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

YONKERS FINANCIAL CORP

CIK:**1005508**| State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-K** | Act: **34** | File No.: **033-81013** | Film No.: **96687932**
SIC: **6035** Savings institution, federally chartered

Business Address
ONE MANOR HOUSE SQUARE
YONKERS NY 10701
9149684500

December 27, 1996

VIA MESSENGER

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Yonkers Financial Corporation - File No. 0-27716

Dear Sir/Madam:

On behalf of our client, Yonkers Financial Corporation (the "Company"), attached herewith for filing via EDGAR is the Company's annual report for the year ended September 30, 1996 on Form 10-K under the Securities Exchange Act of 1934. The filing fee of $250 has been wired to the Securities and Exchange Commission by the Company.

Pursuant to General Instruction C.3. to Form 10-K, please note that, based on our discussions with KPMG Peat Marwick LLP, it is our understanding that the financial statements in the Form 10-K do not reflect any change from the preceding year in any accounting principles or practices or in the methods of application of such principles or practices, with the exception of the Company's adoption of SFAS No. 114 and 118, and SOP 94-6 during fiscal 1996.

Concurrently herewith, three complete copies of the Form 10-K are being filed with the National Association of Securities Dealers, Inc.

Kindly acknowledge receipt of the enclosures by stamping and returning to our messenger the attached copy of this letter.

Very truly yours,

Gary A. Lax, P.C.

Enclosures

cc: NASD, Inc.
Mr. Joseph Roberto
Mr. Thomas W. Canfarotta

==

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required]

For the fiscal year ended September 30, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

Commission file number 0-27716

YONKERS FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	13-3870836
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6 Executive Plaza, Yonkers, New York	10701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (914) 965-2500

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) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of December 23, 1996, there were issued and outstanding 3,172,250 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked price of such stock on the Nasdaq National Market System as of December 23, 1996, was approximately $34.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Issuer.)

DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K--Annual Report to Stockholders for the fiscal year ended September 30, 1996.

PART III of Form 10-K--Proxy Statement for the Annual Meeting of Stockholders for the fiscal year ended September 30, 1996.

YONKERS FINANCIAL CORPORATION

ANNUAL REPORT ON FORM 10-K
SEPTEMBER 30, 1996

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PART I

Item 1. Business

General

Yonkers Financial Corporation (the "Holding Company") was formed at the direction of The Yonkers Savings and Loan Association, FA ("Yonkers Savings" or the "Association") in December 1995 for the purpose of owning all of the outstanding stock of the Association issued in the Association's conversion from the mutual to stock form of organization (the "Conversion"). The Conversion was completed on April 18, 1996. Concurrent with the Conversion, the Holding Company sold 3,570,750 shares of its common stock for net proceeds of $34.6 million. The Holding Company and the Association are collectively referred to herein as the "Company."

The Holding Company is incorporated under the laws of the State of Delaware (and qualified to do business in the State of New York) and generally is authorized to engage in any activity that is permitted by the Delaware General Corporation Law. The assets of the Holding Company consist of the stock of the Association, certain short-term and other investments, and a loan to its Employee Stock Ownership Plan (the "ESOP").

As a community-oriented financial institution, the Association offers a variety of financial services to meet the needs of communities in its market area. The Association attracts deposits from the general public and uses such deposits, together with borrowings, to originate primarily one- to four-family residential mortgage loans (including home equity lines of credit) and, to a lesser extent, multi-family and commercial real estate, consumer, land, construction and commercial business loans in the Association's primary market area. The Association also invests in mortgage-backed and other securities permissible for a federally-chartered savings association. As a member of the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC"), the Association's deposits are insured up to applicable limits.

The executive offices (corporate headquarters) of the Company are located at 6 Executive Plaza, Yonkers, New York 10701, and its telephone number at that address is (914) 965-2500.

Market Area

The Company conducts its banking operations through its main office located at One Manor House Square, Yonkers, New York and three branch offices located in Yonkers, New York. A corporate headquarters office is also maintained in Yonkers, New York. The Company's market area for deposits includes the City of Yonkers and surrounding communities. The Company's primary market area for its lending activities consists of communities within Westchester County and portions of Rockland, Putnam and Dutchess Counties, New York.

Yonkers is located in Westchester County approximately 10 miles north of the Borough of Manhattan in New York City. Yonkers and the surrounding communities include a diverse population of low- and moderate-income neighborhoods as well as middle class and more affluent neighborhoods. The housing in the low- and moderate-income neighborhoods consists mainly of apartments while other areas consist primarily of single-family residences. The Company's market area also includes substantial commercial areas containing shopping areas, office and medical facilities and small- and medium-size manufacturing and industrial facilities.

Lending Activities

General. Historically, the Company originated 30-year, fixed-rate mortgage loans secured by one- to four-family residences. Since the mid-1980s, in order to reduce its vulnerability to changes in interest rates, the Company has also originated adjustable-rate mortgage ("ARM") loans and home equity lines of credit. Currently, the Company sells all of its conforming new 30-year, fixed-rate loan originations in the secondary market. The Company also offers multi-family and commercial real estate, consumer, construction and land loans.

The following table sets forth the composition of the loan portfolio, by category, in dollar amounts and as a percentage of the total portfolio at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,									
	1996		1995		1994		1993		1992	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real Estate Loans:										
One- to four-family(1)(2)...	$62,283	70.6%	$63,282	74.4%	$64,078	80.7%	$67,633	85.1%	$72,577	86.7%
Multi-family...............	5,471	6.2	5,647	6.6	4,483	5.7	2,281	2.9	1,264	1.5
Commercial.................	9,117	10.3	6,575	7.7	3,176	4.0	2,704	3.4	2,392	2.9
Construction...............	2,175	2.5	2,205	2.6	2,138	2.7	1,472	1.9	1,784	2.1
Land.......................	1,934	2.2	2,112	2.5	814	1.0	914	1.1	1,199	1.4
Total real estate loans..	80,980	91.8	79,821	93.8	74,689	94.1	75,004	94.4	79,216	94.6
Other Loans:										
Consumer loans:										
Home equity................	2,911	3.3	2,389	2.8	1,872	2.4	1,881	2.4	1,815	2.2
Personal...................	1,632	1.8	1,734	2.0	1,704	2.2	1,589	2.0	1,475	1.7
Automobile.................	367	0.4	409	0.5	473	0.6	381	0.5	480	0.6
Home improvement...........	153	0.2	209	0.2	279	0.3	326	0.4	455	0.5
Other......................	790	0.9	474	0.6	273	0.3	81	0.1	73	0.1
Total consumer loans.....	5,853	6.6	5,215	6.1	4,601	5.8	4,258	5.4	4,298	5.1
Commercial business loans.....	1,413	1.6	56	0.1	92	0.1	175	0.2	226	0.3
Total other loans........	7,266	8.2	5,271	6.2	4,693	5.9	4,433	5.6	4,524	5.4
Total loans.............	88,246	100.0%	85,092	100.0%	79,382	100.0%	79,437	100.0%	83,740	100.0%
Less:										
Construction loans in process.	(171)		(293)		(943)		(215)		(260)	
Allowance for loan losses.....	(937)		(719)		(311)		(295)		(490)	
Net deferred loans fees.......	(472)		(401)		(304)		(294)		(288)	
Total loans, net..........	$86,666		$83,679		$77,824		$78,633		$82,702	

</TABLE>

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(1) Includes advances under home equity lines of credit of $7.3 million, $9.1 million, $10.1 million, $11.2 million and $11.5 million, respectively, at September 30, 1996, 1995, 1994, 1993 and 1992.

(2) Includes cooperative apartment loans of $5.5 million, $5.8 million, $5.9 million, $6.7 million and $7.3 million, respectively, at September 30,1996, 1995, 1994, 1993 and 1992.

The following table sets forth the composition of the loan portfolio, by category and by type of interest rate (fixed or adjustable), in dollar amounts and as a percentage of the total portfolio at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,									
	1996		1995		1994		1993		1992	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed-Rate Loans										
Real estate loans:										
One- to four-family...........	$11,805	13.4%	$11,805	13.9%	$ 8,352	10.5%	$10,094	12.7%	$12,985	15.5%
Multi-family..................	47	0.1	715	0.8	539	0.7	550	0.7	29	---
Commercial....................	131	0.1	396	0.5	194	0.2	230	0.3	19	---
Land..........................	49	0.1	49	0.1	49	0.1	49	0.1	49	0.1
Total real estate loans....	12,032	13.7	12,965	15.3	9,134	11.5	10,923	13.8	13,082	15.6
Consumer loans....................	5,853	6.6	5,215	6.1	4,601	5.8	4,258	5.3	4,298	5.1
Total fixed-rate loans.....	17,885	20.3	18,180	21.4	13,735	17.3	15,181	19.1	17,380	20.7
Adjustable-Rate Loans										
Real estate loans:										
One- to four-family(1)(2).....	50,478	57.2	51,477	60.5	55,726	70.2	57,539	72.4	59,592	71.2
Multi-family..................	5,424	6.1	4,932	5.8	3,944	5.0	1,731	2.2	1,235	1.5
Commercial....................	8,986	10.2	6,179	7.2	2,982	3.7	2,474	3.1	2,373	2.8
Construction..................	2,175	2.5	2,205	2.6	2,138	2.7	1,472	1.9	1,784	2.1
Land..........................	1,885	2.1	2,063	2.4	765	1.0	865	1.1	1,150	1.4
Total real estate loans....	68,948	78.1	66,856	78.5	65,555	82.6	64,081	80.7	66,134	79.0
Commercial business loans.........	1,413	1.6	56	0.1	92	0.1	175	0.2	226	0.3
Total adjustable-rate loans	70,361	79.6	66,912	78.7	65,647	82.7	64,256	80.9	66,360	79.3
Total loans.......................	88,246	100.0%	85,092	100.0%	79,382	100.0%	79,437	100.0%	83,740	100.0%
Less:										
Construction loans in process.	(171)		(293)		(943)		(215)		(260)	
Allowance for loan losses.....	(937)		(719)		(311)		(295)		(490)	
Net deferred loan fees........	(472)		(401)		(304)		(294)		(288)	
Total loans, net...........	$86,666		$83,679		$77,824		$78,633		$82,702	

</TABLE>

----

(1) Includes advances under home equity lines of credit of $7.3 million, $9.1 million, $10.1 million, $11.2 million and $11.5 million, respectively, at September 30, 1996, 1995, 1994, 1993 and 1992.

(2) Includes cooperative apartment loans of $5.5 million, $5.8 million, $5.9 million, $6.7 million and $7.3 million, respectively, at September 30, 1996, 1995, 1994, 1993 and 1992.

The following table sets forth the contractual maturity of the Company's loans at September 30, 1996. The table reflects the entire unpaid principal balance of a loan in the maturity period that includes the final payment date and, accordingly, does not give effect to periodic principal repayments or possible prepayments. Principal repayments and prepayments totalled $11.8 million, $11.0 million and $15.4 million for the years ended

September 30, 1996, 1995 and 1994, respectively.

<TABLE>
<CAPTION>

At September 30, 1996 (Dollars in Thousands)

	One- to Four-Family(1) Amount	One- to Four-Family(1) Weighted Average Rate	Multi-Family Amount	Multi-Family Weighted Average Rate	Commercial Real Estate Amount	Commercial Real Estate Weighted Average Rate	Construction Amount	Construction Weighted Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Contractual maturity:								
One year or less(2)............	$ 1,204	9.25%	$ ---	---%	$ 229	10.51%	$1,826	10.25%
After one year:								
More than 1 year to 2 years...	1,446	9.44	103	9.13	55	8.50	349	10.25
More than 2 years to 3 years..	1,403	9.61	2	8.25	---	---	---	---
More than 3 years to 5 years..	2,837	9.69	7	8.25	39	9.50	---	---
More than 5 years to 10 years.	4,706	9.06	43	8.00	508	9.00	---	---
More than 10 years to 20 years	13,986	7.94	5,014	8.62	7,291	8.72	---	---
More than 20 years...........	36,701	7.92	302	8.35	995	8.68	---	---
Total after one year.........	61,079	8.17	5,471	8.61	8,888	8.73	349	10.25
Total amount due..................	$62,283	8.19 %	$5,471	8.61%	$9,117	8.78%	$2,175	10.25%

	Land Amount	Land Weighted Average Rate	Consumer and Commercial Business Amount	Consumer and Commercial Business Weighted Average Rate	Total Amount	Total Weighted Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Contractual maturity:						
One year or less(2)............	$1,314	10.43%	$ 240	13.97%	$ 4,813	10.25%
After one year:						
More than 1 year to 2 years...	---	---	417	11.35	2,370	9.86
More than 2 years to 3 years..	---	---	679	11.01	2,084	10.06
More than 3 years to 5 years..	620	10.25	2,318	9.61	5,821	9.71
More than 5 years to 10 years.	---	---	3,494	10.00	8,751	9.43
More than 10 years to 20 years	---	---	118	8.84	26,409	8.29
More than 20 years...........	---	---	---	---	37,998	7.94
Total after one year.........	620	10.25	7,026	10.03	83,433	8.44
Total amount due..................	$1,934	10.37%	$7,266	10.16%	$88,246	8.54%

</TABLE>

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(1) Includes $7.3 million of advances under home equity lines of credit which require minimum interest-only payments for the first five to ten years the advance is outstanding, followed by a balloon payment thereafter.
(2) Includes demand loans, loans having no stated maturity, and overdraft loans.

The following table sets forth the dollar amounts in each loan category at September 30, 1996 that are contractually due after September 30, 1997, and whether such loans have fixed interest rates or adjustable interest rates.

<TABLE>
<CAPTION>

	Due After September 30, 1997		
	Fixed	Adjustable	Total
		(In Thousands)	
<S>	<C>	<C>	<C>
Real estate loans:			
One- to four-family.....................	$11,746	$49,333	$61,079
Multi-family............................	47	5,424	5,471
Commercial..............................	131	8,757	8,888
Construction............................	---	349	349
Land....................................	---	620	620
Total real estate loans..............	11,924	64,483	76,407
Consumer and commercial business loans.......	5,613	1,413	7,026
Total loans..........................	$17,537	$65,896	$83,433

</TABLE>

Pursuant to Federal law, the aggregate amount of loans that the Company is permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of the Association's unimpaired capital and surplus (25% if the security for such loan has a "readily ascertainable" value or 30% for certain residential development loans). At September 30, 1996, based on the 15% limitation, the Company's loans-to-one borrower limit was approximately $5.2 million. On the same date, the Company had no borrowers with outstanding balances in excess of this amount. As of September 30, 1996, the largest dollar amount outstanding to one borrower, or group of related borrowers, was a $1.4 million commercial business loan secured by an assignment to the Company of a note and leasehold mortgage on a research and development facility located in Yonkers, New York. The Company's next largest loan to one borrower or group outstanding totaled $1.1 million at September 30, 1996 and was secured by an office building located in Yonkers, New York. These loans were performing in accordance with their terms at September 30, 1996.

The Company's lending is subject to its written underwriting standards and to loan origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower and property valuations (consistent with the Company's appraisal policy) prepared by independent appraisers. The loan applications are designed primarily to determine the borrower's ability to repay, and the more significant items on the application are verified through use of credit reports, financial statements, tax returns and/or confirmations.

Under the Company's loan policy, the individual processing an application is responsible for ensuring that all documentation is obtained prior to the submission of the application to a loan officer for approval. In addition, the loan officer verifies that the application meets the Company's underwriting guidelines described below. Also, each application file is reviewed to assure its accuracy and completeness.

The Company's lending officers have approval authority for one- to four-family residential loans, other than cooperative apartment ("co-op") loans, up to $250,000. One- to four-family residential loans over $250,000 to $500,000 require the approval of the Company's President or its Vice President and

Chief Lending Officer. Co-op loans up to $500,000 require the approval and/or review of the Chief Lending Officer. The Company's Chief Lending Officer has approval authority for multi-family and commercial real estate loans up to $500,000 and for land loans up to $250,000. Loans in excess of these amounts require the approval of the Company's Executive Committee or Board of Directors. Various officers have approval authority ranging from $2,000 on secured consumer loans, up to $50,000 on fixed-rate home equity loans and up to $30,000 on commercial business loans. Approval authorities on unsecured consumer loans range from $2,000 to $10,000.

Generally, the Company requires title insurance or abstracts on its mortgage loans as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan. The Company also requires flood insurance to protect the property securing its interest when the property is located in a flood plain.

One- to Four-Family Residential Real Estate Lending. The cornerstone of the Company's lending program is the origination of loans secured by mortgages on owner-occupied one- to four-family residences. At September 30, 1996, $62.3 million, or 70.6%, of the Company's loan portfolio consisted of mortgage loans on one- to four-family residences (including $7.3 million of advances under home equity lines of credit and $5.5 million of co-op loans). Substantially all of the residential loans originated by the Company are secured by properties located in the Company's primary lending area. A majority of the mortgage loans originated by the Company are retained and serviced by it. At September 30, 1996, approximately $6.3 million of the Company's one- to four-family residential real estate loans were secured by non-owner occupied properties. At that date, the average outstanding residential loan balance was approximately $72,000.

Since the mid-1980s, the Company has offered ARM loans at rates and on terms determined in accordance with market and competitive factors. The Company offers one-year ARMs for terms of up to 30 years at a margin (generally 275 basis points) over the yield on the Average Weekly One Year U.S. Treasury Constant Maturity Index. The one-year ARM loans currently offered by the Company generally provide for a 200 basis point annual interest rate change cap and a lifetime cap of 600 basis points over the initial rate. The Company also offers a three-year ARM loan which adjusts based on a margin (generally 275 basis points) over the yield on the three-year Treasury Note. The Company's three-year ARM loans have a 200 basis point interest rate cap per adjustment period and a lifetime cap of 500 basis points over the initial rate. The Company also offers ARM loans which are fixed for the first five-, seven- or ten-year period of the loan term and adjust annually thereafter based on a specified margin over the yield on the Average Weekly One Year U.S. Treasury Constant Maturity Index for the remaining loan term. These loans currently provide for an annual interest rate cap not to exceed 300 basis points for the initial adjustment period (and 200 basis points thereafter) and a lifetime cap of 500 basis points.

The Company's ARM loans typically do not adjust below the initial rate. Initial interest rates offered on the Company's ARMs may be 100 to 350 basis points below the fully indexed rate. Although borrowers on such loans are generally qualified at the fully indexed rate, the risk of default on these loans may increase as interest rates increase. See "- Delinquencies and Non-Performing Assets." The Company's ARMs do not permit negative amortization of principal, do not contain prepayment penalties and are not convertible into fixed-rate loans. At September 30, 1996, one- to four-family ARMs (including ARMs earning a fixed rate of interest for an initial period of up to 10 years) totaled $50.5 million, or 57.2% of the Company's total loan portfolio.

The Company also originates home equity lines of credit secured by a lien on the borrower's residence. The Company's home equity lines are generally limited to $250,000. The Company uses the same underwriting standards for home equity lines as it uses for one- to four-family residential mortgage loans. The interest rates for home equity lines of credit float at a stated margin over the lowest prime rate published in The Wall Street Journal and may not exceed 15.75% over the life of the loan. The Company currently offers home equity lines for terms of up to 30 years with interest only paid for the first 10 years of the loan term. At September 30, 1996, the Company had $7.3 million of outstanding advances under home equity lines and an additional $5.0 million of funds committed, but undrawn, under home equity lines of credit.

The Company also offers conventional fixed-rate loans with maximum terms of up to 30 years, although the Company has recently emphasized originations of fixed-rate loans with terms of 10 to 15 years. The interest rate on such loans is generally based on competitive factors. The Company typically underwrites its fixed-rate one- to four-family loans in accordance with Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") standards to permit their sale in the secondary market. The Company currently sells in the secondary market all of the conforming fixed-rate residential loans it originates with maturities of 30 years.

The Company also originates loans secured by co-ops and condominiums located in its market area. Condominium and co-op loans are made on substantially the same terms as one- to four-family loans, except that co-op loans are made only at adjustable rates of interest. At September 30, 1996, the Company had $7.4 million of condominium and co-op loans.

In underwriting one- to four-family residential real estate loans, the Company evaluates the borrower's ability to make principal, interest and escrow payments, as well as the value of the property that will secure the loan and debt-to-income ratios. The Company currently originates residential mortgage loans with loan-to-value ratios of up to 80% for owner-occupied homes (90% with private mortgage insurance to reduce the Company's exposure to 80% or less); up to 65% for non-owner occupied homes; and up to 75% for co-op loans. The Company's home equity lines of credit are originated in amounts which, together with the amount of the first mortgage, generally do not exceed 75% of the appraised value of the property securing the loan.

The Company's residential mortgage loans customarily include due-on-sale clauses giving the Company the right to declare the loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the property subject to the mortgage and the loan is not repaid.

Multi-family and Commercial Real Estate Lending. The Company has increased its emphasis on the origination of permanent multi-family and commercial real estate loans since fiscal 1994, in order to increase the interest rate sensitivity and yield of its loan portfolio and to complement residential lending opportunities. The Company's multi-family and commercial real estate loan portfolio includes loans secured by apartment buildings, office buildings, strip shopping centers and other income producing properties located in its market area. At September 30, 1996, the Company had $9.1 million in commercial real estate loans, representing 10.3% of the total loan portfolio, and $5.5 million in multi-family loans, or 6.2% of the total loan portfolio.

The Company's permanent multi-family and commercial real estate loans generally carry a maximum term of 20 years and have adjustable rates generally based on a specific index, plus a margin. These loans are generally made in amounts of up to 75% of the lesser of the appraised value or the purchase price of the property, with a projected debt service coverage ratio of at least 125%. Appraisals on properties securing multi-family and commercial real estate loans are performed by an independent

appraiser designated by the Company at the time the loan is made. All appraisals on multi-family or commercial real estate loans are reviewed by the Company's management. In addition, the Company's underwriting procedures require verification of the borrower's credit history, income and financial statements, banking relationships, references and income projections for the property. Where feasible, the Company seeks to obtain personal guarantees on these loans.

The table below sets forth, by type of security property, the number and amount of the Company's multi-family and commercial real estate loans at September 30, 1996. Substantially all of the loans referred to in the table below are secured by properties located in the Company's market area. See "-Delinquencies and Non-Performing Assets" for a discussion of the non-performing commercial real estate loan at September 30, 1996.

<TABLE>
<CAPTION>

	Number of Loans	Outstanding Principal Balance	Amount Non-Performing or of Concern
	(Dollars in Thousands)		
Commercial real estate:			
Small business facilities	25	$ 6,034	$214
Office buildings	5	2,150	---
Health care facilities	4	801	---
Industrial real estate	1	132	---
Multi-family	31	5,471	---
Total multi-family and commercial real estate loans	66	$14,588	$214

</TABLE>

At September 30, 1996, the Company's largest commercial real estate loan had an outstanding balance of $1.1 million. This loan was originated in September 1995 and is secured by an office building located in Yonkers. Also at September 30, 1996, the largest multi-family loan had a balance of $438,000 and was secured by a 33-unit apartment building located in Eastchester, New York.

Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the borrower's ability to repay the loan may be impaired.

Construction and Land Lending. The Company originates a modest amount of construction loans to individuals and builders for the construction of residential real estate. At September 30, 1996, the Company's construction loan portfolio totaled $2.2 million, or 2.5% of the total loan portfolio. The Company also currently originates a limited number of land loans primarily for the purpose of developing residential subdivisions. At September 30, 1996, the Company's land loan portfolio totaled $1.9 million, or 2.2% of the total loan portfolio. At September 30, 1996, all of the Company's land loans were made for the purpose of developing residential lots except for two loans totaling $299,000 which were secured by commercial real estate.

Construction loans to individuals for the construction of their residences are structured to convert to permanent loans at the end of the construction phase, which typically runs up to one year. These construction loans have rates and terms comparable to one- to four-family loans then offered by the

Company, except that during the construction phase, the borrower pays interest only at a specified margin over the prime rate. The maximum loan-to-value ratio of owner-occupied single-family construction loans is 75%. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential loans. At September 30, 1996, there were $200,000 of construction loans outstanding to persons intending to occupy the premises upon the completion of the construction.

The Company also originates construction loans to builders of one- to four-family residences. Such loans generally carry terms of up to two years and require the payment of interest only for the loan term. The maximum loan-to-value ratio on loans to builders for the construction of residential real estate is 75%. When practical, the Company seeks to obtain personal guarantees on such loans. The Company generally limits loans to builders for the construction of homes on speculation for sale to two homes per builder. At September 30, 1996, the Company had $2.0 million of construction loans outstanding to builders of one- to four-family residences.

The Company's construction loan agreements generally provide that loan proceeds are disbursed in increments as construction progresses. The Company reviews the progress of the construction of the dwelling before disbursements are made.

The Company also makes loans to builders and developers for the development of one- to four-family lots in the Company's market area. All of the Company's land loans have been originated with adjustable rates of interest tied to the prime rate of interest and have terms of five years or less. Land loans are generally made in amounts up to a maximum loan-to-value ratio of 65% on raw land and up to 75% on developed building lots based upon an independent appraisal. When feasible, the Company obtains personal guarantees for its land loans.

