancorp, Inc.
and Subsidiaries

We have audited the consolidated statements of financial condition of Financial Bancorp, Inc. (the "Company") and Subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the second preceding paragraph present fairly, in all material respects, the financial position of Financial Bancorp, Inc. and Subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to consolidated financial statements, the Company changed its methods of accounting for debt and equity securities as of October 1, 1994.

/s/ Radics & Co., LLC
Pine Brook, New Jersey
November 19, 1996

MANAGEMENT RESPONSIBILITY
STATEMENT

Management of Financial Bancorp, Inc. and Subsidiaries is responsible for the preparation of the consolidated financial statements and all other consolidated financial information included in this report. Consolidated financial statements were prepared in accordance with generally accepted accounting principles.

All consolidated financial information included in the report agrees with the consolidated financial statements. In preparing the consolidated financial statements, management makes informed estimates and judgments, with consideration given to materiality, about the expected results of various events and transactions.

Management maintains a system of internal accounting control that includes personnel selection, appropriate division of responsibilities and formal procedures and policies consistent with high standards of accounting and administrative practice. Consideration has been given to the necessary balance between the costs of systems of internal control and the benefits derived.

Management reviews and modifies its systems of accounting and internal control in light of changes in conditions and operations as well as in response to recommendations from the independent certified public accountants. Management believes that the accounting and internal control systems provide reasonable assurance that assets are safeguarded and the consolidated financial information is reliable.

The Board of Directors through its Audit Committee of non-management directors, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the control of operations. The Board appoints the independent certified public accountants. The Audit Committee meets with management, the independent certified public accountants and the internal auditor, approves the overall scope of audit work and related fee arrangements, and reviews audit reports and findings.

/s/ Frank Latawiec
Frank Latawiec
President/Chief Executive Officer

/s/ Irene C. Greco
Irene C. Greco
Executive Vice President/
Chief Operating Officer

/s/ P. James O'Gorman
P. James O'Gorman
Senior Vice President/Chief Financial Officer

Common Stock Information

Financial Bancorp, Inc. common stock is traded on the Nasdaq National Market under the symbol "FIBC." The table below shows the reported high and low sales price of the common stock during the periods indicated in the fiscal years ended September 1996 and 1995.

1996	High	Low
First Quarter	14	13
Second Quarter	13 3/4	12 1/2
Third Quarter	13 1/2	12 1/2
Fourth Quarter	16 1/4	12 1/2

1995	High	Low
First Quarter	10 1/2	8 1/2
Second Quarter	10 3/4	8 7/8
Third Quarter	12 1/4	10 1/2
Fourth Quarter	15	11 3/4

As of December 3, 1996, the Company had approximately 175 stockholders of record, not including the number of persons or entities holding stock in nominee or street name through broker-dealers and banks. At December 3, 1996, the Company had 1,747,686 shares of common stock outstanding.

Exhibit 23.0 Consent of Radics & Co., LLC

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference into the Registration Statement on Form S-8 of Financial Bancorp, Inc. (the "Company") of our report dated November 19, 1996, included in the 1996 annual report to stockholders of the Company, which is incorporated by reference in the Company's Annual Report on Form 10-K for the year ended September 30, 1996.

Radics & Co., LLC

December 23, 1996

Pine Brook, New Jersey

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