The table below sets forth, by type of security property, the number and amount of the Company's construction and land loans at September 30, 1996, all of which are secured by properties located in the Company's market area. See "- Delinquencies and Non-Performing Assets" for a discussion of certain of the non-performing loans and other loans of concern at September 30, 1996.

<TABLE>
<CAPTION>

<S>	Number Of Loans <C>	Loan Commitment <C>	Outstanding Principal Balance <C>	Amount Non-Performing or of Concern <C>
	(Dollars in Thousands)			
Single-family construction	11	$2,175	$2,004	$1,180
Residential land	5	1,635	1,635	201
Other land	2	299	299	299
Total construction and land loans	18	$4,109	$3,938	$1,680

</TABLE>

Construction and land loans are obtained principally through referrals from the Company's and management's contacts in the business community as well as existing and walk-in customers. The application process includes a submission to the Company of accurate plans, specifications and costs of the project to be constructed/developed. These items are used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of current appraised value and/or the cost of construction (land plus building).

Construction and land lending generally affords the Company an opportunity to receive interest at rates higher than those obtainable from permanent residential loans and to receive higher origination and other loan fees. In addition, construction and land loans are generally made with adjustable rates of interest or for relatively short terms. Nevertheless, construction and land lending is generally considered

to involve a higher level of credit risk than one- to four-family residential lending due to the concentration of principal in a limited number of loans and borrowers, as well as the effects of general economic conditions on development properties and on real estate developers and managers. In addition, the nature of these loans is such that they are more difficult to evaluate and monitor. Finally, the risk of loss on construction and land loans is dependent largely upon the accuracy of the initial estimate of the individual property's value upon completion and the estimated cost (including interest) of construction. If the cost estimate proves to be inaccurate, the Company may be required to advance funds beyond the amount originally committed to permit completion of the property.

Consumer Lending. In order to increase the interest rate sensitivity of the loan portfolio and provide a broader range of loan products to its retail customers, the Company originates a variety of consumer loans, including automobile, home equity, deposit account and other loans for household and personal purposes. At September 30, 1996, consumer loans totaled $5.9 million, or 6.6% of total loans outstanding. The Company intends to emphasize its consumer lending in the future and to consider hiring an additional consumer lending officer in order to increase volume.

Consumer loan terms vary according to the type of loan and value of collateral, length of contract and creditworthiness of the borrower. The Company's consumer loans are made at fixed interest rates, with terms of up to 10 years. Home equity loans are made at fixed rates up to a maximum loan amount of $50,000.

The underwriting standards employed by the Company for consumer loans include a determination of the applicant's payment history on other debts and the ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 1996, there were $43,000 of consumer loans delinquent 90 days or more. There can be no assurance that delinquencies will not increase in the future.

Commercial Business Lending. Federally chartered savings institutions, such as the Company, are authorized to make secured or unsecured loans and letters of credit for commercial, corporate, business and agricultural purposes and to engage in commercial leasing activities, up to a maximum of 20% of total assets, provided that amounts in excess of 10% relate to small business loans (as defined). The Company may from time to time make a limited number of secured and unsecured commercial loans to local businesses. At September 30, 1996, the Company had $1.4 million of commercial business loans outstanding, representing 1.6% of the total loan portfolio.

The Company's commercial business lending policy includes credit file documentation and analysis of the borrower's character and capacity to repay the loan, the adequacy of the borrower's capital and collateral, and an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's current credit analysis.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Originations, Purchases and Sales of Loans

Loan applications are taken at each of the Company's offices. Applications are processed and approved at the Company's Loan Center which is located in one of the branch offices, except for consumer loans which are processed and approved at the main office. The Company currently offers incentives to employees for loan referrals. The Company also employs a commissioned loan originator to assist in the process of obtaining loans.

While the Company originates both fixed- and adjustable-rate loans, its ability to originate loans is dependent upon the relative customer demand for loans in its market. Demand is affected by the local economy and the interest rate environment.

Historically, most of the fixed-rate one- to four-family residential loans originated by the Company were retained in its portfolio. However, in order to reduce its vulnerability to changes in interest rates, the Company currently sells in the secondary market all of the conforming fixed-rate residential loans it originates with maturities of 30 years. When loans are sold, the Company typically retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. At September 30, 1996, the Company serviced $14.0 million of mortgage loans for others.

From time to time, in order to supplement loan demand in the Company's market area, the Company has acquired mortgage-backed securities which are held, depending on the investment intent, in the "held to maturity" or "available for sale" portfolios. See "- Investment Activities - Mortgage-Backed Securities" and Note 2 of the Notes to Consolidated Financial Statements.

The following table sets forth the Company's loan originations, sales, repayments and other portfolio activity for the periods indicated.

<TABLE>
<CAPTION>

	For the Year Ended September 30,		
	1996	1995	1994
	(In Thousands)		
<S>	<C>	<C>	<C>
Unpaid principal balances at beginning of year.............	$85,092	$79,382	$79,437
Loans originated:			
Real estate loans			
One- to four-family(1)...............................	9,142	7,787	11,767
Multi-family...	174	1,328	2,593
Commercial...	2,740	3,548	600
Construction...	1,285	755	2,228
Land...	---	1,300	327
Consumer and commercial business loans.................	4,415	2,732	3,015
Total loans originated...............................	17,756	17,450	20,530
Loans sold:			
One- to four-family real estate loans..................	(1,886)	(387)	(5,148)

Principal repayments:			
Real estate loans......................................	(9,389)	(8,807)	(12,616)
Consumer and commercial business loans.................	(2,391)	(2,154)	(2,755)
Total principal repayments...........................	(11,780)	(10,961)	(15,371)
Charge-offs...	(333)	(89)	(66)
Transfers to real estate owned............................	(603)	(303)	---
Unpaid principal balances at end of year..................	88,246	85,092	79,382
Less:			
Construction loans in process..........................	(171)	(293)	(943)
Allowance for loan losses..............................	(937)	(719)	(311)
Net deferred loan fees.................................	(422)	(401)	(304)
Net loans at end of year..................................	$86,666	$83,679	$77,824

</TABLE>

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(1) Consists of (i) adjustable-rate loans of $5.6 million, $3.4 million and $9.0 million, and (ii) fixed-rate loans of $3.5 million, $4.4 million and $2.8 million for the years ended September 30, 1996, 1995 and 1994, respectively.

Delinquencies and Non-Performing Assets

Delinquency Procedures. When a borrower fails to make a required payment on a loan, the Company attempts to cure the delinquency by contacting the borrower. A late notice is sent on all loans over 16 days delinquent. Additional written and verbal contacts may be made with the borrower between 30 and 90 days after the due date. If the loan is contractually delinquent 60 days, the Company usually sends a 30-day demand letter to the borrower and, after the loan is contractually delinquent 91 days, institutes appropriate action to foreclose on the property. If foreclosed, the property is sold at auction and may be purchased by the Company. Delinquent consumer loans are generally handled in a similar manner. The Company's procedures for repossession and sale of consumer collateral are subject to various requirements under New York consumer protection laws.

Real estate acquired by the Company as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired or expected to be acquired

by foreclosure or deed in lieu of foreclosure, it is recorded at estimated fair value less the estimated cost of disposition, with the resulting write-down charged to the allowance for loan losses. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized.

The following table sets forth certain information with respect to loan portfolio delinquencies at the dates indicated.

<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	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:								
One- to four-family............	12	$1,513	17	$1,757	13	$1,151	26	$2,759
Multi-family...................	---	---	---	---	1	214	2	389
Construction...................	---	---	3	511	---	---	2	279
Land...........................	---	---	3	250	---	---	1	49
Commercial.....................	1	383	1	214	---	---	---	---
Consumer loans.....................	3	5	7	43	2	67	7	54
Total......................	16	$1,901	31	$2,775	16	$1,432	38	$3,530

Delinquent loans to total loans	2.15%	3.14%	1.68%	4.15%
	====	====	====	====

</TABLE>

Classification of Assets. Federal regulations require that each savings institution classify its own assets on a regular basis. In addition, in connection with examinations of savings institutions, OTS and FDIC examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful, and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets, with the additional characteristics that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset on the balance sheet of the institution is not warranted. Assets classified as substandard or doubtful require the institution to establish prudent general allowances for loan losses. If an asset or portion thereof is classified as loss, the institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. If an institution does not agree with an examiner's classification of an asset, it may appeal this determination to the Regional Director of the OTS. On the basis of management's review, at September 30, 1996, the Company had classified $2.2 million of loans and $603,000 of real estate owned as substandard, and $16,000 of loans as doubtful.

The Company's classified assets consist principally of non-performing loans, real estate owned and certain other loans of concern discussed herein. As of the date hereof, these asset classifications are substantially consistent with those of the OTS and FDIC.

Non-Performing Assets. The table below sets forth the amounts and categories of the Company's non-performing assets at the dates indicated. Loans are placed on non-accrual status when the collection of principal or interest becomes doubtful. Real estate owned represents properties acquired in settlement of loans.

<TABLE>
<CAPTION>

	At September 30,				
	1996	1995	1994	1993	1992
		(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Non-accruing loans past due 90 days or more:					
Real estate loans					
One- to four-family............................	$1,757	$2,759	$2,229	$ 479	$ 514
Multi-family(1)................................	---	389	389	399	878
Commercial.....................................	214	---	---	---	---
Land...	250	49	---	---	---
Construction...................................	511	279	---	217	379
Consumer loans...................................	43	54	45	62	2
	-------	-------	-------	-------	--------
Total..	2,775	3,530	2,663	1,157	1,773
Real estate owned, net...............................	603	227	73	242	---
	-------	-------	-------	------	---------
Total non-performing assets..........................	$3,378	$3,757	$2,736	$1,399	$1,773
	======	======	======	======	======
Allowance for loan losses............................	$ 937	$ 719	$ 311	$ 295	$ 490
	======	======	======	======	=======
Ratios:					
Non-performing loans to total loans..............	3.14%	4.15%	3.35%	1.46%	2.12%
Non-performing assets to total assets............	1.30	1.80	1.40	0.77	1.05
Allowance for loan losses to:					
Non-performing loans...........................	33.77	20.37	11.68	25.50	27.64
Total loans....................................	1.06	0.84	0.39	0.37	0.59

</TABLE>

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(1) Includes a participation loan classified as a troubled debt

restructuring of $309,000, $309,000, $312,000 and $462,000 at September 30, 1995, 1994, 1993 and 1992, respectively. Collections and charge-offs in fiscal 1996 eliminated the recorded investment in this loan.

For the year ended September 30, 1996, gross interest income of $251,000 would have been recorded if the non-accruing loans at September 30, 1996 had remained current in accordance with their original terms. The amount of interest income actually received on such loans in fiscal 1996 was $94,000. See Note 3 of the Notes to Consolidated Financial Statements.

At September 30, 1996, the Company's non-performing loans consisted of 17 loans secured by one- to four-family real estate located in the Company's market area which totaled $1.8 million, one loan for $214,000 secured by commercial real estate, three loans for the construction of one- to four-family real estate which totaled $511,000, three loans secured by land which totaled $250,000 and seven consumer loans which totaled $43,000. At September 30, 1996, real estate owned consisted of four single-family residences with a net carrying value of $603,000.

As of September 30, 1996, the Company's non-accruing loans (other than single-family permanent loans) to individual borrowers with a carrying value of $200,000 or more were as follows:

The Company has two outstanding construction loans to a development company for the purpose of constructing two single-family residences in Yonkers, New York to be sold on speculation. The Company also obtained a personal guarantee from the owner of the company. These loans were placed on non-accrual status due to cash flow

problems experienced by the borrower in developing the property. Although houses have been constructed on the property, the road has not been finished due to the borrower's cash flow problems. The borrower has recently obtained financing from a third party to continue completion of the road. At September 30, 1996, these loans had an outstanding balance of $279,000. The Company also made a land loan for $49,000 to the owner of the development company secured by a parking lot. This loan was over 90 days delinquent at September 30, 1996.

The Company also had a construction loan for $232,000 on a two-family residence in Yonkers, New York, which was over 90 days delinquent at September 30, 1996. In April 1996, this loan was placed on non-accrual status due to the borrower's inability to comply with the present loan repayment terms. The house has been completed and is currently being marketed for sale.

The only non-performing commercial real estate loan at September 30, 1996 was a loan for $214,000 secured by a store and five apartments located in Yonkers, New York. This loan was placed on non-accrual status due to cash flow problems experienced by the borrower on collecting rental income on the subject property. If the borrower cannot bring the account current, the Company will start legal action to foreclose on the mortgage. In addition, the Company also has a $113,000 home equity loan to the same borrower on a personal residence which is also on non-accrual status.

Other Loans of Concern. In addition to the non-performing loans and real estate owned set forth in the preceding table, as of September 30, 1996 there were $919,000 of "other loans of concern." These are loans with respect to which known information about the possible credit problems of the borrowers or the cash flows of the security properties have caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the non-performing asset categories. Management has considered the Company's non-performing loans and other loans of concern in establishing the allowance for loan losses.

As of September 30, 1996, the Company had the following loans of concern with carrying values in excess of $200,000:

The Company has a $250,000 land loan, secured by a lot located in Paterson, New York, which was structured from its inception to provide for payments of interest only during the term of the loan with the principal payment to be made upon maturity. The borrower intended to build a commercial building on the security property. At September 30, 1996, although this loan was performing, it was classified substandard due to hazardous building materials on an adjacent lot which may result in a decline in value of the security property. Although a phase I environmental study performed on the security property did not disclose any contamination to the security property from the adjoining lot, the contamination on the adjacent lot has prevented the borrower from using the security property for its intended purpose. As a result of the problems associated with the adjacent lot, the loan was renewed at a market rate of interest and its term was extended until January 1997. The borrower is continuing to make interest payments on this loan as required by the terms of the loan agreement and is waiting for the resolution of the problem with the adjacent property.

The Company also has a development loan secured by 25 residential lots located in Dutchess County, New York. Sales of lots have been slow, and the Company has

renewed the loan several times at market rates and terms. At September 30, 1996, six of the 15 lots in phase I had been sold and construction of the homes completed. This loan was performing and had an outstanding balance of $314,000 at September 30, 1996. On such date, the Company also had two construction loans to the same borrower totaling $355,000 for the construction of two single-family homes in this development. Although such loans were current at September 30, 1996, the Company considers these loans to be of concern due to the slow sales in the development.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to operations based on management's evaluation of the risk inherent in the loan portfolio. The allowance is established as an amount that management believes will be adequate to absorb probable losses on existing loans. Management's evaluation of the adequacy of the allowance, which is subject to periodic review by the Company's regulators, takes into consideration such factors as the historical loan loss experience, known and inherent risks in the portfolio, changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, estimated value of underlying collateral, and current economic conditions that may affect borrowers' ability to pay. While management believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in adjustments to the allowance for loan losses, and net earnings could be significantly affected, if circumstances differ substantially from the estimates made in making the final determination.

The following table sets forth activity in the allowance for loan losses for the periods indicated.

<TABLE>
<CAPTION>

	For the Year Ended September 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year	$719	$311	$295	$490	$606
Provision for losses	462	493	64	313	17
Charge-offs:					
Real estate loans					
One- to four-family	(97)	(76)	(64)	(19)	(7)
Multi-family(1)	(203)	---	---	(477)	(108)
Consumer and commercial business loans	(33)	(13)	(2)	(12)	(18)
Total charge-offs	(333)	(89)	(66)	(508)	(133)
Recoveries	89	4	18	---	---
Net charge-offs	(244)	(85)	(48)	(508)	(133)
Balance at end of year	$937	$719	$311	$295	$490
Ratio of net charge-offs to average total loans	0.29%	0.10%	0.06%	0.62%	0.16%

</TABLE>

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(1) Charge-offs in fiscal 1996, 1993 and 1992 relate to the Company's purchased participation interests in three multi-family loans originated by the Thrift Associations Service Corporation ("TASCO"). All such purchased participations have been collected or charged-off at September 30, 1996.

The following table sets forth the allowance for loan losses allocated by loan category, the total loan amounts by category, and the percent of loans in each category to total loans at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,								
	1996			1995			1994		
	Allowance Amount	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Allowance Amount	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Allowance Amount	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans
							(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:									
One- to four-family.	$538	$62,283	70.6%	$ 302	$63,282	74.4%	$ 188	$64,078	80.7%
Multi-family........	11	5,471	6.2	64	5,647	6.6	64	4,483	5.7
Commercial..........	91	9,117	10.3	66	6,575	7.7	20	3,176	4.0
Construction........	74	2,175	2.5	75	2,205	2.6	16	2,138	2.7
Land(1).............	166	1,934	2.2	171	2,112	2.5	8	814	1.0
Consumer and commercial business loans.	57	7,266	8.2	41	5,271	6.2	15	4,693	5.9
Total.................	$937	$88,246	100.0%	$ 719	$85,092	100.0%	$ 311	$79,382	100.0%

</TABLE>

<TABLE>
<CAPTION>

	1993			1992		
	Allowance Amount	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Allowance Amount	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate loans:						
One- to four-family.	183	$67,633	85.1%	$ 225	$72,577	86.7%
Multi-family........	61	2,281	2.9	197	1,264	1.5
Commercial..........	17	2,704	3.4	12	2,392	2.9
Construction........	12	1,472	1.9	19	1,784	2.1
Land(1).............	9	914	1.1	12	1,199	1.4
Consumer and commercial business loans.	13	4,433	5.6	25	4,524	5.4
Total.................	295	$79,437	100.0%	$ 490	$83,740	100.0%

</TABLE>

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(1) The allowance at both September 30, 1996 and 1995 includes $150,000 allocated to land loans "of concern." See "- Other Loans of Concern."

Investment Activities

General. The Company utilizes mortgage-backed and other securities in virtually all aspects of its asset/liability management strategy. In making investment decisions, the Board of Directors considers, among other things, the Company's yield and interest rate objectives, its interest rate and credit risk position, and its liquidity and cash flow.

Yonkers Savings must maintain minimum levels of investments that qualify as liquid assets under OTS regulations. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained.

Generally, the investment policy of the Company is to invest funds among categories of investments and maturities based upon the Company's asset/liability management policies, investment quality, loan and deposit volume, liquidity needs and performance objectives. Statement of Financial Accounting Standards ("SFAS") No. 115 requires that securities be classified into three categories: trading, held to maturity, and available for sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings. Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. All other securities not classified as trading or held to maturity are classified as available for sale. Available-for-sale securities are reported at fair value with unrealized gains and losses included, on an after-tax basis, in a separate component of equity. At September 30, 1996, the Company had no securities classified as trading. At September 30, 1996, $58.6 million, or 38.1% of the Company's mortgage-backed and other securities portfolio was classified as available for sale. The remaining $95.0 million, or 61.9% of the Company's securities portfolio, was classified as held to maturity.

Mortgage-Backed Securities. The Company invests in mortgage-backed securities in order to supplement loan production and achieve its asset/liability management goals. Substantially all of the mortgage-backed securities owned by the Company are issued, insured or guaranteed either directly or indirectly by a federal agency or are rated "AA" or higher. As of September 30, 1996, the Company did not have any mortgage-backed securities of a single issuer in excess of 10% of the Company's equity, except for federal agency obligations. At September 30, 1996, the Company had $58.1 million and $22.7 million, respectively, of mortgage-backed securities classified as held to maturity and as available for sale.

Consistent with its asset/liability management strategy, at September 30, 1996, $48.8 million, or 60.4% of the Company's mortgage-backed securities had adjustable interest rates. In addition, as discussed below, at September 30, 1996, the Company had $14.5 million of CMOs with anticipated average lives of five years or less. For additional information regarding the Company's mortgage-backed securities portfolio, see Note 2 of the Notes to Consolidated Financial Statements.

CMOs are securities derived by reallocating the cash flows from mortgage-backed securities or pools of mortgage loans in order to create multiple classes, or tranches, of securities with coupon rates and average lives that differ from the underlying collateral as a whole. The term to maturity of any particular tranche is dependent upon the prepayment speed of the underlying collateral as well as the structure of the particular CMO. As a result, the cash flows (and hence the values) of certain CMOs are subject to substantial change.

Management believes that CMOs at times represent attractive investment alternatives relative to other investments due to the wide variety of maturity and repayment options available through such investments. In particular, the Company has from time to time concluded that short and intermediate duration CMOs (seven-year or less estimated average life) represent a better combination of rate and duration than adjustable rate mortgage-backed securities. At September 30, 1996, the Company held $18.8 million of CMOs.

To assess price volatility, the Federal Financial Institutions Examination Council ("FFIEC") adopted a policy in 1992 which requires an annual "stress" test of mortgage derivative securities. This policy, which has been adopted by the OTS, requires the Company to annually test its CMOs to determine whether they are high-risk or nonhigh-risk securities. Mortgage derivative products with an average life or price volatility in excess of a benchmark 30-year, mortgage-backed, pass-through security are considered high-risk mortgage securities. Under the policy, savings institutions may generally only invest in high-risk mortgage securities in order to reduce interest rate risk. In addition, all high-risk mortgage securities acquired after February 9, 1992 which are classified as high risk at the time of purchase must be carried in the institution's trading account or as assets held for sale. At September 30, 1996, none of the Company's CMOs were classified as "high-risk."

The value of the Company's mortgage-backed securities, particularly those carrying fixed rates, would decline significantly in the event of an increase in interest rates. In addition, a decrease in interest rates could result in an increase in prepayments on the fixed-rate portion of the Company's mortgage-backed securities portfolio. Funds from such prepayments may be reinvested at a lower yield. Similarly, a decline in interest rates would result in the downward adjustment of the rates earned on the Company's adjustable-rate, mortgage-backed securities portfolio resulting in lower yields and interest income in future periods.

The following table sets forth the amortized cost and fair value of the mortgage-backed securities portfolio, by accounting classification category and by type of security, at the dates indicated:

<TABLE>
<CAPTION>

	At September 30,					
	1996		1995		1994	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Held to Maturity						
Pass-through securities(1).............	$41,493	$41,520	$35,586	$35,874	$32,216	$31,768
CMOs(2)................................	16,646	16,478	17,025	16,880	16,965	16,148
Total...............................	58,139	57,998	52,611	52,754	49,181	47,916
Available for Sale						
Pass-through securities(1).............	20,679	20,572	4,151	4,170	5,555	5,514
CMOs(2)................................	2,146	2,139	2,272	2,266	2,348	2,272
Total...............................	22,825	22,711	6,423	6,436	7,903	7,786
Total mortgage-backed securities...........	$80,964	$80,709	$59,034	$59,190	$57,084	$55,702

</TABLE>

----

(1) All pass-through securities are guaranteed by GNMA, FNMA or FHLMC, except for privately issued securities with an amortized cost of $302,000, $422,000 and $548,000 at September 30, 1996, 1995 and 1994, respectively.

(2) All CMOs are guaranteed by GNMA, FNMA or FHLMC, except for privately issued securities with an amortized cost of $65,000, $85,000 and $171,000 at September 30, 1996, 1995 and 1994, respectively.

The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of the Company's mortgage-backed securities at September 30, 1996. The entire amortized cost and fair value of such securities are reflected in the maturity period that includes the final security payment date and, accordingly, no effect has been given to periodic repayments or possible prepayments. In addition, under the structure of some of the Company's CMOs, the Company's short-and intermediate-tranche interests have repayment priority over the longer term tranches of the same underlying mortgage pool.

<TABLE>
<CAPTION>

At September 30, 1996

	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in Thousands)					
Pass-through securities:						
Due after 1 year but within 5 years......	$ 31	$ 33	10.25%	$ ---	$ ---	---%
Due after 5 years but within 10 years....	169	169	6.85	189	198	9.37
Due after 10 years.......................	41,293	41,318	6.90	20,490	20,374	7.40
Total................................	$41,493	$41,520	6.90	$20,679	$20,572	7.42
CMOs:						
Due after 1 year but within 5 years......	$ ---	$ ---	---%	$ 796	$ 796	6.96%
Due after 5 years but within 10 years....	3,401	3,399	6.97	---	---	---
Due after 10 years.......................	13,245	13,079	5.95	1,350	1,343	6.21
Total................................	$16,646	$16,478	6.16	$ 2,146	$ 2,139	6.49

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

	For the Year Ended September 30,		
	1996	1995	1994
	(In Thousands)		
Amortized cost at beginning of year....................	$59,034	$57,084	$61,295
Purchases:			
Pass-through securities:			
Adjustable rate.................................	21,657	8,500	9,966
Fixed rate......................................	10,264	1,000	---
Total pass-through securities.................	31,921	9,500	9,966
CMOs...	---	946	1,957
Total purchases...............................	31,921	10,446	11,923
Sales of pass-through securities.......................	---	(1,285)	(2,289)
Principal repayments...................................	(9,979)	(7,210)	(13,874)
Premium and discount amortization, net.................	(12)	(1)	29
Amortized cost at end of year..........................	$80,964	$59,034	$57,084

Other Securities. To date, the Company's investment strategy has been directed toward high-quality assets (primarily government and agency obligations) with short and intermediate terms (typically seven years or less) to maturity. At September 30, 1996, the Company did not own any investment securities of a single issuer which exceeded 10% of the Company's equity, other than U.S. Government

or federal agency obligations. The Company also invests in high-grade, medium-term (up to five years) corporate debt securities and a variety of mutual funds which invest in adjustable-rate mortgage-backed securities, asset-backed securities, and U.S. Treasury and Agency obligations. See Note 2 of the Notes to Consolidated Financial Statements for additional information regarding the Company's securities portfolio.

From time to time, the Company has invested in "step-up" securities which provide for interest rate increases periodically if the security is not redeemed by the issuer. Because of this "step-up" structure, the Company expects most of these securities to be redeemed prior to maturity. Prior to investing in these securities, the Company analyzes the yield on the security in comparison to the option on the part of the issuer to redeem the security or pay a higher interest rate. A majority of the Company's "step-up" securities have terms of seven years or less and provide for increases in interest rates of 25 to 180 basis points within one to three years of issuance. At September 30, 1996, the Company had $16.0 million of "step-up" securities with a weighted average yield of 5.78%.

The following table sets forth the amortized cost and fair value of other securities, by accounting classification category and by type of security, at the dates indicated:

<TABLE>
<CAPTION>

	At September 30,					
	1996		1995		1994	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Held to Maturity						
U.S. Government and Agency:						
Step-up securities..................	$12,966	$12,651	$20,960	$20,675	$22,432	$21,001
Other securities....................	23,402	23,012	21,393	21,171	15,607	14,600
Corporate bonds.........................	500	501	500	500	500	503
Total...............................	36,868	36,164	42,853	42,346	38,539	36,104
Available for Sale						
U.S. Government and Agency:						
Step-up securities..................	3,000	2,969	2,000	1,985	2,501	2,424
Other securities....................	26,960	27,023	6,951	6,921	3,899	3,783
Mutual fund investments................	6,070	5,849	5,740	5,535	5,432	5,223
Total...............................	36,030	35,841	14,691	14,441	11,832	11,430
Total other securities, net................	$72,898	$72,005	$57,544	$56,787	$50,371	$47,534

</TABLE>

The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of other debt securities at September 30, 1996, by remaining period to contractual maturity.

<TABLE>
<CAPTION>

	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
			(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Government and Agency:						
Due within 1 year........................	$ 2,429	$ 2,437	6.40%	$ ---	$ ---	---%
Due after 1 year but within 5 years......	12,976	12,733	5.32	5,000	4,996	6.47
Due after 5 years but within 10 years....	14,973	14,760	7.06	13,000	13,004	7.47
Due after 10 years.......................	5,990	5,733	6.76	11,960	11,992	8.02
Total................................	$36,368	$35,663	6.34	$29,960	$29,992	7.52
Corporate:						
Due within 1 year........................	$ 500	$ 501	5.96%	$ ---	$ ---	---%

</TABLE>

In addition to its securities portfolios, from time to time the Company holds short-term liquid assets such as money market mutual funds, federal funds sold and interest-bearing deposits. Short-term investments at September 30, 1996 primarily consisted of a $10.2 million investment in a money market mutual fund.

Sources of Funds

General. The Company's primary sources of funds are deposits, payments (including prepayments) of loan principal, interest earned on loans and securities, repayments of securities, borrowings and funds provided from operations.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of regular savings (passbook) accounts, transaction (NOW and checking) accounts, money market accounts, club accounts and certificate accounts. The Company only solicits deposits in its market area and does not accept brokered deposits. The Company relies primarily on competitive pricing policies, advertising and customer service to attract and retain these deposits and provides incentives to employees who refer new deposit customers to the Company. The Company also has ATMs located in two branch offices.

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. As certain customers have become more interest rate conscious, the Company has become more susceptible to short-term fluctuations in deposit flows. The Company manages the pricing of its deposits in keeping with its asset/liability management, profitability and growth objectives. For instance, in fiscal 1993, the Company introduced a 30-month "advantage" certificate account which provided the customer with a one-time increase in rate during the term of the account. At September 30, 1996, the Company had $15.9 million of advantage certificate accounts.

Management believes that the "core" portion of the Company's regular savings, transaction, money market and club accounts can have a lower cost and be more resistant to interest rate changes than certificate accounts. These core accounts decreased $17.7 million during fiscal 1995, but were relatively stable during fiscal 1996. Management believes that the outflow in fiscal 1995 represented the most

interest rate sensitive portion of such accounts and that the majority of the remaining portion of the Company's regular savings, transaction, money market and club accounts are relatively stable sources of deposits. The Company continues to utilize customer service and marketing initiatives (including newspaper advertisements) in an effort to maintain and increase the volume of such deposits. However, the ability of the Company to attract and maintain these accounts (as well as certificate accounts) has been and will continue to be affected by market conditions.

The following table sets forth the deposit activity of the Company for the periods indicated.

<TABLE>
<CAPTION>

	For the Year Ended September 30,		
	1996	1995	1994
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
Balance at beginning of year..................	$188,009	$179,816	$169,508
Deposits......................................	421,132	297,860	261,501
Withdrawals...................................	(426,246)	(296,569)	(256,600)
Interest credited.............................	7,780	6,902	5,407
Balance at end of year........................	$190,675	$188,009	$179,816
Net increase during the year:			
Amount....................................	$ 2,666	$ 8,193	$ 10,308
Percent...................................	1.4%	4.6%	6.1%

</TABLE>

The following table sets forth the distribution of the Company's deposit accounts and the related weighted average interest rates at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,								
	1996			1995			1994		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in Thousands)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Checking accounts...........	$ 1,957	1.0%	--%	$ 2,680	1.4%	---%	$ 2,454	1.4%	---%
NOW accounts................	18,141	9.5	1.86	15,609	8.3	1.73	15,895	8.8	1.74
Money market accounts........	16,599	8.7	2.91	12,484	6.7	2.91	12,722	7.1	2.43
Regular savings accounts	47,832	25.1	2.61	54,794	29.1	2.70	72,257	40.2	2.70
Club accounts...............	1,112	0.6	2.61	1,044	0.6	2.70	970	0.5	2.70
Savings certificate accounts.	105,034	55.1	5.24	101,398	53.9	5.61	75,518	42.0	4.25
Total....................	$190,675	100.0%	3.99%	$188,009	100.0%	4.16%	$179,816	100.0%	3.21%

</TABLE>

The following table sets forth, by interest rate ranges, the amount of savings certificate accounts outstanding at the dates indicated and the period to maturity of savings certificate accounts outstanding at September 30, 1996.

<TABLE>
<CAPTION>

	At September 30, 1996					Total at September 30,	
	Period to Maturity						
Interest Rate Range	Less than One Year	One to Three Years	More than Three Years	Total	Percent of Total	1995	1994
	(Dollars in Thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
4.00% and below.............	$ 39	$ ---	$ ---	$ 39	---%	$ 3,174	$ 44,716
4.01% to 5.00%..............	50,229	2,581	---	52,810	50.3	18,252	17,442
5.01% to 6.00%..............	12,916	20,330	2,559	35,805	34.1	44,359	11,186
6.01% to 7.00%..............	7,236	3,070	5,987	16,293	15.5	34,282	755
7.01% and above.............	87	---	---	87	0.1	1,331	1,419
Total....................	$70,507	$25,981	$ 8,546	$105,034	100.0%	$101,398	$ 75,518

</TABLE>

The following table sets forth the maturity distribution and related weighted average interest rates for savings certificate accounts with balances less than $100,000, accounts of $100,000 or more, and total savings certificates at September 30, 1996.

<TABLE>
<CAPTION>

	Less than $100,000		$100,000 or More		Total	
Maturity Period	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Within three months.....................	$ 18,191	4.97%	$ 2,077	5.14%	$ 20,268	4.99%
After three but within six months.......	18,360	4.88	1,772	4.94	20,132	4.88
After six but within 12 months..........	27,316	5.11	2,791	5.23	30,107	5.12
Total within one year..............	63,867	5.00	6,640	5.13	70,507	5.02
After one but within two years..........	17,023	5.47	1,732	5.75	18,755	5.49

After two but within three years........	6,480	5.53	746	5.49	7,226	5.52
After three but within five years.......	7,113	6.25	1,433	6.44	8,546	6.28
Total..............................	$94,483	5.22%	$10,551	5.43%	$105,034	5.24%

</TABLE>

Borrowings. The Company's other available sources of funds include advances from the FHLB of New York and other borrowings, including repurchase agreements. As a member of the FHLB of New York, the Company is required to own capital stock in the FHLB of New York and is authorized to apply for advances from the FHLB of New York. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB of New York may prescribe the acceptable uses for these advances, as well as limitations on the size of the advances and repayment provisions. At September 30, 1996, the Company had $8.0 million of FHLB advances outstanding. On such date, the Company had a collateral pledge arrangement with the FHLB of New York pursuant to which the Company may borrow up to $61.2 million.

From time to time, the Company enters into repurchase agreements with counterparties such as the FHLB of New York utilizing mortgage-backed and other securities as collateral. At September 30, 1996, the Company had $10.3 million of repurchase agreements outstanding which were collateralized by mortgage-backed securities.

See Note 7 of the Notes to Consolidated Financial Statements for further information concerning the Company's FHLB advances and repurchase agreements.

The following table sets forth information concerning the balances and interest rates on borrowings at the dates and for the periods indicated.

<TABLE>
<CAPTION>

	At or For the Year Ended September 30,		
	1996	1995	1994
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
FHLB advances:			
Balance at end of year.............................	$ 8,000	$4,295	$ 295
Average balance during year........................	2,356	920	295
Maximum outstanding at any month end...............	8,000	4,295	295
Weighted average interest rate at end of year.......	5.73%	6.26%	5.29%
Average interest rate during the year..............	5.52%	5.87%	5.29%
Repurchase agreements:			
Balance at end of year.............................	$10,264	$ ---	$ ---
Average balance during year........................	1,214	1,250	---
Maximum outstanding at any month end...............	10,264	4,000	---
Weighted average interest rate at end of year.......	5.44%	---%	---%
Average interest rate during the year..............	5.35%	6.26%	---%

</TABLE>

Service Corporations

As a federally chartered savings and loan association, the Association is permitted by OTS regulations to invest up to 2% of its assets in the stock of, or loans to, service corporation subsidiaries, and may invest an additional 1% of its assets in service corporations where such additional funds are used for inner-city or community development purposes. In addition to investments in service corporations, federal institutions are permitted to invest an unlimited amount in operating subsidiaries engaged solely in activities which a federal savings association may engage in directly. At September 30, 1996, the Association had no service corporations.

Competition

The Company faces extremely strong competition both in originating real estate loans and in attracting deposits. Competition in originating loans comes primarily from mortgage bankers, commercial banks, credit unions and other savings institutions, which also make loans secured by real estate located in the Company's market area. The Company competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

Competition for deposits is intense given the size of the New York market and the fact that it is the home state for many large regional and money center banks. Competition for deposits is principally from money market and mutual funds, securities firms, commercial banks, credit unions and other savings institutions located in the same communities. The ability of the Company to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of investors as to rate of return, liquidity, risk, convenient locations and other factors. The Company is significantly smaller than most of its competitors which, due to their size and economies of scale, generally offer a broader range of deposit products than the Company. The Company competes for these deposits by offering deposit accounts at competitive rates, convenient business hours, availability of

ATMs and a customer oriented staff. As of June 30, 1996, the latest date such information was available, there were 350 other thrift, commercial bank and credit union offices in Westchester County which compete for deposits. As of June 30, 1995, the Company held approximately 1.0% of total deposits in Westchester County.

Employees

At September 30, 1996, the Company had a total of 43 full-time and 10 part-time employees. None of the Company's employees are represented by any collective bargaining agreement. Management considers its employee relations to be good.

Regulation

General. Yonkers Savings is a federally chartered savings and loan association, the deposits of which are federally insured and backed by the full faith and credit of the United States Government. Accordingly, Yonkers Savings is subject to broad federal regulation and oversight extending to all its operations. Yonkers Savings is a member of the FHLB of New York and is subject to certain limited regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). Prior to December 1995, the Association was a state-chartered savings and loan association and was subject to the regulation of the State of New York Banking Department. Effective December 28, 1995, the Association converted to a federal charter. As the savings and loan holding company of Yonkers Savings, the Holding Company also is subject to federal regulation and oversight. The purpose of holding company regulation is to protect subsidiary savings associations. Yonkers Savings is a member of the SAIF and the deposits of Yonkers Savings are insured by the FDIC. As a result, the FDIC has certain regulatory and examination authority over Yonkers Savings.

Certain of these regulatory requirements and restrictions are discussed below or elsewhere in this document.

Federal Regulation of Savings Associations. The OTS has extensive authority over the operations of savings associations. As part of this authority, Yonkers Savings is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS and the FDIC. The last regular OTS safety and soundness examination of Yonkers Savings was as of September 30, 1995. When these examinations are conducted by the OTS and the FDIC, the examiners may require Yonkers Savings to provide for higher general or specific loan loss reserves. All savings associations are subject to a semi-annual assessment, based upon the savings association's total assets, to fund the operations of the OTS. Yonkers Savings' OTS assessment for the fiscal year ended September 30, 1996 was approximately $62,000.

The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including Yonkers Savings and the Holding Company. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required.

In addition, the investment, lending and branching authority of Yonkers Savings is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by such laws. For instance, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal associations in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings associations are also generally authorized to branch nationwide. Yonkers Savings is in compliance with the noted restrictions.

Yonkers Savings' general permissible lending limit for loans-to-one borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At September 30, 1996, Yonkers Savings' lending limit under this restriction was $5.2 million. Yonkers Savings is in compliance with the loans-to-one borrower limitation.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, internal controls and audit systems, interest rate risk exposure, and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan. A failure to submit a plan or to comply with an approved plan will subject the institution to further enforcement action. The OTS and the other federal banking agencies have also proposed additional guidelines on asset quality and earnings standards. No assurance can be given as to whether or in what form the proposed regulations will be adopted.

Insurance of Accounts and Regulation by the FDIC. Yonkers Savings is a member of the SAIF, which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums, based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premium, while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premium. Risk classifications of all insured institutions are made by the FDIC for each semi-annual assessment period.

The FDIC is authorized to increase assessment rates, on a semiannual basis, if it determines that the reserve ratio of the SAIF will be less than the designated reserve ratio of 1.25% of SAIF-insured deposits. In setting these increased assessments, the FDIC must seek to restore the reserve ratio to that designated reserve level, or such higher reserve ratio as established by the FDIC. The FDIC may also impose special assessments on SAIF members to repay amounts borrowed from the United States Treasury or for any other reason deemed necessary by the FDIC.

On September 30, 1996, federal legislation was enacted that requires the SAIF to be recapitalized with a one-time assessment on virtually all SAIF-insured institutions, such as the Association, equal to 65.7 basis points on SAIF-insured deposits maintained by those institutions as of March 31, 1995. The SAIF special assessment applicable to the Association, which was paid to the FDIC in November 1996,

was approximately $1.2 million. This amount was accrued by the Company at September 30, 1996 by a charge to earnings.

As a result of the SAIF recapitalization, the FDIC has proposed to amend its regulation concerning the insurance premiums payable by SAIF-insured institutions. For the period October 1, 1996 through December 31, 1996, the FDIC has proposed that the SAIF insurance premium for all SAIF- insured institutions that are required to pay the Financing Corporation (FICO) obligation, such as the Association, be reduced to a range of 18 to 27 basis points from 23 to 31 basis points per $100 of domestic deposits. The FDIC has also proposed to further reduce the SAIF insurance premium to a range of 0 to 27 basis points per $100 of domestic deposits, effective January 1, 1997. Management cannot predict whether or in what form the FDIC's final regulation may be promulgated.

Regulatory Capital Requirements. Federally insured savings associations, such as Yonkers Savings, are required to maintain a minimum level of regulatory capital. The OTS has established capital standards, including a tangible capital requirement, a leverage ratio (or core capital) requirement and a risk-based capital requirement applicable to such savings associations. These capital requirements must be generally as stringent as the comparable capital requirements for national banks. The OTS is also authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). Tangible capital generally includes common stockholders' equity and retained earnings, and certain noncumulative perpetual preferred stock and related surplus. In addition, all intangible assets, other than a limited amount of purchased mortgage servicing rights and credit card relationships, must be deducted from tangible capital for calculating compliance with the requirement. At September 30, 1996, Yonkers Savings had no intangible assets.

The OTS regulations establish special capitalization requirements for savings associations that own subsidiaries. In determining compliance with the capital requirements, all subsidiaries engaged solely in activities permissible for national banks or engaged in certain other activities solely as agent for its customers are "includable" subsidiaries that are consolidated for capital purposes in proportion to the association's level of ownership. Debt and equity investments in excludable subsidiaries are deducted from assets and capital. At September 30, 1996, Yonkers Savings had no subsidiaries.

At September 30, 1996, Yonkers Savings had tangible capital of $34.4 million, or 14.0% of adjusted total assets, which is $30.7 million above the minimum requirement of 1.5% in effect on that date.

The capital standards also require core capital equal to at least 3% of adjusted total assets. Core capital generally consists of tangible capital plus certain intangible assets, including a limited amount of purchased mortgage servicing rights and credit card relationships. At September 30, 1996, Yonkers Savings had no intangible assets. In accordance with the prompt corrective action provisions discussed below, however, a savings association must maintain a core capital ratio of at least 4% to be considered adequately capitalized unless its supervisory condition is such to allow it to maintain a 3% ratio.

At September 30, 1996, Yonkers Savings had core capital equal to $34.4 million, or 14.0% of adjusted total assets, which is $27.1 million above the minimum leverage ratio requirement of 3% in effect on that date.

The OTS risk-based capital regulations require savings associations to have total capital of at least 8% of risk-weighted assets. Total capital consists of core capital, as defined above, and

supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based capital requirement only up to the amount of core capital. The OTS is also authorized to require a savings association to maintain an additional amount of total capital to account for concentration of credit risk and the risk of non-traditional activities. At September 30, 1996, Yonkers Savings had no capital instruments that qualify as supplementary capital and $937,000 of general loan loss reserves, which was less than 1.25% of risk-weighted assets.

Certain exclusions from capital and assets are required to be made for the purpose of calculating total capital. Such exclusions consist of equity investments (as defined by regulation) and that portion of land loans and nonresidential construction loans in excess of an 80% loan-to-value ratio and reciprocal holdings of qualifying capital instruments. Yonkers Savings had no such exclusions from capital and assets at September 30, 1996.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, are multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the OTS has assigned a risk weight of 50% for prudently underwritten permanent one- to four-family first lien mortgage loans not more than 90 days delinquent and having a loan to value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or FHLMC.

The OTS has adopted a final rule that requires every savings association with more than normal interest rate risk exposure to deduct from its total capital, for purposes of determining compliance with such requirement, an amount equal to 50% of its interest-rate risk exposure multiplied by the present value of its assets. This exposure is a measure of the potential decline in the net portfolio value of a savings association, greater than 2% of the present value of its assets, based upon a hypothetical 200 basis point increase or decrease in interest rates (whichever results in a greater decline). Net portfolio value is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The rule provides for a two quarter lag between calculating interest rate risk and recognizing any deduction from capital. The rule will not become effective until the OTS evaluates the process by which savings associations may appeal an interest rate risk deduction determination. It is uncertain as to when this evaluation may be completed. Any savings association with less than $300 million in assets and a total risk-based capital ratio in excess of 12% (such as the Association) is exempt from this requirement unless the OTS determines otherwise.

At September 30, 1996, Yonkers Savings had total capital of $35.3 million (including $34.4 million in core capital and $937,000 in qualifying supplementary capital) and risk-weighted assets of $94.9 million (including $4.2 million in converted off-balance sheet items), or total capital of 37.2% of risk-weighted assets. This amount was $27.8 million above the 8% requirement in effect on that date.

Under the prompt corrective action regulations, the OTS and the FDIC are authorized (and, under certain circumstances, required) to take certain actions against savings associations that fail to meet their capital requirements. The OTS is generally required to take action to restrict the activities of an "undercapitalized association" (generally defined as having less than either a 4% core capital ratio, a 4% Tier 1 risked-based capital ratio or an 8% risk-based capital ratio). Any such association must submit a capital restoration plan and until such plan is approved by the OTS may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The OTS is authorized to impose the additional restrictions that are applicable to significantly undercapitalized associations.

As a condition to the approval of the capital restoration plan, any company controlling an undercapitalized association must agree that it will enter into a limited capital maintenance guarantee with respect to the institution's achievement of its capital requirements.

The prompt corrective action regulations also provide that any savings association that fails to comply with its capital plan or is "significantly undercapitalized" (i.e., Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions which may cover all aspects of its operations and include a forced merger or acquisition of the association. An association that becomes "critically undercapitalized" (i.e., a tangible capital ratio of 2% or less) is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the OTS must appoint a receiver (or conservator with the concurrence of the FDIC) for a savings association, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized association is also subject to the general enforcement authority of the OTS and the FDIC, including the appointment of a conservator or a receiver.

The OTS is also generally authorized to reclassify an association into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The imposition by the OTS or the FDIC of any of these measures on Yonkers Savings may have a substantial adverse effect on Yonkers Savings' operations and profitability, and on the value of the Holding Company's common stock. Holding Company shareholders do not have preemptive rights, and therefore, if the Holding Company is directed by the OTS or the FDIC to issue additional shares of common stock, such issuance may result in the dilution in the percentage ownership of present shareholders.

Limitations on Dividends and Other Capital Distributions. OTS regulations impose various restrictions on associations with respect to their ability to make distributions of capital which include dividends, stock redemptions or repurchases, cash-out mergers and transactions charged to the capital account. OTS regulations prohibit an association from declaring or paying any dividends or from repurchasing any of its stock if, as a result, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with its mutual to stock conversion.

Generally, associations (such as Yonkers Savings) that before and after the proposed distribution meet their capital requirements, may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the year-to-date plus 50% of the amount by which the lesser of the association's tangible, core or risk-based capital exceeds its fully phased-in capital requirement for such capital component, as measured at the beginning of the calendar year, or (ii) 75% of net income for the most recent four-quarter period. However, an association deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted.

Associations proposing to make a capital distribution need only submit written notice to the OTS 30 days prior to such distribution. Associations that do not currently meet or would not after the proposed capital distribution meet their minimum capital requirements must obtain OTS approval prior to making such distribution. As a subsidiary of the Holding Company, Yonkers Savings will also be required to give the OTS 30 days' notice prior to declaring any dividend on its stock. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns.

The OTS has proposed regulations that would revise the current capital distribution restrictions. Under the proposal a savings association may make a capital distribution without notice to the OTS (unless it is a subsidiary of a holding company) provided that it has a CAMEL 1 or 2 rating, is not in troubled condition (as defined by regulation) and would remain adequately capitalized (as defined in the OTS prompt corrective action regulations) following the proposed distribution. Savings associations that would remain adequately capitalized following the proposed distribution but do not meet the other noted requirements must notify the OTS 30 days prior to declaring a capital distribution. The OTS stated it will generally regard as permissible that amount of capital distributions that do not exceed 50% of the institution's excess regulatory capital plus net income to date during the calendar year. A savings association may not make a capital distribution without prior approval of the OTS and the FDIC if it is undercapitalized before, or as a result of, such a distribution. As under the current rule, the OTS may object to a capital distribution if it would constitute an unsafe or unsound practice. No assurance may be given as to whether or in what form the regulations may be adopted.

Liquidity. All savings associations, including Yonkers Savings, are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. This liquid asset ratio requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. At the present time, the minimum liquid asset ratio is 5%.

In addition, short-term liquid assets (e.g., cash, certain time deposits, certain bankers acceptances and short-term United States Treasury obligations) currently must constitute at least 1% of an association's average daily balance of net withdrawable deposit accounts and current borrowings.

Penalties may be imposed upon associations for violations of either liquid asset ratio requirement. At September 30, 1996, Yonkers Savings was in compliance with both requirements, with an overall liquid asset ratio of 12.5% and a short-term liquid asset ratio of 3.6%.

Accounting. An OTS policy statement applicable to all savings associations clarifies and reemphasizes that the investment activities of a savings association must be in compliance with approved and documented investment policies and strategies, and must be accounted for in accordance with GAAP. Under the policy statement, management must support its classification of and accounting for loans and securities (i.e., whether held for investment, sale or trading) with appropriate documentation. Yonkers Savings believes it is in compliance with these amended rules.

The OTS has adopted an amendment to its accounting regulations, which may be made more stringent than GAAP by the OTS, to require that transactions be reported in a manner that best reflects their underlying economic substance and inherent risk and that financial reports must incorporate any other accounting regulations or orders prescribed by the OTS.

Qualified Thrift Lender Test. All savings associations, including Yonkers Savings, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. Such assets primarily consist of residential housing related loans and investments. At September 30, 1996, Yonkers Savings met the test and has always met the test since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies as a QTL and thereafter remains a QTL. If an association does not requalify and converts to a national bank charter, it must remain SAIF-insured until the FDIC permits it to transfer to the BIF. If such an association has not yet requalified or converted to a national bank, its new

investments and activities are limited to those permissible for both a savings association and a national bank, and it is limited to national bank branching rights in its home state. In addition, the association is immediately ineligible for additional FHLB borrowings and is subject to national bank limits for payment of dividends. If such association has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. In addition, it must repay promptly any outstanding FHLB borrowings, which may result in prepayment penalties. If any association that fails the QTL test is controlled by a holding company, then within one year after the failure, the holding company must register as a bank holding company and become subject to all restrictions on bank holding companies. See "- Holding Company Regulation."

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), every FDIC insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS, in connection with the examination of Yonkers Savings, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by Yonkers Savings. An unsatisfactory rating may be used as the basis for the denial of an application by the OTS.

The federal banking agencies, including the OTS, have recently revised the CRA regulations and the methodology for determining an institution's compliance with the CRA. Due to the heightened attention being given to the CRA in the past few years, Yonkers Savings may be required to devote additional funds for investment and lending in its local community. Yonkers Savings was examined for CRA compliance by the OTS in September 1996 and received a rating of satisfactory.

Transactions with Affiliates. Generally, transactions between a savings association or its subsidiaries and its affiliates are required to be on terms as favorable to the association as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the association's capital. Affiliates of Yonkers Savings include the Holding Company and any company which is under common control with Yonkers Savings. In addition, a savings association may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. Subsidiaries of a savings association are generally not deemed affiliates; however, the OTS has the discretion to treat subsidiaries of savings associations as affiliates on a case-by-case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the OTS. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated individuals.

Holding Company Regulation. The Holding Company is a unitary savings and loan holding company subject to regulatory oversight by the OTS. As such, the Holding Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Holding Company and its non-savings association subsidiaries (if any) which also permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association.

As a unitary savings and loan holding company, the Holding Company generally is not subject to activity restrictions. If the Holding Company acquires control of another savings association as a

separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Holding Company and any of its subsidiaries (other than Yonkers Savings or any other SAIF-insured savings association) would become subject to such restrictions unless such other associations each qualify as a QTL and were acquired in a supervisory acquisition.

If Yonkers Savings fails the QTL test, the Holding Company must obtain the approval of the OTS prior to continuing after such failure, directly or through its other subsidiaries, any business activity other than those approved for multiple savings and loan holding companies or their subsidiaries. In addition, within one year of such failure the Holding Company must register as, and will become subject to, the restrictions applicable to bank holding companies. The activities authorized for a bank holding company are more limited than are the activities authorized for a unitary or multiple savings and loan holding company. See "- Qualified Thrift Lender Test."

The Holding Company must obtain approval from the OTS before acquiring control of any other SAIF-insured association. Such acquisitions are generally prohibited if they result in a multiple savings and loan holding company controlling savings associations in more than one state. However, such interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings association.

Federal Securities Law. The stock of the Holding Company is registered with the SEC under the Exchange Act. The Holding Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

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

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts). At September 30, 1996, Yonkers Savings was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements that may be imposed by the OTS. See "- Liquidity."

Savings associations are authorized to borrow from the Federal Reserve Bank "discount window," but Federal Reserve Board regulations require associations to exhaust other reasonable alternative sources of funds, including FHLB borrowings, before borrowing from the Federal Reserve Bank.

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

As a member, Yonkers Savings is required to purchase and maintain stock in the FHLB of New York. At September 30, 1996, Yonkers Savings had $1.1 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 1996, dividends paid by the FHLB of New York to Yonkers Savings totaled $72,000 compared to $84,000 for fiscal 1995. Over the past five calendar years (1991-1995) such dividends have averaged 8.6% and were 6.5% for calendar year 1995.

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

Taxation

Federal. The Association and the Holding Company currently file separate federal income tax returns. These returns are filed on a fiscal year basis, as of September 30, using the accrual method of accounting.

Savings associations such as the Association are permitted to establish reserves for bad debts and to make annual additions thereto which may, within specified formula limits, be taken as a deduction in computing taxable income for federal income tax purposes. The amount of the bad debt reserve deduction for "non-qualifying loans" is computed under the experience method. The amount of the bad debt reserve deduction for "qualifying real property loans" (generally loans secured by improved real estate) is also computed under the experience method. A percentage of taxable income method was also available in computing the qualifying loan bad debt deduction for tax years ended on or prior to December 31, 1995.

Under the experience method, the bad debt reserve deduction is an amount determined under a formula based generally upon the bad debts actually sustained by the savings association over a period of years.

Since 1987, the percentage of specially-computed taxable income that was used to compute a savings association's bad debt reserve deduction under the percentage of taxable income method (the "percentage bad debt deduction") was 8%. The percentage bad debt deduction thus computed was reduced by the amount permitted as a deduction for non-qualifying loans under the experience method. The availability of the percentage of taxable income method permitted qualifying savings associations to be taxed at a lower effective federal income tax rate than that applicable to corporations generally (approximately 31.3% assuming the maximum percentage bad debt deduction). Under changes in federal tax law enacted in August 1996, the percentage bad debt deduction has been eliminated for tax years beginning after December 31, 1995. Accordingly, this method will not be available to the Association for its tax years ending September 30, 1997 and thereafter.

Under the percentage of taxable income method, the percentage bad debt deduction could not exceed the amount necessary to increase the balance in the reserve for qualifying real property loans to an amount equal to 6% of such loans outstanding at the end of the taxable year or the greater of (i) the amount deductible under the experience method or (ii) the amount which when added to the bad debt deduction for non-qualifying loans equals the amount by which 12% of the amount comprising savings accounts at year-end exceeds the sum of surplus, undivided profits and reserves at the beginning of the

year. Through September 30, 1996, the 6% and 12% limitations did not restrict the percentage bad debt deduction available to the Association.

The federal tax legislation enacted in August 1996 also imposes a requirement to recapture into taxable income the portion of the qualifying and non-qualifying loan reserves in excess of the "base-year" balances of such reserves. For the Association, the base-year reserves are the balances as of September 30, 1988. Recapture of the excess reserves will occur over a six-year period which could begin for the Association as early as the tax year ending September 30, 1997 (commencement of the recapture period may be delayed, however, for up to two years provided the Association meets certain residential lending requirements). The Association previously established, and will continue to maintain, a deferred tax liability with respect to its federal tax bad debt reserves in excess of the base-year balances; accordingly, the legislative changes will have no effect on total income tax expense for financial reporting purposes.

Also, under the August 1996 legislation, the Association's base-year federal tax bad debt reserves are "frozen" and subject to current recapture only in very limited circumstances. Generally, recapture of all or a portion of the base-year reserves will be required if the Association pays a dividend in excess of the greater of its current or accumulated earnings and profits, redeems any of its stock, or is liquidated. The Association has not established a deferred federal tax liability under SFAS No. 109 for its base-year federal tax bad debt reserves, as it does not anticipate engaging in any of the transactions that would cause such reserves to be recaptured.

In addition to the regular income tax, corporations generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax, and net operating losses can offset no more than 90% of alternative minimum taxable income. For taxable years beginning after 1986 and before 1996, corporations were also subject to an environmental tax equal to 0.12% of the excess of alternative minimum taxable income for the taxable year (determined without regard to net operating losses and the deduction for the environmental tax) over $2 million.

The Association has been audited by the IRS with respect to federal income tax returns through September 30, 1991, and all deficiencies have been satisfied. In the opinion of management, any examination of still open returns would not result in a deficiency which could have a material adverse effect on the financial condition of the Company.

New York State. The Association and the Holding Company currently file combined New York State tax returns on a fiscal year basis. The Company is subject to the New York State Franchise Tax on Banking Corporations in an annual amount equal to the greater of (i) 9% 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) 0.01% of the value of assets allocable to New York State with certain modifications, (b) 3% of "alternative entire net income" allocable to New York State, or (c) $250. In addition, New York also imposes a general surtax on the applicable tax described above. The surtax is scheduled to be reduced to 2.5% for taxable years ending after June 30, 1996 and before July 1, 1997, and to expire thereafter. Entire net income is similar to federal taxable income, subject to certain modifications (including the fact that net operating losses cannot be carried back or carried forward). In addition, New York also imposes a Metropolitan Commuter Transportation District surcharge of 17% that is assessed on the New York State Franchise tax before the general surtax.

In July 1996, New York State enacted legislation to preserve the use of the percentage of taxable income bad debt deduction for thrift institutions such as the Association. In general, the legislation provides for a deduction equal to 32% of the Association's New York State taxable income, which is comparable to the deductions permitted under the prior tax law. The legislation also provides for a floating base year, which will allow the Association to switch from the percentage of taxable income method to the experience method without recapture of any reserve. Previously, the Association had established a deferred New York State tax liability for the excess of its New York State tax bad debt reserves over the amount of its base-year New York State reserves. Since the new legislation effectively eliminated the reserves in excess of the base-year balances, the Company reduced its deferred tax liability by $100,000 (with a corresponding reduction in income tax expense) during the quarter ended September 30, 1996.

Generally, New York State tax law has requirements similar to federal requirements regarding the recapture of base-year tax bad debt reserves. One notable exception is that, after the recent legislation, New York continues to require that at least 60% of the Association's assets consist of specified assets (generally, loans secured by residential real estate or deposits, educational loans, cash and certain government obligations). The Association expects to continue to meet the 60% requirement and does not anticipate engaging in any of the transactions which would require recapture of its base-year reserves. Accordingly, under SFAS No. 109, it has not provided any deferred tax liability on such reserves.

Delaware. As a Delaware company, the Holding Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual fee to the State of Delaware. The Holding Company is also subject to an annual franchise tax imposed by the State of Delaware.

Item 2. Properties

The following table sets forth information concerning the Company's properties at September 30, 1996. The Company's premises had an aggregate net book value of approximately $346,000 at that date.

<TABLE>
<CAPTION>

Location	Year Acquired/Leased	Owned or Leased	Net Book Value at September 30, 1996
			(In Thousands)
Corporate Headquarters:			
6 Executive Plaza Yonkers, New York 10701-9858	1996	Leased	$ 5
Main Office:			
One Manor House Square Yonkers, New York 10701-2701	1976	Owned	123
Full Service Branches:			
780 Palisade Avenue Yonkers, New York 10703	1989	Leased	60
1759 Central Park Avenue Yonkers, New York 10710-2828	1977	Leased	75
2320 Central Park Avenue Yonkers, New York 10710-1216	1986	Leased	83

The Company believes that its current facilities are adequate to meet present needs. In the future, the Company intends to continue to explore branching opportunities to the extent they develop, although no specific proposals are currently under consideration.

The Company's depositor and borrower customer files are maintained by an independent data processing company. The net book value of the computer equipment utilized by the Company at September 30, 1996 was approximately $100,000.

Item 3. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal proceedings arising in the normal course of its business. While the ultimate outcome of these various legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these legal actions should not have a material effect on the Company's financial position, results of operations or liquidity.

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

(a) On October 30, 1996, the Company held a Special Meeting of Stockholders.

(b) At the meeting, stockholders voted on the following matters:

(i) The approval of the 1996 Stock Option and Incentive Plan; and

VOTES:	FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
	2,234,609	215,554	187,454	4,001

(ii) The approval of the 1996 Management Recognition Plan.

VOTES:	FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
	2,119,974	330,760	190,884	0

PART II

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

Page 53 of the attached 1996 Annual Report to Stockholders is herein incorporated by reference.

Item 6. Selected Financial Data

Pages 1 and 2 of the attached 1996 Annual Report to Stockholders are herein incorporated by reference.

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

Pages 3 through 20 of the attached 1996 Annual Report to Stockholders are herein incorporated by reference.

Item 8. Financial Statements and Supplementary Data

Pages 21 through 52 of the attached 1996 Annual Report to Stockholders are herein incorporated by reference.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

There has been no Current Report on Form 8-K filed within 24 months prior to the date of the most recent financial statements reporting a change of accountants and/or reporting disagreements on any matter of accounting principle or financial statement disclosure.

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

Information concerning directors of the Registrant is incorporated herein by reference from the Holding Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Executive Officers Who Are Not Directors

The following are the Company's executive officers who are not also directors as of September 30, 1996.

Joseph L. Macchia. Mr. Macchia, age 45, has been Vice President and Secretary to the Association since 1991, and Vice President and Secretary of the Holding Company since its formation. Mr. Macchia is responsible for the Association's branch administration, consumer lending and savings operations. He is also responsible for the Association's Bank Secrecy Act compliance. Prior to such time, Mr. Macchia served as the Association's Vice President. Mr. Macchia has been employed by the Association since 1972.

Joseph D. Roberto. Mr. Roberto, age 44, is the Vice President, Treasurer and Chief Financial Officer of the Holding Company, a position he has held since its formation, and is Vice President, Treasurer and Chief Financial Officer of the Association. Mr. Roberto was appointed the Association's Vice President and Treasurer in 1991 and Chief Financial Officer in 1995. Mr. Roberto is responsible for the Association's Accounting Department, interest rate risk and asset/liability management as well as the Association's financial reporting. Prior to 1991, Mr. Roberto served as the Association's Secretary and Treasurer. Mr. Roberto has been employed by the Association since 1973.

Philip Guarnieri. Mr. Guarnieri, age 39, is the Vice President and Chief Lending Officer of the Association. Mr. Guarnieri was appointed Vice President and Chief Lending Officer in July 1996. Prior to joining the Association, Mr. Guarnieri was the Vice President for loan origination at Home Federal Savings Bank, Queens, New York. Mr. Guarnieri is responsible for the administration of the Association's real estate lending programs.

Compliance with Section 16(a)

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Holding Company's equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and other equity securities of the Holding Company. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended September 30, 1996, the Registrant complied with all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owner were complied with.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 1997, a copy of which will be filed not later than 120 days after the close of the fiscal year.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements

The following information appearing in the Company's 1996 Annual Report to Stockholders is herein incorporated by reference:

Item	Pages in Annual Report
Independent Auditors' Report	Page 21
Consolidated Balance Sheets as of September 30, 1996 and 1995	Page 22
Consolidated Statements of Income for the Years Ended September 30, 1996, 1995 and 1994	Page 23
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 30, 1996, 1995 and 1994	Page 24
Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994	Page 25
Notes to Consolidated Financial Statements	Pages 26 through 52

<TABLE>
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(a) (2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is not applicable or has been included in the Consolidated Financial Statements.

(a) (3) Exhibits

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto	Sequential Page Number Where Attached Exhibits are Located in this Form 10-K Report
<S>	<C>	<C>	<C>

3(a)	Certificate of Incorporation	*	Not applicable
3(b)	By-Laws	*	Not applicable
4	Instruments defining the rights of security holders, including debentures	*	Not applicable
9	Voting Trust Agreement	None	Not applicable
10	Material Contracts		
	Employment Contract	*	Not applicable
	Management Recognition Plan and Stock Option and Incentive Plan	*	Not applicable
	Change-in-Control Severance Agreements	**	Not applicable
11	Statement re: computation of per share earnings	Not required	Not applicable
12	Statement re: computation of ratios	Not required	Not applicable
13	Annual Report to Security Holders	13	Page ___
16	Letter re: change in certifying accountants	None	Not applicable
18	Letter re: change in accounting principles	None	Not applicable
19	Previously unfiled documents	None	Not applicable
21	Subsidiaries of Registrant	21	Page ___
22	Published report regarding matters submitted to vote of security holders	None	Not applicable
23	Consents of Experts and Counsel	Not required	Not applicable
24	Power of Attorney	Not required	Not applicable
27	Financial Data Schedule	Not required	Not applicable
28	Information from reports furnished to state insurance regulatory authorities	None	Not applicable
99	Additional Exhibits	None	Not applicable

</TABLE>

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* Filed as exhibits to the Company's Form S-1 registration statement filed on December 29, 1995 (File No. 33-81013) pursuant to Section 5 of the Securities Act of 1933, as amended. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

** Filed as exhibits to the Company's Pre-effective Amendment No.1 to its Form S-1 registration statement filed on February 6, 1996 (File No. 33-81013) pursuant to Section 5 of the Securities Act of 1933, as amended. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

(b) Reports on Form 8-K

During the quarter ended September 30, 1996, no current reports on Form 8-K were filed by the Holding Company.

SIGNATURES

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

YONKERS FINANCIAL CORPORATION

By: /s/ Richard F. Komosinski
Richard F. Komosinski, President and Director
(Duly Authorized Representative)

<TABLE>
<CAPTION>

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

<S>	<C>
/s/ Richard F. Komosinski Richard F. Komosinski, President and Director (Principal Executive and Operating Officer)	/s/ William G. Bachop William G. Bachop, Chairman
Date: December 30, 1996	Date: December 30, 1996
/s/ Michael J. Martin Michael J. Martin, Director	/s/ Charles D. Lohrfink Charles D. Lohrfink, Director
Date: December 30, 1996	Date: December 30, 1996

/s/ Donald R. Angelilli Donald R. Angelilli, Director	/s/ Eben T. Walker Eben T. Walker, Director
Date: December 30, 1996	Date: December 30, 1996
/s/ P. Anthony Sarubbi P. Anthony Sarubbi, Director	/s/ Joseph D. Roberto Joseph D. Roberto, Vice President and Treasurer (Principal Financial and Accounting Officer)
Date: December 30, 1996	Date: December 30, 1996

</TABLE>

Exhibit 13

1996 ANNUAL REPORT

YONKERS FINANCIAL CORPORATION

TABLE OF CONTENTS

[YONKERS FINANCIAL CORPORATION LETTERHEAD]

December 30, 1996

To Our Stockholders:

It is with a great deal of pride that I present you with our first Annual Report following our public offering. Our stock conversion was an overwhelming success. To our customers, friends and associates who invested in the Company, we will endeavor to protect and reward your investment. To the directors, officers and staff, we thank you. Our first year as a public company has been a year of transition from our long tradition of operating as a mutual savings and loan association to operating as a stock savings and loan association. This year has been challenging, and on behalf of our directors, officers and employees, it is my pleasure to report to you the fiscal 1996 financial results of Yonkers Financial Corporation, the parent corporation of The Yonkers Savings and Loan Association, FA.

In 1996, we continued to see growth in assets. Assets of the Company increased to $259.5 million compared to $208.3 million at September 30, 1995, a 25% increase. Asset growth was funded primarily through proceeds from the stock offering, borrowings and deposit inflows.

Earnings for the year were $1.5 million as compared to $1.4 million for the year ended September 30, 1995. Net earnings for the 1996 fiscal year were reduced by a one-time federal deposit insurance assessment imposed by Congress to recapitalize the Savings Association Insurance Fund ("SAIF") of $1.2 million, or approximately $700,000 after taxes. Excluding the one-time SAIF special assessment, net earnings would have been approximately $2.2 million for the fiscal year ended September 30, 1996.

The Company's Board of Directors declared its first cash dividend of $.05 per share, which was paid on September 9, 1996.

We look forward to 1997 with great optimism. We continue to make every effort to provide our customers with the very best service by being a community-oriented financial institution and striving to meet their needs. I know I speak for every Yonkers Savings employee when I say we are all dedicated to maximizing shareholder value while offering the finest hometown financial services.

Our new Internet address is "http://www.yonkers.com."

Once again, it has been an exciting year for our directors, officers and employees and we look forward to the challenges which lie ahead.

Sincerely,

/s/ Richard F. Komosinski

Richard F. Komosinski
President

SELECTED CONSOLIDATED FINANCIAL INFORMATION

<TABLE>
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	At or For the Year Ended September 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands, Except Per Share Data)				
<S>	<C>	<C>	<C>	<C>	<C>
Selected Financial Condition Data					
Total assets	$259,534	$208,283	$194,862	$182,717	$169,169
Loans, net(1)	86,666	83,679	77,824	78,633	82,702
Mortgage-backed securities(2):					
Held to maturity	58,139	52,611	49,181	---	---
Available for sale	22,711	6,436	7,786	---	---
Held for investment	---	---	---	61,295	59,083
Other securities(2):					
Held to maturity	36,868	42,853	38,539	---	---
Available for sale	35,841	14,441	11,430	---	---
Held for investment	---	---	---	31,510	16,432
Cash and cash equivalents	12,500	3,261	5,818	7,083	7,239
Deposits	190,675	188,009	179,816	169,508	158,427
Borrowings	18,264	4,295	295	295	---
Stockholders' equity(3)	48,999	15,765	14,156	12,163	10,129
Selected Operating Data					
Interest and dividend income	$16,376	$14,063	$12,460	$12,372	$12,905
Interest expense	7,975	7,004	5,422	5,623	7,357
Net interest income	8,401	7,059	7,038	6,749	5,548
Provision for loan losses	462	493	64	313	17
Net interest income after provision for loan losses	7,939	6,566	6,974	6,436	5,531
Non-interest income:					
Service charges and fees	680	640	529	412	371
Other	22	46	96	247	93
Non-interest expense(4)	6,204	4,779	4,272	3,716	3,301
Income before income tax expense and cumulative effect of change in accounting principle	2,437	2,473	3,327	3,379	2,694

Income tax expense	917	1,033	1,356	1,338	960
Income before cumulative effect of change in accounting principle	1,520	1,440	1,971	2,041	1,734
Cumulative effect of change in accounting for income taxes	---	---	326	---	---
Net income	$ 1,520	$ 1,440	$ 2,297	$ 2,041	$ 1,734

</TABLE>

(footnotes located on following page)

<TABLE>
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	At or For the Year Ended September 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Selected Financial Ratios and Other Data					
Performance Ratios:					
Return on assets (ratio of net income to average total assets)(5)	0.66%	0.72%	1.22%	1.16%	1.09%
Return on equity (ratio of net income to average equity)(5)	4.60	9.61	17.31	17.78	18.29
Average interest rate spread(5)(6)	3.13	3.34	3.58	3.68	3.34
Net interest margin(5)(7)	3.73	3.61	3.80	3.90	3.57
Efficiency ratio(8)	57.12	58.18	55.31	50.16	53.55
Net interest income to non-interest expense	135.41	147.71	164.75	181.62	168.07
Non-interest expense to average total assets	2.70	2.39	2.27	2.11	2.08
Average interest-earning assets to average interest-bearing liabilities(5)	117.07	107.70	107.45	106.84	105.31
Earnings per share, from date of conversion	$ 0.22	---	---	---	---
Capital Ratios and Other Data:					
Average equity to average assets(5)	14.41	7.50	7.04	6.53	5.97
Equity to total assets at end of period	18.88	7.57	7.26	6.66	5.99
Book value per share(9)	$13.72	---	---	---	---
Total risk-based capital(10)	37.19%	18.66	18.67	16.02	14.40
Asset Quality and Other Data:					
Non-performing loans	$ 2,775	$3,530	$2,663	$1,157	$1,773
Real estate owned, net	603	227	73	242	---
Total non-performing assets	$ 3,378	$3,757	$2,736	$1,399	$1,773
Asset quality ratios:					
Non-performing loans to total loans	3.14%	4.15%	3.35%	1.46%	2.12%
Non-performing assets to total assets	1.30	1.80	1.40	0.77	1.05
Allowance for loan losses to:					
Non-performing loans	33.77	20.37	11.68	25.50	27.64
Total loans	1.06	0.84	0.39	0.37	0.59
Number of full-service banking offices	4	4	4	4	4

</TABLE>

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(1) Loans, net, represents total loans less net deferred loan fees, construction loans in process and the allowance for loan losses. The allowance for loan losses at September 30, 1996, 1995, 1994, 1993 and 1992 was $937,000, $719,000, $311,000, $295,000 and $490,000, respectively.

(2) The Company has classified its securities as "held to maturity" or "available for sale" since September 30, 1994, when it adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." See Notes 1 and 2 of the Notes to Consolidated Financial Statements.

(3) Includes additional capital of $31.8 million at September 30, 1996 from the sale of the Holding Company's common stock (other than ESOP shares) in connection with the Association's conversion to stock form on April 18, 1996.

(4) For the year ended September 30, 1996, includes $1.2 million for the special assessment to recapitalize the Savings Association Insurance Fund. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Operating Results for the Years Ended September 30, 1996 and 1995" and Note 6 of the Notes to Consolidated Financial Statements.

(5) Ratio is based on average monthly balances during the indicated periods.

(6) The interest rate spread represents the difference between the

weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.

(7) The net interest margin represents net interest income as a percent of average interest-earning assets.

(8) The efficiency ratio represents non-interest expense (other than the special assessment in 1996 and certain loss provisions in each year) divided by the sum of net interest income and non-interest income (other than net security gains).

(9) Represents stockholders' equity divided by total common shares outstanding at the end of the period.

(10) For definitions and further information relating to the Association's regulatory capital requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and Note 11 of the Notes to Consolidated Financial Statements."

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

General

Yonkers Financial Corporation (the "Holding Company") is the unitary savings association holding company for The Yonkers Savings and Loan Association, FA (the "Association"), a federally chartered savings and loan association and a wholly-owned subsidiary of the Holding Company. Collectively, the Holding Company and the Association are referred to herein as the "Company." On April 18, 1996, the Association converted from a mutual savings and loan association to a stock savings and loan association (the "Conversion"). Concurrent with the Conversion, the Holding Company sold 3,570,750 shares of its common stock in a subscription and community offering at a price of $10.00 per share, for net proceeds of $34.6 million.

The Company's primary market area consists of Westchester County, New York, and portions of Putnam, Rockland and Dutchess Counties, New York. Business is conducted from its executive offices as well as four full-service banking offices located in Yonkers, New York. The Association is a community- oriented savings institution whose business primarily consists of accepting deposits from customers within its market area and investing those funds in mortgage loans secured by one-to four-family residences. To a lesser extent, funds are invested in multi-family and commercial real estate, construction, land, consumer and commercial business loans. The Company also invests in mortgage-backed and other securities. The Holding Company's business activities have been limited to its ownership of the Association and certain short-term and other investments.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income on its interest-earning assets, such as loans and securities, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings. The Company's results of operations are also affected by the provision for loan losses, non-interest income and non-interest expense. Non-interest income primarily consists of service charges and fees on deposit and loan products. The Company's non-interest expenses primarily consist of employee compensation and benefits, occupancy and equipment expenses, federal deposit insurance costs, data processing service fees and other operating expenses.

The Company's results of operations are significantly affected by general economic and competitive conditions (particularly changes in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies. Future changes in applicable laws, regulations or government policies may have a material impact on the Company. Lending activities are influenced by the demand for and supply of housing, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market interest rates (including rates on non-deposit investment alternatives), account maturities, and the levels of personal income and savings in the Company's market area.

Operating Strategy

The Company's basic mission is to maintain its focus as an independent, community-oriented financial institution serving customers in its primary market area. The Board of Directors has sought to accomplish this mission through an operating strategy designed to maintain capital in excess of regulatory requirements and manage, to the extent practical, the Company's loan delinquencies and vulnerability to changes in interest rates. The key components of the Company's operating strategy are to: (i) focus its lending operations on the origination of loans secured by one- to four-family residential real estate; (ii) supplement its one- to four-family residential lending activities with multi-family, commercial real estate, consumer, construction and land loans; (iii) augment its lending activities with investments in mortgage-backed and other securities; (iv) emphasize adjustable rate and/or short and medium duration assets; (v) build and maintain its regular savings, transaction, money market and club accounts; and (vi) increase, at a managed pace, the volume of the Company's assets and liabilities.

Comparison of Financial Condition at September 30, 1996 and 1995

Total assets at September 30, 1996 increased $51.2 million, from $208.3 million at September 30, 1995 to $259.5 million at September 30, 1996. Asset growth was funded primarily through proceeds from the stock offering, as well as from borrowings and deposit inflows. Net proceeds received from the stock offering, which was completed on April 18, 1996, totaled $31.8 million, while borrowings increased $14.0 million and deposit liabilities increased $2.7 million.

Funds provided by the stock offering, borrowings and deposit growth were primarily invested in securities, short-term investments and loans. Securities increased $37.3 million from $116.3 million at September 30, 1995 to $153.6 million at September 30, 1996. Short-term investments increased from $100,000 at September 30, 1995 to $10.3 million at September 30, 1996, reflecting a $10.2 million investment in a money market mutual fund. Net loans increased $3.0 million from $83.7 million at September 30, 1995 to $86.7 million at September 30, 1996.

The securities portfolio at September 30, 1996 reflected a $37.7 million increase in available-for-sale securities and a $457,000 decrease in held-to-maturity securities, compared to a year earlier. The decrease in held-to-maturity securities primarily reflected $22.9 million in principal payments, maturities and calls, substantially offset by purchases of $22.1 million. The increase in available-for-sale securities primarily reflected purchases of $45.0 million, partially offset by $7.3 million in principal payments, maturities and calls. Available-for-sale securities represented 38.1% of the total securities portfolio at September 30, 1996, compared to 17.9% at September 30, 1995. Management has increased the level of available-for-sale securities to enhance the Company's overall financial flexibility, including the ability to reposition the portfolio in response to changes in interest rates and other market conditions.

The overall increase in net loans reflects increases of $2.5 million in commercial real estate loans, $1.4 million in commercial business loans and $638,000 in consumer loans. These increases were partially offset by decreases of $1.0 million in one- to four-family mortgage loans, $178,000 in land loans, $176,000 in multi-family real estate loans and a net increase of $218,000 in the allowance for loan losses.

Total borrowings of $18.3 million at September 30, 1996 reflected a $3.7 million increase in FHLB advances, compared to September 30, 1995, and $10.0 million borrowed under a securities repurchase agreement. The Company began to utilize repurchase agreements during the quarter ended September 30, 1996 as a means of leveraging available capital to support further asset growth and increase net interest income.

Stockholders' equity increased $33.2 million, from $15.8 million at September 30, 1995 to $49.0 million at September 30, 1996. The increase was primarily attributable to capital of $31.8 million raised in the stock offering (net offering proceeds of $34.6 million less Employee Stock Ownership Plan ("ESOP") shares of $2.8 million) and net income of $1.5 million. The ratio of stockholders' equity to

total assets at September 30, 1996 was 18.88%, as compared to 7.57% at September 30, 1995. The book value per share was $13.72 at September 30, 1996.

Total non-performing assets decreased $379,000 from $3.8 million at September 30, 1995 to $3.4 million at September 30, 1996 as a result of a $755,000 reduction in nonaccrual loans past due ninety days or more, partially offset by a $376,000 increase in net real estate owned. The ratio of non-performing assets to total assets decreased to 1.30% at September 30, 1996 from 1.80% at September 30, 1995. The allowance for loan losses increased from $719,000 at September 30, 1995 to $937,000 at September 30, 1996 as a result of additional loan loss provisions of $462,000 less net charge-offs of $244,000. The ratio of the allowance for loan losses to non-performing loans increased to 33.77% at September 30, 1996 from 20.37% at September 30, 1995, and the ratio of the allowance to total loans increased to 1.06% at September 30, 1996 from 0.84%

at September 30, 1995. See "Asset Quality" for further information.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

The following table sets forth average balance sheets, average yields and costs, and certain other information for the years ended September 30, 1996, 1995 and 1994. The average yields and costs were derived by dividing interest income or expense by the average balance of the related assets or liabilities. Average balances were computed based on month-end balances. Management believes that the use of average monthly balances rather than average daily balances did not have a material effect on the information presented. The yields include the effect of deferred fees, discounts and premiums which are included in interest income. No tax-equivalent yield adjustments were made for tax-exempt securities, as the effect thereof was not material.

<TABLE>
<CAPTION>

	For the Year Ended September 30,							
	1996			1995			1994	
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest
				(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assets								
Interest-earning assets:								
Loans(1)................................	$ 85,479	$ 7,471	8.74	$ 80,027	$ 6,937	8.67	$ 78,244	$ 6,292
Mortgage-backed securities(2)...........	66,778	4,346	6.51	58,662	3,813	6.50	55,592	3,465
Other securities(2).....................	60,567	3,807	6.29	51,136	2,988	5.84	43,913	2,381
Other earning assets....................	12,367	752	6.08	5,670	325	5.73	7,375	322
Total interest-earning assets..........	225,191	$16,376	7.27	195,495	$14,063	7.19	185,124	$12,460
Allowance for loan losses.................	(841)			(414)			(356)	
Non-interest-earning assets................	5,062			4,817			3,619	
Total assets..........................	$229,412			$199,898			$188,387	
Liabilities and Equity								
Interest-bearing liabilities:								
NOW, club and money market accounts.....	$ 32,606	$ 788	2.42	$ 28,910	$ 710	2.46	$ 28,626	$ 652
Regular savings accounts(3).............	51,564	1,336	2.59	60,173	1,610	2.68	74,274	2,003
Savings certificate accounts............	104,613	5,656	5.41	90,270	4,582	5.08	69,094	2,752
Total deposits........................	188,783	7,780	4.12	179,353	6,902	3.85	171,994	5,407
Borrowings.............................	3,570	195	5.46	2,170	102	4.70	295	15
Total interest-bearing liabilities.....	192,353	$ 7,975	4.14	181,523	$ 7,004	3.85	172,289	$ 5,422
Non-interest-bearing liabilities...........	3,996			3,389			2,830	
Total liabilities.....................	196,349			184,912			175,119	
Equity....................................	33,063			14,986			13,268	
Total liabilities and equity..........	$229,412			$199,898			$188,387	
Net interest income........................		$ 8,401			$ 7,059			$ 7,038
Average interest rate spread(4)............			3.13%			3.34%		
Net interest margin(5).....................			3.73%			3.61%		
Net interest-earning assets(6).............	$ 32,838			$ 13,972			$ 12,835	
Ratio of total interest-earning assets to								

total interest-bearing liabilities.........	117.07%	107.70%

	Average Yield/Cost
Assets	
Interest-earning assets:	
Loans(1)................................	8.04%
Mortgage-backed securities(2)...........	6.23
Other securities(2).....................	5.42
Other earning assets....................	4.37
Total interest-earning assets..........	6.73
Allowance for loan losses..................	
Non-interest-earning assets................	
Total assets..........................	
Liabilities and Equity	
Interest-bearing liabilities:	
NOW, club and money market accounts.....	2.28%
Regular savings accounts(3).............	2.70
Savings certificate accounts............	3.98
Total deposits........................	3.14
Borrowings..............................	5.08
Total interest-bearing liabilities.....	3.15
Non-interest-bearing liabilities...........	
Total liabilities.....................	
Equity.....................................	
Total liabilities and equity..........	
Net interest income........................	
Average interest rate spread(4)............	3.58%
Net interest margin(5).....................	3.80%
Net interest-earning assets(6).............	
Ratio of total interest-earning assets to total interest-bearing liabilities.......	107.45%

</TABLE>

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(1) Balance is net of deferred loan fees and construction loans in process. Non-accrual loans are included in the balances.
(2) Average balance represents amortized cost.
(3) Includes mortgage escrow accounts.
(4) Average interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average total interest-earning assets.
(6) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

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), and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

<TABLE>
<CAPTION>

	Fiscal 1996 Compared to Fiscal 1995			Fiscal 1995 Compared to Fiscal 1994		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net Change	Volume	Rate	Net Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans....................................	$ 473	$ 61	$ 534	$ 146	$ 499	$ 645
Mortgage-backed securities................	528	5	533	194	154	348
Other securities..........................	560	259	819	394	213	607
Other earning assets......................	413	14	427	(79)	82	3
Total..................................	1,974	339	2,313	655	948	1,603
Interest-bearing liabilities:						
NOW, club and money market accounts.......	89	(11)	78	6	52	58
Regular savings accounts..................	(230)	(44)	(274)	(378)	(15)	(393)
Savings certificate accounts..............	736	338	1,074	925	905	1,830
Borrowings................................	62	31	93	88	(1)	87
Total..................................	657	314	971	641	941	1,582
Net change in net interest income...........	$ 1,317	$ 25	$ 1,342	$ 14	$ 7	$ 21

</TABLE>

Comparison of Operating Results for the Years Ended September 30, 1996 and 1995

General. Net income was $1.5 million for the year ended September 30, 1996 compared to $1.4 million for the year ended September 30, 1995. The $80,000 increase in net income was primarily attributable to a $1.3 million increase in net interest income and a $116,000 decrease in income tax expense, substantially offset by a $1.4 million increase in non-interest expense. Net income for the year ended September 30, 1996 was reduced by a one-time special assessment of $1.2 million (approximately $700,000 after taxes) imposed by federal legislation to recapitalize the Savings Association Insurance Fund ("SAIF"). Excluding this special assessment, net income would have been approximately $2.2 million for the year ended September 30, 1996.

Net Interest Income. Net interest income increased $1.3 million from $7.1 million for the year ended September 30, 1995 to $8.4 million for the year ended September 30, 1996. This increase was primarily attributable to the positive effect of an increase in average earning assets, partially offset by a 21 basis point decrease in the interest rate spread to 3.13% for the year ended September 30, 1996 from 3.34% for the prior year. The increase in average earning assets for the current fiscal year reflects reinvestment of the stock offering proceeds for the period from April 18, 1996 to September 30, 1996, as well as reinvestment of proceeds from borrowings and deposit growth.

Compared to fiscal 1995, market interest rates remained relatively flat in fiscal 1996. The Company realized slightly higher average yields on its interest-earning assets primarily as a result of the reinvestment of principal payments, maturities and calls into higher yielding intermediate term securities, and the increase in the proportion of the Company's assets consisting of non-residential loans. However,

a shift from generally lower rate regular savings accounts to generally higher rate certificate accounts had a negative impact on the Company's average interest-rate spread in fiscal 1996 compared to fiscal 1995.

Interest and Dividend Income. Interest and dividend income totaled $16.4 million for the year ended September 30, 1996, an increase of $2.3 million as compared to interest and dividend income of $14.1 million for the year ended September 30,1995. This increase reflects a $29.7 million increase in total average interest-earning assets and an 8 basis point increase in the average yield on such assets to 7.27% for the year ended September 30, 1996 from 7.19% for the prior year. Interest income on loans increased by $534,000 to $7.5 million for the year ended September 30, 1996 from $6.9 million for the year ended September 30, 1995, reflecting a $5.5 million increase in the average balance of loans and a 7 basis point increase in the average yield. The increase in the average balance of loans was primarily attributable to increases in commercial real estate and commercial business loans. On a combined basis, interest and dividend income on mortgage-backed and other securities increased $1.4 million to $8.2 million for the year ended September 30, 1996 from $6.8 million for the year ended September 30, 1995. This combined increase consisted of (i) an $819,000 increase in interest on other securities, attributable to a $9.4 million increase in the average balance and a 45 basis point increase in the average yield and (ii) a $533,000 increase in interest on mortgage-backed securities, primarily attributable to an $8.1 million increase in the average balance. Interest and dividend income on other earning assets increased $427,000, primarily due to the reinvestment of a portion of the stock offering proceeds in short-term liquid assets.

Interest Expense. Interest expense totaled $8.0 million for the year ended September 30, 1996, an increase of $1.0 million as compared to interest expense of $7.0 million for the year ended September 30, 1995. Interest expense on deposits increased $878,000 to $7.8 million for the year ended September 30, 1996 from $6.9 million for the year ended September 30, 1995. This increase reflects a $9.4 million increase in the average balance of interest-bearing deposits and a 29 basis point increase in the average rate to 4.14% for the year ended September 30, 1996 from 3.85% for the prior year. The increase in average interest-bearing deposits consisted of a $14.3 million increase in average savings certificate accounts (to $104.6 million from $90.3 million) and a $3.7 million increase in average NOW, money market and club accounts, partially offset by an $8.6 million decrease in average regular savings accounts (to $51.6 million from $60.2 million). The overall increase in the average rate paid reflects the continuing shift from generally lower rate regular savings accounts to generally higher rate certificate accounts. Interest expense on borrowings increased $93,000 to $195,000 for the year ended September 30, 1996 from $102,000 for the year ended September 30, 1995. This increase primarily reflects a $1.4 million increase in average borrowings to $3.6 million for the year ended September 30, 1996 from $2.2 million for the prior year, as the Company increased its borrowings to leverage available capital and support further asset growth.

Provision for Loan Losses. The provision for loan losses was $462,000 for the year ended September 30, 1996, compared to $493,000 for prior year. Net loan charge-offs were $244,000 for the year ended September 30, 1996, compared to $85,000 for the year ended September 30, 1995. Non-performing loans totaled $2.8 million at September 30, 1996, down from $3.5 million at September 30, 1995. The allowance for loan losses was $937,000 or 1.06% of total loans at September 30, 1996, compared to $719,000 or 0.84% of total loans at September 30, 1995. The ratio of the allowance for loan losses to non-performing loans was 33.77% at September 30, 1996, compared to 20.37% a year earlier. Management maintains the allowance for loan losses based on the analysis of various factors, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing economic conditions.

Charge-offs for the year ended September 30, 1996 include $203,000 for the settlement of the Company's non-performing interest in a participation loan, as well as $97,000 for three single-family properties that were transferred into real estate owned. The participation loan was originated by the Thrift Association Service Corporation ("TASCO") in 1986 and was secured by a co-op located in Kew Gardens, New York. Management decided to replenish the allowance for the net charge-offs recognized during the year ended September 30,1996 and to further increase the allowance as a result of loan growth and changes in the portfolio mix. Subject to market conditions in the future, the Company intends to continue to expand its multi-family and commercial real estate lending. As a result, these loan categories may represent a larger percentage of the total loan portfolio in the future. Since such loans are generally thought to carry a higher degree of credit risk than one-to four-family residential loans, such a change in the loan portfolio mix would probably result in a further increase in the allowance for loan losses. Although the Company maintains its allowance for loan losses at a level it considers adequate to absorb probable losses, there can be no assurance that such losses will not exceed the estimated amounts or that additional substantial provisions for loan losses will not be required in future periods. See "Asset Quality."

Non-Interest Income. Non-interest income for the year ended September 30, 1996 increased $16,000 to $702,000 from $686,000 for the year ended September 30, 1995. This increase was primarily attributable to a $40,000 increase in service charges and fee income, reflecting higher transaction volume, partially offset by a $29,000 decrease in the net gain on sales of securities.

Non-Interest Expense. Non-interest expense for the year ended September 30, 1996 increased $1.4 million to $6.2 million from $4.8 million for the prior year. The increase was primarily attributable to the one-time SAIF special assessment of $1.2 million (discussed in the next paragraph), an increase of $339,000 in compensation and benefits expense and an increase of $82,000 in occupancy and equipment expense, partially offset by a decrease of $241,000 in other non-interest expense. The increase in compensation and benefits expense primarily reflects recognition of $147,000 in current-year expense associated with the ESOP; merit and performance-based increases for management and staff members; and an increase in the number of employees. The increase in occupancy and equipment expense primarily reflects the leasing of additional space for corporate offices. The decrease in other non-interest expense was primarily attributable to adjustments related to the Company's claim against Nationar, a check-clearing and trust company which failed in February 1995. At that time, the Company had a check clearing balance of $841,000 due from Nationar. Based on management's concerns about the probability of fully collecting this balance, a provision for losses of $168,000 was recognized in other non-interest expense for the year ended September 30, 1995, which reduced the net carrying amount of the claim to $673,000. In June 1996, the Company collected $835,000 in settlement of the claim. The difference of $162,000 between the amount collected and the net carrying amount was reflected as a credit to other non-interest expense for the year ended September 30, 1996. The ratio of non-interest expense to average total assets (excluding the one-time SAIF special assessment) decreased to 2.20% for the year ended September 30, 1996 from 2.39% for the prior year.

The deposits of savings associations such as the Association are insured by the SAIF which, together with the Bank Insurance Fund ("BIF"), comprise the deposit insurance funds administered by the Federal Deposit Insurance Corporation ("FDIC"). BIF-insured institutions have been assessed premiums at lower rates since 1995, when the BIF achieved the ratio of reserves to deposits required by statute. In response to this premium disparity, the Deposit Insurance Funds Act ("Act") was enacted into law on September 30, 1996. Among other things, the Act requires depository institutions to pay a one-time special assessment of 65.7 basis points on their SAIF-assessable deposits as of March 31, 1995, in order to recapitalize the SAIF to the reserve level required by statute. Accordingly, the Company's consolidated statement of income for the year ended September 30, 1996 reflects a separate expense charge of approximately $1.2 million for the accrual of this special assessment which was paid in

November 1996. In view of the recapitalization of the SAIF, the FDIC has reduced the ongoing premium rates and, accordingly, the Company expects to incur substantially lower deposit insurance costs in the year ending September 30, 1997 compared to recent years.

Income Tax Expense. Income tax expense for the year ended September 30, 1996 decreased $116,000 as compared to the prior year although pre-tax income was substantially the same for the two periods. The current-year decrease was primarily attributable to a $100,000 tax benefit recognized in the quarter ended September 30, 1996, due to a decrease in deferred tax liabilities caused by an amendment to the New York State tax law enacted in July 1996. The amendment changed the base-year for tax bad debt reserves to December 31, 1995, and eliminated the need for a deferred tax liability previously recognized for reserves in excess of the base-year amount. See Note 8 of the Notes to Consolidated Financial Statements for a further discussion of this amendment and the Association's tax bad debt reserves.

Comparison of Operating Results for the Years Ended September 30, 1995 and 1994

General. Net income for the year ended September 30, 1995 was $1.4 million, compared to $2.3 million for the year ended September 30, 1994. The $857,000 decrease was primarily attributable to a $429,000 increase in the provision for loan losses, a $507,000 increase in non-interest expense and the absence in fiscal 1995 of a $326,000 credit to earnings which had been recognized in fiscal 1994 as a result of a change in accounting for income taxes. These factors were partially offset by a $323,000 decrease in income tax expense.

Net Interest Income. Net interest income, or the difference between interest and dividend income and interest expense, was substantially unchanged at $7.0 million for each of the years ended September 30, 1995 and 1994. The positive effect of an increase in average net interest-earning assets was substantially offset by a 24 basis point decrease in the average interest rate spread to 3.34% for the 1995 fiscal year from 3.58% for the 1994 fiscal year. The Company's net interest margin declined by 19 basis points to 3.61% for the year ended September 30, 1995 from 3.80% for the year ended September 30, 1994.

Compared to fiscal 1994, market interest rates were higher in fiscal

1995 across the entire U.S. Treasury yield curve. The Company realized higher average yields on its interest-earning assets primarily as a result of upward rate repricings on adjustable-rate assets, the addition of new assets in the higher rate environment and the increase in the proportion of the Company's assets consisting of non-residential loans. However, the Company's interest-bearing liabilities, particularly its savings certificate accounts which had increasing average balances, repriced more quickly in fiscal 1995 than its interest-earning assets. This had a negative impact on the Company's average interest rate spread and net interest margin in fiscal 1995 compared to fiscal 1994.

Interest and Dividend Income. Interest and dividend income totaled $14.1 million for the year ended September 30, 1995, compared to $12.5 million for the year ended September 30, 1994. This increase reflects a $10.4 million increase in total average interest-earning assets in fiscal 1995 compared to the prior fiscal year, and a 46 basis point increase in the average yield on such assets over the same period. Interest income on loans increased by $645,000 to $6.9 million for fiscal 1995 from $6.3 million in the prior year, reflecting a $1.8 million increase in the average balance of loans and a 63 basis point increase in the average yield to 8.67%. The increase in the average balance of loans was primarily due to an increase in commercial real estate, multi-family and land loans. On a combined basis, interest and dividend income on mortgage-backed and other securities increased $955,000 to $6.8 million for fiscal 1995 from $5.8 million for fiscal 1994. The increase was primarily due to a $607,000 increase in

interest on other securities, attributable to a $7.2 million increase in the average balance to $51.1 million and a 42 basis point increase in the average yield to 5.84%. Interest income on mortgage-backed securities increased $348,000 to $3.8 million for fiscal 1995, reflecting a $3.1 million increase in the average balance in a period of modest loan growth and a 27 basis point increase in the average yield due to an increase in market rates of interest.

Interest Expense. Interest expense on deposits increased $1.5 million to $6.9 million for the year ended September 30, 1995, compared to $5.4 million for the year ended September 30, 1994. This increase reflects both a $7.4 million increase in the average balance of interest-bearing deposits in fiscal 1995 compared to fiscal 1994, and a 70 basis point increase in the average rate paid on such liabilities over the same period. The increase in average interest-bearing deposits was primarily attributable to an increase in the average balance of savings certificate accounts to $90.3 million for fiscal 1995 from $69.1 million for fiscal 1994. This increase occurred during a period of generally higher interest rates resulting in the average rate paid on certificate accounts increasing 110 basis points to 5.08%. The combined effect of the higher average balance and rate was an increase of $1.8 million in interest expense on certificates of deposit. The overall increase in interest expense on deposits also reflects a shift from generally lower rate regular savings accounts, the average balance of which declined by $14.0 million from fiscal 1994 to fiscal 1995, to generally higher rate certificate accounts. Interest expense on borrowings increased $87,000 in fiscal 1995 compared to fiscal 1994 due to management's decision to use borrowings to fund a portion of the Company's asset growth.

Provision for Loan Losses. The provision for loan losses increased to $493,000 for the year ended September 30, 1995 from $64,000 for the year ended September 30, 1994. This increase was primarily attributable to an increase in non-performing loans to $3.5 million at September 30, 1995 from $2.7 million at September 30, 1994, and a combined increase of $5.9 million in multi-family, commercial real estate and land loans, which are generally believed to carry higher levels of credit risk than one- to four-family residential loans.

At September 30, 1995, the allowance for loan losses as a percentage of non-performing loans was 20.37%, representing an increase from 11.68% at September 30, 1994. The allowance for loan losses, as a percentage of total loans, rose to 0.84% at September 30, 1995 from 0.39% at September 30, 1994. The percentage of non-performing loans to total loans increased to 4.15% at September 30, 1995 from 3.35% at September 30, 1994. See "Asset Quality."

Non-Interest Income. Non-interest income for the year ended September 30, 1995 increased $61,000 to $686,000 from $625,000 for the year ended September 30, 1994. This increase was primarily attributable to a $111,000 increase in service charges and fees, reflecting an increase in the number of transaction accounts, partially offset by a $49,000 decrease in other non-interest income.

Non-Interest Expense. Non-interest expense increased $507,000 to $4.8 million for the year ended September 30, 1995 from $4.3 million for the year ended September 30, 1994. The Company's ratio of non-interest expenses to average assets increased to 2.39% in fiscal 1995 from 2.27% in fiscal 1994. The increase in non-interest expense primarily reflects an increase in compensation and benefits, and in other non-interest expenses. Compensation and benefits expense increased $94,000 to $2.2 million for fiscal 1995 compared to $2.1 million for fiscal 1994. This increase was primarily attributable to annual salary increases and an increase in the number of employees. Other non-interest expenses increased $259,000 to $1.2 million for fiscal 1995 compared to $990,000 for fiscal 1994 primarily due to the inclusion in fiscal 1995 of a $168,000 provision for losses on the Company's claim filed in connection with the failure of Nationar, as previously discussed.

Income Tax Expense. Income tax expense decreased $323,000, or 23.8%, to $1.0 million for the year ended September 30, 1995 from $1.3 million for the year ended September 30, 1994. This decrease was primarily due to the decrease of $854,000, or 25.7%, in pre-tax income.

Cumulative Effect of Accounting Change. SFAS No. 109, "Accounting for Income Taxes," required a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences of the differences between the tax bases and financial reporting bases of existing assets and liabilities. The Company adopted SFAS No. 109 effective October 1, 1993, which resulted in a cumulative credit to earnings of $326,000.

Asset Quality

Non-performing assets consist of non-accruing loans past due 90 days or more and real estate owned properties that have been acquired by foreclosure. Loans are placed on non-accrual status when the collection of principal or interest becomes doubtful. Management and the Board of Directors perform a monthly review of all non-performing loans. The actions taken by the Company with respect to delinquencies (workout, settlement or foreclosure) vary depending on the nature of the loan, length of delinquency and the borrower's past credit history. The classification of a loan as non-performing does not necessarily indicate that the principal and interest ultimately will be uncollectible. Historical experience indicates that a portion of non-performing assets will eventually be recovered. Real estate owned properties are carried at the lower of cost or fair value less sales costs.

The following table sets forth the amounts and categories of the Company's non-performing assets at the dates indicated.

<TABLE>
<CAPTION>

	At September 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Non-accruing loans past due 90 days or more:					
Real estate loans					
One- to four-family	$1,757	$2,759	$2,229	$ 479	$ 514
Multi-family(1)	---	389	389	399	878
Commercial	214	---	---	---	---
Land	250	49	---	---	---
Construction	511	279	---	217	379
Consumer loans	43	54	45	62	2
Total	2,775	3,530	2,663	1,157	1,773
Real estate owned, net	603	227	73	242	---
Total non-performing assets	$3,378	$3,757	$2,736	$1,399	$1,773
Allowance for loan losses	$ 937	$ 719	$ 311	$ 295	$ 490
Ratios:					
Non-performing loans to total loans	3.14%	4.15%	3.35%	1.46%	2.12%
Non-performing assets to total assets	1.30	1.80	1.40	0.77	1.05
Allowance for loan losses to:					

Non-performing loans	33.77	20.37	11.68	25.50	27.64
Total loans	1.06	0.84	0.39	0.37	0.59

</TABLE>

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(1) Includes a loan classified as a troubled debt restructuring of $309,000, $309,000, $312,000 and $462,000 at September 30, 1995, 1994, 1993 and 1992, respectively. Collection and charge-offs in fiscal 1996 eliminated the recorded investment in this loan.

For the year ended September 30, 1996, gross interest income of $251,000 would have been recorded if the non-accruing loans at September 30, 1996 had remained current in accordance with their original terms. The amount of interest income actually received on such loans in fiscal 1996 was $94,000. See Note 3 of the Notes to the Consolidated Financial Statements.

The allowance for loan losses is established through a provision for loan losses charged to operations based on management's evaluation of the risk inherent in the loan portfolio. The allowance is established as an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on the evaluation of the collectibility of loans and prior loan loss experience. Management's evaluation of the adequacy of the allowance takes into consideration such factors as the historical loan loss experience, known and inherent risks in the portfolio, changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, estimated value of underlying collateral, and current economic conditions that may affect borrowers' ability to pay.

While management believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in adjustments to the allowance for loan losses, and net earnings could be significantly affected, if circumstances differ substantially from the assumptions used in making the final determination.

The following table sets forth activity in the allowance for loan losses for the periods indicated.

<TABLE>
<CAPTION>

	For the Year Ended September 30,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year	$719	$311	$295	$490	$606
Provision for losses	462	493	64	313	17
Charge-offs:					
Real estate loans					
One- to four-family	(97)	(76)	(64)	(19)	(7)
Multi-family(1)	(203)	---	---	(477)	(108)
Consumer loans	(33)	(13)	(2)	(12)	(18)
Total charge-offs	(333)	(89)	(66)	(508)	(133)
Recoveries(2)	89	4	18	---	---
Net charge-offs	(244)	(85)	(48)	(508)	(133)
Balance at end of year	$937	$719	$311	$295	$490
Ratio of net charge-offs to average total loans	0.29%	0.10%	0.06%	0.62%	0.16%

</TABLE>

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(1) Charge-offs in fiscal 1996, 1993 and 1992 relate to the Company's purchased participation interests in three multi-family loans originated by TASCO. All such purchased participations have been collected or charged-off at September 30, 1996.

(2) Recoveries in fiscal 1996 primarily relate to one of the TASCO participation loans which had been partially charged- off in a prior year.

Interest Rate Risk Management

The principal objectives of the Company's interest rate risk management activities are to: (i) define an acceptable level of risk based on the Company's business focus, operating environment, capital and liquidity requirements, and performance objectives; (ii) quantify and monitor the amount of interest rate risk inherent in the asset/liability structure; and (iii) modify the Company's asset/liability structure, as necessary, to manage interest rate risk and maintain net interest margins in changing rate environments. Management seeks to reduce the vulnerability of the Company's operating results to changes in interest rates and to manage the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing periods. The Company does not currently engage in trading activities or use off-balance sheet derivative instruments to control interest rate risk. Even though such activities may be permitted with the approval of the Board of Directors, management does not intend to engage in such activities in the immediate future.

Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that could have an adverse effect on the earnings of the Company. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market interest rates could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Finally, a flattening of the "yield curve" (i.e., a narrowing of the spread between long- and short-term interest rates), could adversely impact net interest income to the extent that the Company's assets have a longer average term than its liabilities.

In managing the Company's asset/liability position, the Board and management attempt to manage the Company's interest rate risk while enhancing net interest margins. However, the Board of Directors continues to believe that the increased net interest income resulting from a mismatch in the maturity of the Company's asset and liability portfolios can, during periods of declining or stable interest rates and periods in which there is a substantial positive difference between long and short-term interest rates (i.e., a "positively sloped yield curve"), provide high enough returns to justify the increased exposure to sudden and unexpected increases in interest rates. As a result, the Company's results of operations and net portfolio values remain significantly vulnerable to increases in interest rates and to fluctuations in the difference between long- and short-term interest rates.

Consistent with its asset/liability management philosophy, the Company has taken several steps to manage its interest rate risk. First, the Company maintains a significant portfolio of interest rate sensitive adjustable-rate loans. At September 30, 1996, adjustable-rate loans represented $70.4 million, or 79.7% of the total loan portfolio. Second, most of the mortgage-backed securities purchased by the Company in recent years had adjustable interest rates and/or short or intermediate effective terms to maturity. At September 30, 1996, the Company had $48.8 million of adjustable-rate mortgage-backed pass-through securities and $14.5 million of collateralized mortgage obligations ("CMOs") with expected weighted average lives of five years or less. Third, a significant portion of the Company's other debt securities (primarily U.S. Government and agency securities) are short- or intermediate-term instruments with $12.4 million of such securities contractually maturing within five years of September 30, 1996. In addition, at September 30, 1996, the Company had $16.0 million of "step-up" securities, a substantial portion of which would likely be redeemed within five years, if interest rates remain at current levels. Fourth, the Company has a substantial amount of regular savings, transaction, money market and club accounts which may be less sensitive to changes in interest rates than certificate accounts. At September 30, 1996, the Company had $47.8 million of regular savings accounts, $16.6 million of money market accounts and $21.2 million of NOW, checking and club accounts. Overall, these accounts comprised 44.9% of the Company's total deposit base.

One approach used by management to quantify interest rate risk is the net portfolio value ("NPV") analysis. In essence, this approach calculates the difference between the present value of liabilities and the present value of expected cash flows from assets and off-balance sheet contracts. Under OTS regulations, an institution's "normal" level of interest rate risk (in the event of an assumed change in interest rates) is a decrease in the institution's NPV in an amount not exceeding 2% of the present value of its assets. Thrift institutions with greater than "normal" interest rate exposure must make a deduction from total capital available to meet risk-based capital requirements. The amount of that deduction is one-half of the difference between (i) the institution's actual calculated exposure to a 200 basis point interest rate increase or decrease (whichever results in the greater pro forma decrease in NPV) and (ii) its "normal" level of exposure which is 2% of the present value of its assets. The rule will not become effective until the OTS evaluates the process by which savings associations may appeal an interest rate risk deduction determination. It is uncertain as to when this evaluation may be completed. Savings institutions, however, with less than $300 million in assets and a total risk-based capital ratio in excess of 12%, such as the Association, are generally not subject to this requirement. If the Association had been subject to this requirement at September 30, 1996, its interest rate risk would have been considered "normal" and no adjustment to its risk-based capital would have been required.

The following table sets forth, at September 30, 1996, an analysis of the Association's interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (+/-400 basis points, measured in 100 basis point increments).

Change in Interest Rates (Basis Points)	Estimated NPV Amount	Estimated Increase (Decrease) in NPV Amount	Percent
	(Dollars in Thousands)		
+400	$21,838	$(17,333)	(44)%
+300	26,545	(12,626)	(32)
+200	31,191	(7,980)	(20)
+100	35,393	(3,778)	(10)
---	39,171	---	---
-100	42,275	3,104	8
-200	44,957	5,786	15
-300	48,453	9,282	24
-400	52,659	13,488	34

Certain assumptions utilized by the OTS in assessing the interest rate risk of thrift institutions were employed in preparing the preceding table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under the various interest rate scenarios. It was also assumed that delinquency rates will not change as a result of changes in interest rates although there can be no assurance that this will be the case. Even if interest rates change in the designated amounts, there can be no assurance that the Association's assets and liabilities would perform as set forth above. In addition, a change in U.S. Treasury rates in the designated amounts accompanied by a change in the shape of the Treasury yield curve would cause significantly different changes to the NPV than indicated above.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and securities and, to a lesser extent, borrowings and proceeds from the sale of loans and securities. While maturities and scheduled amortization of loans and securities provide an indication of the timing

of the receipt of funds, other sources of funds such as loan prepayments and deposit inflows are less predictable due to the effects of changes in interest rates, economic conditions and competition.

The primary investing activities of the Company are the origination of real estate and other loans, and the purchase of mortgage-backed and other securities. During the years ended September 30, 1996, 1995 and 1994, the Company's disbursements for loan originations totaled $17.6 million, $17.2 million and $20.3 million, respectively. For the years ended September 30, 1996, 1995 and 1994, purchases of mortgage-backed securities totaled $31.9 million, $10.4 million and $11.9 million, respectively, and purchases of other securities totaled $35.3 million, $9.3 million and $24.0 million, respectively. These activities were funded primarily by net deposit inflows, borrowings and principal repayments on loans and securities.

For the years ended September 30, 1996, 1995 and 1994, the Company experienced net increases in deposits (including the effect of interest credited) of $2.7 million, $8.2 million and $10.3 million, respectively. The increase in fiscal 1996 reflects relatively flat market interest-rates, customer preference for alternative investments, and deposits withdrawn to purchase stock in the Conversion. The increase in fiscal 1995 reflects the general increase in market interest rates which made deposit products (particularly shorter term certificates of deposit) a more attractive investment alternative for the Company's customers. The increase in fiscal 1994 reflects increased marketing efforts by the Company as well as the effect of two branch office closings by one of the Company's larger competitors in its market area. Proceeds from FHLB advances were $8.0 million in fiscal 1996, $4.0 million in fiscal 1995 and none in fiscal 1994. FHLB advances of $4.3 million were repaid in fiscal 1996. Short-term borrowings outstanding under repurchase agreements were $10.3 million at September 30, 1996, and average borrowings under these agreements were $1.2 million for the year. The Company expects to continue to increase its utilization of repurchase agreements as a source of funds in fiscal 1997. Financing cash flows for fiscal 1996 also include $31.8 million in net proceeds from the sale of common stock in the offering (other than ESOP shares).

The Company may borrow funds from the FHLB of New York subject to certain limitations. Based on the level of qualifying collateral available to secure advances at September 30, 1996, the Company's borrowing limit from the FHLB of New York was approximately $61.2 million, with unused borrowing capacity of $53.2 million at that date.

The Company is required to maintain an average daily balance of liquid assets and short-term liquid assets as a percentage of net withdrawable deposit accounts plus short-term borrowings as defined by OTS regulations. The minimum required liquidity and short-term liquidity ratios are currently 5.0% and 1.0%, respectively. At September 30, 1996, the Company's liquidity ratio was 12.5% and its short-term liquidity ratio was 3.6%.

The Company's most liquid assets are cash and cash equivalents, which include highly liquid short-term investments (such as money market mutual funds) that are readily convertible to known amounts of cash. The level of these assets is dependent on the Company's operating, financing and investing activities during any given period. At September 30, 1996 and 1995, cash and cash equivalents totaled $12.5 million and $3.3 million, respectively.

At September 30, 1996, the Company had outstanding loan origination commitments of $1.5 million, undisbursed construction loans in process of $171,000, and unadvanced lines of credit extended to customers of $5.0 million. The Company anticipates that it will have sufficient funds available to meet its current loan origination and other commitments. Certificates of deposit scheduled to mature in one year or less from September 30, 1996 totaled $70.5 million. Based on the Company's most recent

experience and pricing strategy, management believes that a significant portion of such deposits will remain with the Company.

The main sources of liquidity for the Holding Company are net proceeds from the sale of stock and dividends received from the Association, if any. The main cash outflows are payments of dividends to shareholders and any repurchases of the Holding Company's common stock. In November 1996, the Holding Company completed the repurchase of 10% of its shares under a repurchase program and 4% of its shares for awards under its management recognition plan. A total of 499,905 shares were repurchased at a cost of $6.4 million which reduced consolidated stockholders' equity. On a pro forma basis, giving effect to these repurchases as if they had been completed at September 30, 1996, the Company's ratio of stockholders' equity to assets would decrease to 16.81% from the actual ratio of 18.88% at that date.

The Association may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause equity to be reduced below applicable regulatory capital requirements or the amount required to be maintained for the liquidation account established in connection with the Conversion. Unlike the Association, the Holding Company is not subject to OTS regulatory restrictions on the payment of dividends to its shareholders; however, it is subject to the requirements of Delaware law. Delaware law generally limits dividends to an amount equal to the excess of the net assets of the Holding Company (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its profits for the current and/or immediately preceding fiscal year.

The OTS regulations require savings associations, such as the Association, to meet three minimum capital standards: a tangible capital ratio requirement of 1.5% of total assets as adjusted under the OTS regulations; a leverage ratio requirement of 3% of core capital to such adjusted total assets; and a risk-based capital ratio requirement of 8% of core and supplementary capital to total risk-based assets. The Association satisfied these minimum capital standards at September 30, 1996 with tangible and leverage capital ratios of 14.0% and a total risk-based capital ratio of 37.2%. In determining the amount of risk-weighted assets for purposes of the risk-based capital requirement, a savings association must compute its risk-based assets by multiplying its assets and certain off-balance sheet items by risk-weights, which range from 0% for cash and obligations issued by the United States Government or its agencies to 100% for consumer and commercial loans, as assigned by the OTS capital regulations. These capital requirements, which are applicable to the Association only, do not consider additional capital held at the Holding Company level, and require certain adjustments to stockholder's equity to arrive at the various regulatory capital amounts.

The following table sets forth a reconciliation of the Association's capital under generally accepted accounting principles ("GAAP") and its regulatory capital at September 30, 1996, and a comparison of the Association's regulatory capital amounts and ratios to the related OTS requirements.

<TABLE>
<CAPTION>

	Tangible Capital	Core Capital	Risk-Based Capital
	(Dollars in Thousands)		
GAAP capital	$34,350	$34,350	$34,350
Net unrealized loss on available-for-sale debt securities, net of taxes	59	59	59
Allowance for loan losses includable in supplementary capital	---	---	937
Regulatory capital (actual)	34,409	34,409	35,346
Regulatory capital (requirement)	3,673	7,346	7,591
Excess	$30,736	$27,063	$27,755
Capital ratios:			
Actual(1)	14.0%	14.0%	37.2%
Requirement	1.5	3.0	8.0
Excess	12.5	11.0	29.2

----
(1) Based on tangible assets, total adjusted assets and risk-weighted assets, respectively.

</TABLE>

Impact of Inflation and Changing Prices

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

Impact of Accounting Standards

As more fully discussed in Note 14 of the Notes to Consolidated Financial Statements, during fiscal 1997 the Company will adopt the following accounting pronouncements which have been issued by the Financial Accounting Standards Board.

Accounting for the Impairment of Long-Lived Assets. SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," requires the recognition of an impairment loss when the estimate of total undiscounted future cash flows attributable to the asset is less than the asset's carrying amount. Measurement of the impairment loss is based on the fair value of the asset. SFAS No. 121 applies to a limited portion of the Company's assets (primarily office properties). Management anticipates that the prospective adoption of this standard will not have a material impact on the Company's financial condition or results of operations.

Accounting for Stock-Based Compensation. SFAS No. 123, "Accounting for Stock-Based Compensation," addresses accounting for stock-based employee compensation arrangements such as the Holding Company's stock option and incentive plan and the management recognition plan which became effective on

October 30, 1996, upon ratification by the stockholders. Under SFAS No. 123, entities can

recognize stock-based compensation expense in the basic financial statements using either (i) the approach set forth in Accounting Principles Board ("APB") Opinion No. 25 or (ii) the fair value based method introduced in SFAS No. 123. Under APB Opinion No. 25, compensation expense is measured at the option's intrinsic value, or the excess (if any) of the market price of the underlying stock at the measurement date over the amount the employee is required to pay. Under the fair value based method introduced in SFAS No. 123, compensation expense is measured at the option's estimated fair value on the grant date.

The Company will adopt the provisions of APB Opinion No. 25 in accounting for the stock option and incentive plan and the management recognition plan. No compensation expense will be recognized for the stock option and incentive plan since the exercise price of the options will equal the market price of the underlying stock at the grant date. The cost of the shares awarded under the management recognition plan will be recognized as expense on a straight-line basis over the five-year vesting period. In accordance with SFAS No. 123, beginning in the year ending September 30, 1997, the Company will make pro forma disclosures of net income and earnings per share as if it had adopted the fair value method of accounting.

Accounting for Transfers and Servicing of Financial Assets. SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," affects the accounting for transactions such as loan securitizations, sales of partial interests in financial assets, repurchase agreements, securities lending, pledges of collateral, loan syndications and partcipations, sales of receivables with recourse, servicing of mortgage and other loans, and in-substance defeasances of debt.

SFAS No. 125 applies a financial-components approach that focuses on the entity's control over a financial asset to determine the proper accounting for financial asset transfers. Under that approach, after financial assets are transferred, an entity recognizes on the balance sheet all assets it controls and all liabilities it has incurred. The entity would remove from the balance sheet those assets it no longer controls and liabilities it has satisfied. If the entity has surrendered control over the transferred assets, the transaction is accounted for as a sale. SFAS No. 125 also requires recognition of servicing rights as an asset when loans are sold or securitized with servicing retained. As required, the Company will adopt SFAS No. 125 effective January 1, 1997 on a prospective basis. Management anticipates that the implementation of SFAS No. 125 will not have a materials impact on the Company's financial condition or results of operations.

MANAGEMENT'S REPORT

Management is responsible for the preparation and integrity of the consolidated financial statements and other information presented in this annual report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and reflect management's judgments and estimates with respect to certain events and transactions.

Management is responsible for maintaining a system of internal control. The purpose of the system is to provide reasonable assurance that transactions are recorded in accordance with management's authorization; that assets are safeguarded against loss or unauthorized use; and that underlying financial records support the preparation of financial statements. The system includes the communication of written policies and procedures, selection of qualified personnel, appropriate segregation of responsibilities, and the ongoing internal audit function.

The Board of Directors meets periodically with Company management, the internal auditor, and the independent auditors, KPMG Peat Marwick LLP, to review matters relative to the quality of financial reporting, internal control, and the nature, extent and results of the audit efforts.

The independent auditors conduct an annual audit to enable them to express an opinion on the Company's consolidated financial statements. In connection with the audit, the independent auditors consider the system of internal controls in order to determine the nature, timing and extent of their auditing procedures.

Richard F. Komosinski
President

Joseph D. Roberto
Vice President, Treasurer and
Chief Financial Officer

KPMG Peat Marwick LLP

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Yonkers Financial Corporation:

We have audited the accompanying consolidated balance sheets of Yonkers Financial Corporation and subsidiary (the "Company") 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yonkers Financial Corporation and subsidiary 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 notes 1 and 2 to the consolidated financial statements, the Company changed its method of accounting for securities, effective September 30, 1994, to adopt Statement of Financial Accounting Standards No. 115. As discussed in notes 1 and 8 to the consolidated financial statements, the Company changed its method of accounting for income taxes, effective October 1, 1993, to adopt Statement of Financial Accounting Standards No. 109.

Stamford, Connecticut
November 8, 1996

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
ASSETS		
Cash and due from banks	$ 2,152	$ 3,161
Short-term investments	10,348	100
Securities (note 2):		
Held-to-maturity, at amortized cost (fair value of $94,162 in 1996 and $95,100 in 1995)	95,007	95,464
Available-for-sale, at fair value (amortized cost of $58,855 in 1996 and $21,114 in 1995)	58,552	20,877
Total securities	153,559	116,341
Loans, net (note 3):		
Real estate mortgage loans	80,337	79,127
Consumer and commercial business loans	7,266	5,271
Allowance for loan losses	(937)	(719)
Total loans, net	86,666	83,679
Accrued interest receivable (note 4)	2,449	1,801
Federal Home Loan Bank stock	1,065	1,112
Office properties and equipment, net (note 5)	947	797
Deferred income taxes (note 8)	1,010	78
Other assets	1,338	1,214
Total assets	$ 259,534	$ 208,283
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (note 6)	$ 190,675	$ 188,009
Borrowings (note 7)	18,264	4,295
Other liabilities	1,596	214
Total liabilities	210,535	192,518
Commitments and contingencies (notes 3 and 12)		
Stockholders' equity (notes 10 and 11):		
Preferred stock (par value $0.01 per share; 100,000 shares authorized; none issued or outstanding)	-	-
Common stock (par value $0.01 per share; 4,500,000 shares authorized; 3,570,750 shares issued and outstanding)	36	-
Additional paid-in capital	34,596	-
Common stock (271,377 shares) held by employee stock ownership plan ("ESOP")	(2,714)	-
Retained income, substantially restricted	17,263	15,907
Net unrealized loss on available-for-sale securities, net of taxes (note 2)	(182)	(142)
Total stockholders' equity	48,999	15,765
Total liabilities and stockholders' equity	$ 259,534	$ 208,283

</TABLE>

See accompanying notes to consolidated financial statements.

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
Interest and dividend income:			
Loans	$ 7,471	$ 6,937	$ 6,292
Securities	8,153	6,801	5,846
Other earning assets	752	325	322
Total interest and dividend income	16,376	14,063	12,460
Interest expense:			
Deposits	7,780	6,902	5,407
Borrowings	195	102	15
Total interest expense	7,975	7,004	5,422
Net interest income	8,401	7,059	7,038
Provision for loan losses (note 3)	462	493	64
Net interest income after provision for loan losses	7,939	6,566	6,974
Non-interest income:			
Service charges and fees	680	640	529
Net gain on sales of securities (note 2)	-	29	30
Other	22	17	66
Total non-interest income	702	686	625
Non-interest expense:			
Compensation and benefits (note 10)	2,525	2,186	2,092
Occupancy and equipment	653	571	536
Federal deposit insurance costs:			
Special assessment (note 6)	1,166	-	-
Regular premiums	435	406	346
Data processing service fees	417	367	308
Other (note 9)	1,008	1,249	990
Total non-interest expense	6,204	4,779	4,272
Income before income tax expense and cumulative effect of change in accounting principle	2,437	2,473	3,327
Income tax expense (note 8)	917	1,033	1,356
Income before cumulative effect of change in accounting principle	1,520	1,440	1,971
Cumulative effect of change in accounting for income taxes (note 8)	-	-	326
Net income	$ 1,520	$ 1,440	$ 2,297

Earnings per share, from date of conversion (note 1)	$ 0.22

</TABLE>

See accompanying notes to consolidated financial statements.

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Per Share Data)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Common Stock Held by ESOP	Retained Income	Net Unrealized Loss on Securities	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993	$ -	$ -	$ -	$ 12,170	$ (7)	$ 12,163
Net income	-	-	-	2,297	-	2,297
Reversal of net unrealized loss on equity securities	-	-	-	-	7	7
Net unrealized loss on available-for-sale securities at September 30, 1994, net of taxes	-	-	-	-	(311)	(311)
Balance at September 30, 1994	-	-	-	14,467	(311)	14,156
Net income	-	-	-	1,440	-	1,440
Net decrease in net unrealized loss on available-for-sale securities, net of taxes	-	-	-	-	169	169
Balance at September 30, 1995	-	-	-	15,907	(142)	15,765
Net income	-	-	-	1,520	-	1,520
Dividend paid ($0.05 per share)	-	-	-	(164)	-	(164)
Issuance of common stock	36	34,592	-	-	-	34,628
Shares purchased by ESOP	-	-	(2,857)	-	-	(2,857)
ESOP shares released for allocation	-	4	143	-	-	147
Net increase in net unrealized loss on available-for-sale securities, net of taxes	-	-	-	-	(40)	(40)
Balance at September 30, 1996	$ 36	$ 34,596	$ (2,714)	$ 17,263	$ (182)	$ 48,999

</TABLE>

See accompanying notes to consolidated financial statements.

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

<TABLE>
<CAPTION>

	Year Ended September 30, 1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 1,520	$ 1,440	$ 2,297
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	462	493	64
Amortization of deferred fees, discounts and premiums, net	(479)	(517)	(269)
Depreciation and amortization expense	196	169	238
Net gain on sales of securities	-	(29)	(30)
Cumulative effect of change in accounting for income taxes	-	-	(326)
Other adjustments, net	227	(476)	(58)
Net cash provided by operating activities	1,926	1,080	1,916
Cash flows from investing activities:			
Purchases of securities:			
Available-for-sale	(45,036)	(3,804)	-
Held-to-maturity	(22,142)	(15,938)	-
Held-for-investment	-	-	(35,934)
Proceeds from principal payments, maturities and calls of securities:			
Available-for-sale	7,334	2,023	-
Held-to-maturity	22,895	6,687	-
Held-for-investment	-	-	20,065
Proceeds from sales of securities:			
Available-for-sale	-	438	-
Held-to-maturity	-	847	-
Held-for-investment	-	-	2,289
Disbursements for loan originations	(17,571)	(17,213)	(20,350)
Principal collections on loans	11,780	10,961	15,371
Proceeds from sales of loans	1,883	383	5,166
Other investing cash flows, net	(72)	(214)	(96)
Net cash used in investing activities	(40,929)	(15,830)	(13,489)
Cash flows from financing activities:			
Net increase in deposits	2,666	8,193	10,308
Proceeds from Federal Home Loan Bank advances	8,000	4,000	-
Repayments of Federal Home Loan Bank advances	(4,295)	-	-
Net increase in short-term borrowings	10,264	-	-
Net proceeds from sale of common stock	34,628	-	-
Common stock purchased by ESOP	(2,857)	-	-
Dividend paid	(164)	-	-
Net cash provided by financing activities	48,242	12,193	10,308
Net increase (decrease) in cash and cash equivalents	9,239	(2,557)	(1,265)
Cash and cash equivalents at beginning of year	3,261	5,818	7,083
Cash and cash equivalents at end of year	$ 12,500	$ 3,261	$ 5,818
Supplemental cash flow information:			
Interest paid	$ 7,956	$ 7,004	$ 5,422
Income taxes paid	1,331	1,520	1,073
Loans transferred to real estate owned	603	303	-

</TABLE>

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

On December 28, 1995, The Yonkers Savings and Loan Association converted from a New York State chartered mutual savings and loan association to a federally chartered mutual savings and loan association under the new name The Yonkers Savings and Loan Association, FA (the "Association"). As discussed in note 11, on April 18, 1996 Yonkers Financial Corporation (the "Holding Company") became the holding company for the Association upon completion of the conversion of the Association from a mutual to a stock savings and loan association (the "Conversion"). Collectively, the Holding Company and the Association are referred to herein as the "Company".

The Company's primary market area consists of Westchester County, New York and portions of Putnam, Rockland and Dutchess Counties, New York. Business is conducted from four full-service banking offices located in Yonkers, New York. The Association is a community-oriented savings institution whose business primarily consists of accepting deposits from customers within its market area and investing those funds in mortgage loans secured by one- to four-family residences. To a lesser extent, funds are invested in multi-family and commercial real estate loans, construction and land loans, consumer loans and commercial business loans. The Company also invests in mortgage-backed and other securities. Deposits are insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC"). The Company's primary regulator is the Office of Thrift Supervision ("OTS").

Basis of Presentation

The consolidated financial statements include the accounts of the Holding Company and its wholly-owned subsidiary, the Association. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Prior to the Conversion, the Holding Company had no operations other than those of an organizational nature. Subsequent thereto, the Holding Company's business activities have been limited to its ownership of the Association and certain short-term and other investments. All financial information and other disclosures included herein for periods prior to the Conversion pertain to the Association.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense. A material estimate that is particularly susceptible to near-term change is the allowance for loan losses, which is discussed below.

Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents consist of highly liquid short-term investments. At September 30, 1996, short-term investments reported in the consolidated balance sheet were money market mutual funds of $10.2 million and interest-bearing deposits of $0.1 million. Short-term investments at September 30, 1995 were interest-bearing deposits of $0.1 million.

Securities

The Company prospectively adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as of September 30, 1994. Under SFAS No. 115, individual securities are classified as held-to-maturity securities, trading securities, or available-for-sale securities. Securities held to maturity are limited to debt securities for which the entity has the positive intent and ability to hold to maturity. Sales of held-to-maturity securities will generally call into question the entity's intent to hold other debt securities to maturity in the future and, accordingly, may result in the reclassification of remaining held-to-maturity securities to other categories. Trading securities are debt and equity securities that are bought principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available for sale.

Held-to-maturity securities are carried at amortized cost under SFAS No. 115. Available-for-sale securities are carried at fair value with unrealized gains and losses excluded from earnings and reported on a net-of-tax basis as a separate component of equity. The Company has no trading securities. Federal Home Loan Bank stock is considered a restricted security under SFAS No. 115 and, accordingly, is carried at cost.

Prior to the adoption of SFAS No. 115, debt securities held for investment were carried at amortized cost and equity securities were carried at the lower of aggregate cost or fair value. Net unrealized losses on equity securities, if any, were reported as a charge to equity.

Premiums and discounts are amortized to interest income on a level-yield basis over the expected term of the security. Realized gains and losses on sales of securities are determined using the specific identification method. Unrealized losses on held-to-maturity and available-for-sale securities are charged to earnings when the decline in fair value of a security is judged to be other than temporary.

Allowance for Loan Losses

Effective October 1, 1995, the Company prospectively adopted SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118. Under SFAS No. 114, a loan is considered to be impaired when, based on current information and events, it is probable that the creditor will be unable to collect all principal and interest contractually due. Creditors are permitted to measure impaired loans based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent. If the approach used results in a measurement that is less than an impaired loan's recorded investment, an impairment loss is recognized as part of the allowance for loan losses.

The allowance for loan losses is increased by provisions for losses charged to operations. Loan losses and recoveries of loans previously written-off are charged or credited to the allowance as incurred or realized, respectively. Management estimates the allowance for loan losses based on an evaluation of the Company's past loan loss experience, known and inherent risks in the portfolio, estimated value of underlying collateral, and current economic conditions. In management's judgment, the allowance for loan losses is adequate to absorb probable losses in the existing portfolio.

Establishing the allowance for loan losses involves significant management judgments utilizing the best information available at the time of review. Those judgments are subject to further review by various sources, including the Company's regulators. Future adjustments to the allowance may be necessary based on changes in economic and real estate market conditions, further information obtained regarding known problem loans, the identification of additional problem loans, and other factors.

Interest and Fees on Loans

Interest is accrued monthly on outstanding principal balances unless management considers the collection of interest or principal to be doubtful. Loans on non-accrual status include all loans contractually delinquent ninety days or more. Loans are returned to accrual status when collectibility is no longer considered doubtful (generally, when all payments have been brought current).

Loan origination fees and certain direct loan origination costs are deferred, and the net fee or cost is amortized to interest income over the contractual term of the loans using the level-yield method. Unamortized fees and costs applicable to loans prepaid or sold are recognized in income at the time of prepayment or sale.

Real Estate Owned

Real estate owned properties acquired through foreclosure are recorded initially at fair value less estimated sales costs, with the resulting writedown charged to the allowance for loan losses. Thereafter, an allowance for losses on real estate owned is established by a charge to expense to reflect any subsequent declines in fair value. Fair value estimates are based on recent appraisals and other available information. Costs incurred to develop or improve properties are capitalized, while holding costs are charged to expense.

Office Properties and Equipment

Office properties and equipment are comprised of land (carried at cost) and buildings, furniture, fixtures, equipment and leasehold improvements (carried at cost less accumulated depreciation and amortization). Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the improvement. Costs incurred to improve or extend the life of existing assets are capitalized. Repairs and maintenance, as well as renewals and replacements of a routine nature, are charged to expense.

Pension Benefits

The Company has a non-contributory defined benefit pension plan which covers substantially all employees. Pension costs are funded on a current basis in compliance with the requirements of the Employee Retirement Income Security Act and are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

Income Taxes

Effective October 1, 1993, the Company changed its method of accounting for income taxes to adopt SFAS No. 109. The cumulative effect of the accounting change was reported in the consolidated statement of income for the year ended September 30, 1994.

In accordance with the asset and liability method required by SFAS No. 109, deferred taxes are recognized for the estimated future tax effects attributable to "temporary differences" between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A deferred tax liability is recognized for all temporary differences that will result in future taxable income. A deferred tax asset is recognized for all temporary differences that will result in future tax deductions, subject to reduction of the asset by a valuation allowance in certain circumstances. This valuation allowance is recognized if, based on an analysis of available evidence, management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance is subject to ongoing adjustment based on changes in circumstances that affect management's judgment about the realizability of the deferred tax asset. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

Employee Stock Ownership Plan

Compensation expense is recognized equal to the fair value of ESOP shares that are committed to be released for allocation to participant accounts. To the extent that the fair value of these shares differs from the original cost, the difference is charged or credited to stockholders' equity (additional paid-in capital). The cost of unallocated ESOP shares not yet committed to be released is reflected as a reduction of stockholders' equity.

Earnings Per Share

Earnings per share is based on net income for the period following the Conversion divided by the weighted average number of common shares outstanding (net income of $729,000 and 3,291,698 shares for the six-month period ended September 30, 1996). Unallocated ESOP shares that have not been committed to be released to participants are excluded from outstanding shares in computing earning per share.

(2) Securities

The Company prospectively adopted SFAS No. 115 effective September 30, 1994, and classified securities with amortized costs of $87.7 million as held to maturity and $19.7 million as available-for-sale. As a result of adoption, equity at September 30, 1994 was decreased by $311,000, representing the net unrealized loss on available-for-sale securities less applicable income taxes. At September 30, 1996, the net unrealized loss on the available-for-sale portfolio was $303,000 ($182,000 after taxes), compared to a net unrealized loss of $237,000 ($142,000 after taxes) at September 30, 1995. This adjustment to equity will continue to fluctuate in future periods to reflect changes in market conditions and the composition of the available-for-sale portfolio.

There were no sales of securities during the year ended September 30, 1996. Sales of held-to-maturity securities during the year ended September 30, 1995 resulted in gross realized gains of $24,000 and gross realized losses of $1,400. The held-to-maturity securities sold were mortgage-backed pass-through securities with a total amortized cost of $824,000, for which the Company had collected more than 85% of the principal purchased. Under SFAS No. 115, sales in these circumstances are deemed to be equivalent to maturities and, accordingly, do not call into question the intent to hold other debt securities to maturity in the future. Sales of available-for-sale securities during the year ended September 30, 1995 resulted in gross realized gains of $6,700 and gross realized losses of $500. Sales of held-for-investment securities resulted in gross realized gains of $37,200 and gross realized losses of $7,600 during the year ended September 30, 1994.

The Company's securities portfolio includes debt securities and, to a much lesser extent, equity securities. Debt securities are principally mortgage-backed securities, and U.S. Government and Agency securities. Mortgage-backed securities consist of collateralized mortgage obligations ("CMOs") and pass-through securities, substantially all of which are guaranteed by U.S. Government or government-sponsored entities (the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC")).

The following is a summary of securities at September 30, 1996:

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>
		(In Thousands)		
Held-to-Maturity Securities				
Mortgage-backed securities:				
Pass-through securities	$ 41,493	$ 426	$ (399)	$ 41,520
CMOs	16,646	132	(300)	16,478
Total	58,139	558	(699)	57,998
U.S. Government and Agency:				
Step-up securities	12,966	1	(316)	12,651
Other securities	23,402	7	(397)	23,012
Total	36,368	8	(713)	35,663
Corporate bond	500	1	-	501
Total held to maturity	$ 95,007	$ 567	$ (1,412)	$ 94,162
Available-for-Sale Securities				
Mortgage-backed securities:				
Pass-through securities	$20,679	$ 80	$ (187)	$ 20,572
CMOs	2,146	-	(7)	2,139
Total	22,825	$ 80	(194)	22,711
U.S. Government and Agency:				
Step-up securities	3,000	-	(31)	2,969
Other securities	26,960	116	(53)	27,023
Total	29,960	116	(84)	29,992
Mutual fund investments	6,070	-	(221)	5,849
Total available for sale..	$ 58,855	$ 196	$ (499)	$ 58,552

</TABLE>

The following is a summary of securities at September 30, 1995:

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>
		(In Thousands)		

Held-to-Maturity Securities				
Mortgage-backed securities:				
Pass-through securities.....	$ 35,586	$ 520	$ (232)	$ 35,874
CMOs	17,025	130	(275)	16,880
Total	52,611	650	(507)	52,754
U.S. Government and Agency:				
Step-up securities	20,960	22	(307)	20,675
Other securities	21,393	139	(361)	21,171
Total	42,353	161	(668)	41,846
Corporate bond	500	-	-	500
Total held to maturity..	$ 95,464	$ 811	$(1,175)	$ 95,100
Available-for-Sale Securities				
Mortgage-backed securities:				
Pass-through securities...	$ 4,151	$ 70	$ (51)	$ 4,170
CMOs	2,272	3	(9)	2,266
Total	6,423	73	(60)	6,436
U.S. Government and Agency:				
Step-up securities	2,000	1	(16)	1,985
Other securities	6,951	18	(48)	6,921
Total	8,951	19	(64)	8,906
Mutual fund investments....	5,740	-	(205)	5,535
Total available for sale..	$ 21,114	$ 92	$ (329)	$ 20,877

</TABLE>

Mortgage-backed and other debt securities at September 30, 1996 consisted of fixed-rate securities and adjustable-rate securities with amortized costs of $77.2 million and $70.6 million, respectively, and weighted average yields of 7.20% and 6.52%, respectively. Fixed-rate and adjustable- rate debt securities at September 30, 1995 totaled $46.6 million and $64.2 million, respectively, with weighted average yields of 6.70% and 6.30%, respectively.

Mortgage-backed securities include securities guaranteed by FNMA, GNMA and FHLMC with total amortized costs of $46.1 million, $18.6 million and $15.9 million, respectively, at September 30, 1996 ($27.9 million, $10.0 million and $20.6 million, respectively, at September 30, 1995). Privately-issued mortgage-backed securities had amortized costs of $0.4 million and $0.5 million at September 30, 1996 and 1995, respectively.

The Company's step-up securities are issued by U.S. Government Agencies or government-sponsored enterprises and initially pay an above-market yield for a short non-call period. If the securities are not called, the interest rate "steps-up" to a higher coupon rate which would be below then-current market rates. These securities had a weighted average yield of 5.78% and 5.50% at September 30, 1996 and 1995, respectively.

The following is a summary of the amortized cost and fair value of debt securities, other than mortgage-backed securities, by remaining period to contractual maturity at September 30, 1996 (ignoring earlier call dates, if any). Actual maturities may differ from contractual maturities because certain security issuers have the right to call or prepay their obligations.

Held to Maturity   Available for Sale

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In Thousands)		
U.S. Government and Agency step-up securities:				
Within one year.......	$ 500	$ 501	$ -	$ -
One to five years.....	6,976	6,867	1,000	992
Five to ten years.....	1,500	1,489	2,000	1,977
Over ten years	3,990	3,794	-	-
	$ 12,966	$ 12,651	$ 3,000	$ 2,969
Other U.S. Government and Agency securities:				
Within one year.......	$ 1,929	$ 1,936	$ -	$ -
One to five years	6,000	5,866	4,000	4,004
Five to ten years.....	13,473	13,271	11,000	11,027
Over ten years........	2,000	1,939	11,960	11,992
	$23,402	$23,012	$26,960	$27,023
Corporate bond:				
Within one year	$ 500	$ 501	$ -	$ -
Totals:				
Within one year	$ 2,929	$ 2,938	$ -	$ -
One to five years	12,976	12,733	5,000	4,996
Five to ten years	14,973	14,760	13,000	13,004
Over ten years	5,990	5,733	11,960	11,992
	$ 36,868	$ 36,164	$ 29,960	$ 29,992

(3) Loans

A summary of loans at September 30 follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
	(In Thousands)	
Real estate mortage loans:		
Residential properties:		
One- to four-family.......................................	$ 62,283	$ 63,282
Multi-family..	5,471	5,647
Commercial properties..	9,117	6,575
Land loans...	1,934	2,112
Construction loans...	2,175	2,205
Construction loans in process................................	(171)	(293)
Deferred loan fees, net......................................	(472)	(401)
	80,337	79,127
Consumer loans:		
Home equity..	2,911	2,389
Personal...	1,632	1,734
Automobile...	367	409
Home improvement...	153	209
Other..	790	474
	5,853	5,215

Commercial business loans	1,413	56
	7,266	5,271
Total loans	87,603	84,398
Allowance for loan losses	(937)	(719)
Total loans, net	$ 86,666	$ 83,679

</TABLE>

The gross loan portfolio at September 30, 1996 consisted of adjustable-rate loans of $70.4 million and fixed-rate loans of $17.9 million with weighted average yields of 8.44% and 8.92%, respectively. Adjustable-rate and fixed-rate loans at September 30, 1995 totaled $67.0 million and $18.1 million, respectively, with weighted average yields of 9.11% and 8.89%, respectively. One- to four-family residential mortgage loans at September 30, 1996 and 1995 include advances under home equity lines of credit of $7.3 million and $9.1 million, respectively, and cooperative apartment loans of $5.5 million and $5.8 million, respectively.

The Company primarily originates real estate mortgage loans secured by existing single-family residential properties. The Company also originates multi-family and commercial real estate loans, land loans, construction loans, consumer loans and commercial business loans. A substantial portion of the loan portfolio is secured by real estate properties located in Westchester County, New York. The ability of the Company's borrowers to make principal and interest payments is dependent upon, among other things, the level of overall economic activity and the real estate market conditions prevailing within the Company's concentrated lending area.

The principal balances of non-accrual loans past due ninety days or more at September 30 are as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
		(In Thousands)	
<S>	<C>	<C>	<C>
Real estate mortgage loans:			
One- to four-family	$ 1,757	$ 2,759	$ 2,229
Multi-family	-	389	389
Commercial	214	-	-
Land	250	49	-
Construction	511	279	-
Consumer loans	43	54	45
Total	$ 2,775	$ 3,530	$ 2,663

</TABLE>

If interest payments on the foregoing non-accrual loans had been made during the respective years in accordance with the loan agreements, additional interest income of $157,000, $191,000 and $93,000 would have been recognized in the years ended September 30, 1996, 1995 and 1994, respectively.

Activity in the allowance for loan losses is summarized as follows for the years ended September 30:

<TABLE>
<CAPTION>

	1996	1995	1994

(In Thousands)

Balance at beginning of year	$ 719	$ 311	$ 295
Provision for losses	462	493	64
Charge-offs	(333)	(89)	(66)
Recoveries	89	4	18
Balance at end of year	$ 937	$ 719	$ 311

As discussed in note 1, the Company prospectively adopted SFAS No. 114 during the year ended September 30, 1996. Adoption of the new standard did not effect the overall allowance for loan losses. SFAS No. 114 applies to loans that are individually evaluated for collectibility in accordance with the Company's normal loan review procedures (principally loans in the multi-family, commercial mortgage, land and construction loan categories). At September 30, 1996, the recorded investment in impaired loans in these categories totaled $975,000, for which an allowance for loan impairment was not required under SFAS No. 114 primarily due to the sufficiency of collateral values. The Company's average recorded investment in impaired loans was approximately $700,000 for the year ended September 30, 1996. Interest collections and income recognized on impaired loans was insignificant for the period.

At September 30, 1996 and 1995, other assets includes single-family real estate owned properties with net carrying values of $603,000 and $227,000, respectively. Provisions for losses and other activity in the allowance for real estate owned losses were insignificant during the years ended September 30, 1996, 1995 and 1994.

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has sold, with recourse, certain real estate mortgage loans and retained the related servicing rights. The principal balances of these serviced loans, which are not included in the accompanying consolidated balance sheets, totaled $3.4 million, $4.3 million and $5.3 million at September 30, 1996, 1995 and 1994, respectively. The Company is required to remit to the investors the monthly principal and interest payments (less servicing fees) on these loans, including loans that are delinquent or in foreclosure. No losses have been incurred through September 30, 1996 as a result of this recourse obligation. The Company also serviced real estate mortgage loans sold without recourse with total principal balances of $10.6 million, $9.4 million and $9.5 million at September 30, 1996, 1995 and 1994, respectively.

(4) Accrued Interest Receivable

A summary of accrued interest receivable at September 30 follows:

	1996	1995
	(In Thousands)	
Loans	$ 764	$ 730
Securities:		
Mortgage-backed securities	433	325
Other securities	1,252	746
Total	$ 2,449	$ 1,801

(5) Office Properties and Equipment

A summary of office properties and equipment at September 30 follows:

<TABLE>
<CAPTION>

	1996	1995

	(In Thousands)	
Land	$ 45	$ 45
Buildings	207	189
Leasehold improvements	582	541
Furniture, fixtures and equipment	1,664	1,377
	2,498	2,152
Less accumulated depreciation and amortization	(1,551)	(1,355)
Total office properties and equipment, net	$ 947	$ 797

</TABLE>

(6) Deposits

Deposit balances and weighted average stated interest rates at September 30 are summarized as follows:

<TABLE>
<CAPTION>

	1996 Amount	1996 Rate	1995 Amount	1995 Rate
	(Dollars in Thousands)			
Checking	$ 1,957		$ 2,680	
NOW	18,141	1.86%	15,609	1.73%
Money market	16,599	2.91	12,484	2.91
Regular savings	47,832	2.61	54,794	2.70
Club	1,112	2.61	1,044	2.70
	85,641	2.45	86,611	2.47
Savings certificates by remaining term to contractual maturity:				
Within one year	70,507	5.02	70,902	5.45
One to three years	25,981	5.50	21,000	5.89
Over three years	8,546	6.28	9,496	6.24
	105,034	5.24	101,398	5.61
Total deposits	$ 190,675	3.99%	$ 188,009	4.16%

</TABLE>

Savings certificates issued in denominations of $100,000 or more totaled $10.6 million and $9.2 million at September 30, 1996 and 1995, respectively. The FDIC generally insures depositor accounts up to $100,000, as defined in the applicable regulations.

The Deposit Insurance Funds Act of 1996 (the "Act") was signed into law on September 30, 1996. Among other things, the Act required depository institutions to pay a one-time special assessment of 65.7 basis points on their SAIF-assessable deposits as of March 31, 1995, in order to recapitalize the SAIF to the reserve level required by law. Accordingly, the consolidated statement of income for the year ended September 30, 1996 reflects a separate expense charge of approximately $1.2 million for the accrual of this special assessment which was paid in November 1996.

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Borrowings

Borrowings at September 30 are summarized as follows:

	1996 Amount	1996 Rate	1995 Amount	1995 Rate
	(Dollars in Thousands)			
Federal Home Loan Bank ("FHLB") advances maturing within one year:				
Fixed rate	$ 6,000	5.64%	$ 1,295	5.83%
Adjustable rate	2,000	6.00	3,000	6.45
	8,000	5.73	4,295	6.26
Repurchase agreement maturing within one month	10,264	5.44	-	-
Total borrowings	$ 18,264	5.57%	$ 4,295	6.26%

The Company may borrow funds from the FHLB of New York subject to certain limitations. Based on the level of qualifying collateral available to secure advances at September 30, 1996, this borrowing limit was $61.2 million, with unused borrowing capacity of $53.2 million at that date. Advances are secured by the Company's investment in FHLB stock and by a blanket security agreement. This agreement requires that the Company maintain as collateral certain qualifying assets (such as securities and single-family residential mortgage loans) with a fair value, as defined, at least equal to 115% of the outstanding advances. The Company satisfied this collateral requirement at September 30, 1996 and 1995.

Repurchase agreements represent funds borrowed on a short-term basis through the sale of securities to the FHLB of New York, as counterparty, under agreements to repurchase identical securities. The Company accounts for these agreements as financing transactions; accordingly, the transaction proceeds are recorded as borrowings and the underlying securities continue to be carried in the Company's securities portfolio. Repurchase agreements are collateralized by the securities sold which are controlled by the counterparty during the term of the transaction. The repurchase agreement outstanding at September 30, 1996 was collateralized by mortgage-backed securities with a carrying amount of $10.8 million and a fair value of $10.7 million. During the year ended September 30, 1996, the average borrowings under these agreements amounted to $1.2 million; the average interest rate was 5.35%; and the maximum month-ended balance outstanding was $10.3 million.

(8) Income Taxes

As discussed in note 1, the Company adopted SFAS No. 109 effective October 1, 1993. The cumulative effect of the change in accounting for income taxes resulted in a credit to income of $326,000, which has been reported separately in the consolidated statement of income for the year ended September 30, 1994.

The components of income tax expense are summarized as follows for the years ended September 30:

<TABLE>
<CAPTION>

	1996	1995	1994
		(In Thousands)	
Current tax expense:			
Federal	$ 1,155	$ 880	$ 917
State	668	91	358
	1,823	971	1,275
Deferred tax (benefit) expense:			
Federal	(410)	(124)	44
State	(496)	186	37
	(906)	62	81
Total income tax expense	$ 917	$ 1,033	$ 1,356

</TABLE>

The following is a reconciliation of the expected income tax expense, computed at the applicable Federal statutory rate of 34%, to the actual income tax expense for the years ended September 30:

<TABLE>
<CAPTION>

	1996	1995	1994
		(Dollars in Thousands)	
Tax at Federal statutory rate	$ 829	$ 841	$ 1,131
New York State income taxes, net of Federal tax benefit	114	183	261
Other reconciling items, net	(26)	9	(36)
Actual income tax expense	$ 917	$ 1,033	$ 1,356
Effective income tax rate	37.6%	41.8%	40.8%

</TABLE>

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows at September 30:

<TABLE>
<CAPTION>

	1996	1995
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 385	$ 288
Accrued SAIF special assessment	479	-
Net unrealized loss on available-for-sale securities ...	121	95
Net deferred loan fees	194	166
Other deductible temporary differences	46	48
	1,225	597
Deferred tax liabilities:		
Bad debt reserves for income tax purposes and other taxable temporary differences	(215)	(519)
Net deferred tax asset	$ 1,010	$ 78

</TABLE>

Based on the Company's historical and anticipated future pre-tax earnings, management believes that it is more likely than not that the deferred tax asset will be realized.

As a thrift institution, the Association is subject to special provisions in the Federal and New York State tax laws regarding its allowable tax bad debt deductions and related tax bad debt reserves. These deductions historically have been determined using methods based on loss experience or a percentage of taxable income. Tax bad debt reserves are maintained for qualifying real property loans and for nonqualifying loans in amounts equal to the excess of allowable deductions over actual bad debt losses and other reserve reductions. A supplemental reserve is also maintained. The qualifying and nonqualifying loan reserves consist of a defined base-year amount, plus additional amounts ("excess reserves") accumulated after the base year. SFAS No. 109 requires recognition of deferred tax liabilities with respect to such excess reserves, as well as any portion of the base-year amount or the supplemental reserve which is expected to become taxable (or "recaptured") in the foreseeable future.

Certain amendments to the Federal and New York State tax bad debt provisions were enacted in July and August 1996. The Federal amendments include elimination of the percentage-of-taxable-income method for tax years beginning after December 31, 1995 and imposition of a requirement to recapture into taxable income (over a six-year period) the qualifying and nonqualifying loan reserves in excess of the base-year amounts. The Company previously established, and will continue to maintain, a deferred tax liability with respect to such excess Federal reserves. The New York State amendments redesignate the Association's State bad debt reserves at September 30, 1996 as the base-year amount and also provide for future additions to the base-year reserve using the percentage-of-taxable-income method. This change effectively eliminated the excess New York State reserves for which a deferred tax liability had been recognized and, accordingly, the Company reduced its deferred tax liability by $100,000 (with a corresponding reduction in income tax expense) during the quarter ended September 30, 1996.

In accordance with SFAS No. 109, deferred tax liabilities have not been recognized with respect to the base-year and supplemental reserves, since the Company does not expect that these amounts will become taxable in the foreseeable future. Under the tax laws as amended, events that would result in taxation of these reserves include (i) redemptions of the Association's stock or certain excess distributions to the Holding Company and (ii) failure of the Association to maintain a specified qualifying-assets ratio or meet other thrift definition tests for New York State tax purposes. The Company had an unrecognized deferred tax liability of $1.6 million at September 30, 1996 with respect to the base-year and supplemental tax bad debt reserves which totaled $3.0 million for Federal tax purposes and $7.7 million for State tax purposes.

(9) Other Non-Interest Expense

The components of other non-interest expense are as follows for the years ended September 30:

<TABLE>

<CAPTION>

<S>	1996 <C>	1995 (In Thousands) <C>	1994 <C>
Supervisory exams and audits............................	$ 150	$ 142	$ 131
Advertising...	118	84	58
Correspondent bank fees.................................	114	95	97
(Credit) provision for loss on National claim............	(162)	168	-
Checking account expenses...............................	93	84	74
Telephone and postage...................................	80	59	56
Insurance and surety bond premiums......................	78	89	83
Stationery and printing.................................	68	77	73
Appraisal fees..	50	55	48
Provision for litigation settlement.....................	-	93	50
Other...	419	303	320
Total...	$ 1,008	$ 1,249	$ 990

</TABLE>

In February 1995, the New York Superintendent of Banks took possession of Nationar, a check clearing and trust company, freezing all of Nationar's assets. At that time, the Company had a check clearing balance of $841,000 due from Nationar. Based upon the information available at September 30, 1995, management believed that there was at least a reasonable likelihood that the Company would not recover its entire claim against Nationar. As a result, the Company established a valuation allowance of $168,000 against its claim, resulting in a net carrying amount for the claim of $673,000, which was included in other assets at September 30, 1995. The related provision for loss of $168,000 was included in other non-interest expense for the year ended September 30, 1995. In June 1996, the Company collected $835,000 in settlement of the claim. The difference of $162,000 between the amount collected and the claim's net carrying amount was reflected as a credit to other non-interest expense for the year ended September 30, 1996.

(10) Benefit and Stock Option Plans

Pension Benefits

All eligible Company employees are included in the New York State Bankers' Retirement System, a trusteed non-contributory pension plan. The benefits contemplated by the plan are funded through annual remittances based on actuarially determined funding requirements. The following is a reconciliation of the funded status of the plan and the amount of prepaid pension cost included in other assets at September 30:

<TABLE>
<CAPTION>

<S>	1996 (In Thousands) <C>	1995 <C>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $1,136,000 in 1996 and $989,000 in 1995.................	$ (1,141)	$ (1,004)
Projected benefit obligation.................................	$ (1,630)	$ (1,420)
Plan assets at fair value (primarily debt and equity securities)...	1,844	1,521
Plan assets in excess of projected benefit obligation	214	101

Unrecognized net loss	103	170
Prepaid pension cost	$ 317	$ 271

</TABLE>

Pension expense consisted of the following for the years ended September 30:

<TABLE>
<CAPTION>

	1996	1995	1994
		(In Thousands)	
<S>	<C>	<C>	<C>
Service cost (benefits earned during the year)	$ 96	$ 86	$ 84
Interest cost on projected benefit obligation	111	100	88
Actual return on plan assets	(136)	(114)	(111)
Net amortization and deferral	-	2	1
Net pension expense	$ 71	$ 74	$ 62

</TABLE>

The projected benefit obligations at September 30, 1996 and 1995 were computed using discount rates of 7.75% and 8.0%, respectively, and a rate of compensation increase of 5.0%. The expected long-term rate of return on plan assets was 8.5%.

In connection with the Conversion, the Company entered into a non-qualified Supplemental Executive Retirement Agreement with an executive officer to provide retirement benefits in addition to the benefits provided by the pension plan. The cost related to this agreement was insignificant for the period through September 30, 1996.

Savings Plan

The Company also maintains an employee savings plan under Section 401(k) of the Internal Revenue Code. Eligible employees may make contributions to the plan of up to 15% of their compensation, subject to a dollar limitation. The Company makes matching contributions of up to 2% of the participant's compensation. Participants vest immediately in their own contributions and over a five-year period with respect to Company contributions. Savings plan expense was $28,000, $22,000 and $23,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

Employee Stock Ownership Plan

In connection with the Conversion, the Company established an employee stock ownership plan ("ESOP") for eligible employees. The ESOP borrowed approximately $2.9 million from the Holding Company and used the funds to purchase 285,660 shares of the Holding Company's common stock sold in the subscription and community offering described in note 11. The ESOP will repay the loan over a ten-year period primarily from the Association's contributions to the ESOP. The Association makes semi-annual contributions equal to the debt service requirements less dividends received by the ESOP.

Shares purchased by the ESOP are held in a suspense account until allocated to participant accounts by the plan trustee. Shares are allocated to participants on the basis of their relative compensation. Participants become vested in the allocated shares over a period not to exceed five years. Any forfeited shares are allocated to other participants in the same proportion as contributions. A total of 14,283 shares were released for allocation to participants as of September 30, 1996. Compensation expense recognized with respect to these shares amounted to $147,000, for the period from the Conversion through

September 30, 1996, based on the average fair value of the Holding Company's common stock for the period. The cost of the 271,377 shares which have not yet been committed to be released to participant accounts is reflected as a reduction to stockholders' equity ($2.7 million at September 30, 1996). The fair value of these shares was approximately $3.4 million at that date.

Stock Option and Incentive Plan

On October 30, 1996, the stockholders approved the Yonkers Financial Corporation 1996 Stock Option and Incentive Plan. Under the plan, 357,075 shares of authorized but unissued Holding Company common stock are reserved for issuance to employees and non-employee directors upon option exercises. Options under the plan may be either non-qualified stock options or incentive stock options. Each option entitles the holder to purchase one share of common stock at an exercise price equal to the fair market value of the stock on the grant date. An initial grant of 264,951 options was made, effective October 30, 1996, at an exercise price of $12.875 per share. These options have a ten-year term and vest ratably over five years from the grant date.

Management Recognition Plan

On October 30, 1996, the stockholders also approved the Yonkers Financial Corporation 1996 Management Recognition Plan. The purpose of this plan is to provide directors, officers and employees with a proprietary interest in the Company in a manner designed to encourage such individuals to remain with the Company. Awards granted under this plan vest ratably over five years from the date of grant. The Holding Company completed the funding of the plan in November 1996 by purchasing 142,830 shares of common stock in the open market at a total cost

of approximately $1.8 million which reduced consolidated stockholders' equity. The cost of shares granted under the plan will be amortized to compensation expense over the related vesting period. An initial grant of 101,405 shares was made in November 1996.

(11) Stockholders' Equity

Stock Conversion

Concurrent with the Conversion, on April 18, 1996 the Holding Company sold 3,570,750 shares of its common stock in a subscription and community offering at a price of $10 per share, for net proceeds of $34.6 million after deducting conversion costs of $1.1 million. The Holding Company used $17.3 million of the net proceeds to acquire all of the common stock issued by the Association in the conversion.

In accordance with regulatory requirements, the Association established a liquidation account at the time of the Conversion in the amount of $15.8 million, equal to its equity at September 30, 1995. The liquidation account is maintained for the benefit of eligible and supplemental eligible account holders who continue to maintain their accounts at the Association after the Conversion. The liquidation account will be reduced annually to the extent that eligible and supplemental eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore such account holder's interest in the liquidation account. In the event of a complete liquidation of the Association, each eligible account holder and supplemental eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

Capital Distributions

The Association may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause its stockholder's equity to be reduced below applicable regulatory capital requirements or the amount required to be maintained for the liquidation account. The OTS capital distribution regulations applicable to savings institutions (such as the Association) that meet their regulatory capital requirements, generally limit dividend payments in any year to the greater of (i) 100% of year-to-date net income plus an amount that would reduce surplus capital by one-half or (ii) 75% of net income for the most recent four quarters. Surplus capital is the excess of actual capital at the beginning of the year over the institution's minimum regulatory capital requirement.

Unlike the Association, the Holding Company is not subject to OTS regulatory restrictions on the payment of dividends to its shareholders. However, the Holding Company is subject to Delaware law which generally limits dividends to an amount equal to the excess of the net assets of the Holding Company (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year.

In September 1996, the Holding Company announced that it had received approval from the OTS to repurchase up to 10% of its outstanding common stock (in addition to the shares repurchased for purposes of the management recognition plan described in note 10). This program was completed in November 1996, with 357,075 shares repurchased at a total cost of $4.6 million which reduced consolidated stockholders' equity.

Regulatory Capital Requirements

OTS regulations require savings institutions to maintain minimum levels of regulatory capital. Under the regulations in effect at September 30, 1996, the Association was required to maintain a minimum ratio of tangible capital to total adjusted assets of 1.5%; a minimum ratio of Tier I (core) capital to total adjusted assets of 3.0%; and a minimum ratio of total (core and supplementary) capital to risk-weighted assets of 8.0%.

Under its prompt corrective action regulations, the OTS is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on the institution's financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, an institution is considered well capitalized if it has a Tier I (core) capital ratio of at least 5.0%; a Tier I risk-based capital ratio of at least 6.0%; and a total risk-based capital ratio of at least 10.0%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the OTS about capital components, risk weightings and other factors. These capital requirements, which are applicable to the Association only, do not consider additional capital at the Holding Company level.

Management believes that, as of September 30, 1996, the Association meets all capital adequacy requirements to which it is subject. Further, the most recent OTS notification categorized the Association as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Association's capital classification.

The following is a summary of the Association's actual capital amounts and ratios as of September 30, 1996 and 1995, compared to the OTS minimum capital adequacy requirements and the OTS requirements for classification as a well-capitalized institution:

September 30, 1996					
Association Actual		Minimum Capital Adequacy		For Classification as Well Capitalized	
Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)					

Tangible capital	$34,409	14.0%	$3,673	1.5%		
Tier I (core) capital.	34,409	14.0	7,346	3.0	$12,244	5.0%
Risk-based capital:						
Tier I.............	34,409	36.3			5,693	6.0
Total	35,346	37.2	7,591	8.0	9,488	10.0

	September 30, 1995					
	Association Actual		Minimum Capital Adequacy		For Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Tangible capital......	$15,784	7.6%	$3,124	1.5%		
Tier I (core) capital..	15,784	7.6	6,248	3.0	$10,413	5.0%
Risk-based capital:						
Tier I..............	15,784	17.9			5,306	6.0
Total	16,503	18.7	7,077	8.0	8,844	10.0

(12) Commitments and Contingencies

Off-Balance Sheet Financial Instruments

The Company's off-balance sheet financial instruments were limited to outstanding commitments to originate loans of $1.5 million and unadvanced lines of credit extended to customers of $5.0 million at September 30, 1996 ($2.5 million and $4.6 million, respectively, at September 30, 1995). Although these contractual amounts represent the Company's maximum potential exposure to credit loss, they do not necessarily represent future cash requirements since certain commitments and lines of credit may expire without being funded and others may not be fully drawn upon. Substantially all of these commitments and lines of credit have been provided to customers within the Company's primary lending area described in note 3 and relate to adjustable-rate loans. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee by the customer. Commitments and lines of credit are subject to the Company's credit approval process, including a case-by-case evaluation of the customer's creditworthiness and related collateral requirements.

Lease Commitments

The Company is obligated under non-cancellable leases for certain of its banking premises. Rental expense under these leases was $172,000, $120,000 and $118,000 for the years ended September 30, 1996, 1995 and 1994, respectively. At September 30, 1996, the future minimum rental payments under the lease agreements for the fiscal years ending September 30 are $189,000 in 1997; $130,000 in 1998; $127,000 in 1999; $82,000 in 2000; and $33,000 in 2001.

Legal Proceedings

In the normal course of business, the Company is involved in various outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the outcome of such legal proceedings should not have a material effect on the Company's financial condition, results of operations or liquidity.

(13) Fair Values of Financial Instruments

SFAS No. 107 requires disclosures about the fair values of financial instruments for which it is practicable to estimate fair value. The definition of a financial instrument includes many of the assets and liabilities recognized in the Company's balance sheet, as well as certain off-balance sheet items. Fair value is defined in SFAS No. 107 as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are used to estimate fair values when those prices are available. However, active markets do not exist for many types of financial instruments. Consequently, fair values for these instruments must be estimated by management using techniques such as discounted cash flow analysis and comparison to similar instruments. These estimates are highly subjective and require judgments regarding significant matters, such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Changes in these judgments often have a material effect on the fair value estimates. In addition, since these estimates are made as of a specific point in time, they are susceptible to material near-term changes. Fair values disclosed in accordance with SFAS No. 107 do not reflect any premium or discount that could result from the sale of a large volume of a particular financial instrument, nor do they reflect possible tax ramifications or estimated transaction costs.

The following is a summary of the carrying amounts and fair values of the Company's financial assets and liabilities (none of which were held for trading purposes) at September 30:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Millions)			
Financial assets:				
Cash and due from banks	$ 2.2	$ 2.2	$ 3.2	$ 3.2
Short-term investments	10.3	10.3	0.1	0.1
Securities	153.6	152.7	116.3	116.0
Loans...........................	86.7	85.4	83.7	82.7
Accrued interest receivable	2.4	2.4	1.8	1.8
Federal Home Loan Bank stock.....	1.1	1.1	1.1	1.1
Financial liabilities:				
Savings certificate accounts	105.0	104.9	101.4	101.9
Other deposit accounts	85.7	85.7	86.6	86.6
Borrowings	18.3	18.3	4.3	4.3

The following is a description of the principal valuation methods used by the Company to estimate the fair values of its financial instruments:

Securities

The fair values of securities were based on market prices or dealer quotes.

Loans

For valuation purposes, the loan portfolio was segregated into its significant categories, such as residential mortgage loans and consumer loans. These categories were further analyzed, where appropriate, into components based on significant financial characteristics such as type of interest rate (fixed or adjustable). Generally, management estimated fair values by reference to current secondary market prices of similar loans or by discounting the anticipated cash flows at current market rates for loans with similar terms to borrowers of similar credit quality.

Deposit Liabilities

The fair values of savings certificate accounts represent contractual cash flows discounted using interest rates currently offered on certificates with similar characteristics and remaining maturities. In accordance with SFAS No. 107, the fair values of deposit liabilities with no stated maturity (checking, NOW, money market, regular savings and club accounts) are equal to the carrying amounts payable on demand.

In accordance with SFAS No. 107, these fair values do not include the value of core deposit relationships which comprise a significant portion of the Company's deposit base. Management believes that the Company's core deposit relationships provide a relatively stable, low-cost funding source which has a substantial unrecognized value separate from the deposit balances.

Other Financial Instruments

The other financial assets and liabilities set forth in the preceding table have fair values that approximate the respective carrying amounts because the instruments are payable on demand or have short-term maturities and present relatively low credit risk and interest rate risk.

The fair values of the loan origination commitments and unadvanced lines of credit described in note 12 were estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the instruments and the creditworthiness of the potential borrowers. At September 30, 1996 and 1995, the fair values of these financial instruments approximated the related carrying amounts which were not significant.

(14) Recent Accounting Pronouncements

During the year ending September 30, 1997, the Company will adopt the following accounting pronouncements which have been issued by the Financial Accounting Standards Board ("FASB"):

Impairment of Long-Lived Assets

In March 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 establishes accounting standards for reviewing and measuring the impairment of long-lived assets and certain identifiable intangible assets. Various assets are excluded from the scope of SFAS No. 121, including financial instruments which constitute most of the Company's assets.

For assets included in the scope of SFAS No. 121, such as office properties and equipment, an impairment loss must be recognized when the estimate of total undiscounted future cash flows attributable to the asset is less than the asset's carrying amount. Measurement of the impairment loss is based on the fair value of the asset. SFAS No. 121 is effective for fiscal years beginning after December 15, 1995. Management anticipates that the prospective adoption of SFAS No. 121 in the year ending September 30, 1997 will not have a material impact on the Company's financial condition or results of operations.

Stock-Based Compensation

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which addresses accounting for stock-based compensation arrangements such as the stock option and incentive plan and the management recognition plan described in note 10. Under SFAS No. 123, entities can recognize stock-based compensation expense in the basic financial statements using either (i) the approach set forth in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", or (ii) the fair value based method introduced in SFAS No. 123. Under APB Opinion No. 25, compensation expense is measured at the option's intrinsic value, or the excess (if any) of the market price of the underlying stock at the measurement date over the amount the employee is required to pay. Under the fair value based method introduced in SFAS No. 123, compensation expense is measured at the option's fair value on the grant date.

The Company will adopt the provisions of APB Opinion No. 25 in accounting for the stock option and incentive plan and the management recognition plan. No compensation expense will be recognized for the stock option and incentive plan since the exercise price of the options will equal the market price of the underlying stock at the grant date. The cost of the shares awarded under the management recognition plan will be recognized as expense on a straight-line basis over the five-year vesting period. In accordance with SFAS No. 123, beginning in the year ending September 30, 1997 the Company will make pro forma disclosures of net income and earnings per share as if it had adopted the fair value method of accounting.

Transfers and Servicing of Financial Assets

In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Transactions within the scope of SFAS No. 125 include loan securitizations, sales of partial interests in financial assets, repurchase agreements, securities lending, pledges of collateral, loan syndications and participations, sales of receivables with recourse, servicing of mortgage and other loans, and in-substance defeasances of debt.

SFAS No. 125 applies a financial-components approach that focuses on the entity's control over a financial asset to determine the proper accounting for financial asset transfers. Under that approach, after financial assets are transferred, an entity recognizes on the balance sheet all assets it controls and all liabilities it has incurred. The entity would remove from the balance sheet those assets it no longer controls and liabilities it has satisfied. If the entity has surrendered control over the transferred assets, the transaction is accounted for as a sale. Under SFAS No. 125, control is considered to have been surrendered only if (i) the assets are isolated from the transferor, (ii) the transferee has the right to pledge or exchange the assets or is a qualifying special-purpose entity, and (iii) the transferor does not maintain effective control over the assets through an agreement to repurchase or redeem them. If any of these conditions are not met, the transfer is accounted for as a secured borrowing.

SFAS No. 125 requires recognition of servicing rights as an asset when loans are sold or securitized with servicing retained. Servicing rights were previously recognized as an asset when acquired through a purchase transaction, but not when acquired through loan origination activities. SFAS No. 125 requires that capitalized servicing rights be evaluated for impairment, by comparing the asset's carrying amount to its current fair value. In making impairment evaluations, servicing rights must be stratified based on one or more of the predominant risk characteristic of the underlying loans. Impairment is recognized through a valuation allowance for each impaired stratum.

As required, the Company will adopt SFAS No. 125 effective January 1, 1997 on a prospective basis. Management anticipates that the implementation of SFAS No. 125 will not have a material impact on the

Company's financial condition or results of operations.

YONKERS FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Parent Company Condensed Financial Information

Set forth below is the condensed balance sheet of Yonkers Financial Corporation as of September 30, 1996, and its condensed statements of income and cash flows for the period from April 18, 1996 (the Conversion date) to September 30, 1996:

<TABLE>
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<S>	September 30, 1996 (In Thousands) <C>
Condensed Balance Sheet	
Assets:	
Cash	$ 384
Short-term investments	10,248
Securities	4,016
Investment in subsidiary	34,351
Other assets	64
Total assets	$ 49,063
Liabilities and Stockholders' Equity:	
Accrued expenses	$ 64
Stockholders' equity	48,999
Total liabilities and stockholders' equity	$ 49,063

</TABLE>

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<S>	From April 18, 1996 to September 30, 1996 (In Thousands) <C>
Condensed Statement of Income	
Interest income	$ 388
Non-interest expense	(43)
Income before income tax expense and equity in undistributed earnings of subsidiary	345
Income tax expense	146
Income before equity in undistributed earnings of subsidiary	199
Equity in undistributed earnings of subsidiary	530
Net income	$ 729
Condensed Statement of Cash Flows	
Cash flows from operating activities:	
Net income	$ 729
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed earnings of subsidiary	(530)
Accrued expenses	64

Other	(67)
Net cash provided by operating activities	196
Cash flows from investing activities:	
Purchase of subsidiary's common stock	(17,314)
Purchases of securities	(4,000)
Other	143
Net cash used in investing activities	(21,171)
Cash flows from financing activities:	
Net proceeds from sale of common stock, exclusive of ESOP shares.	31,771
Dividend paid	(164)
Net cash provided by financing activities	31,607
Net increase in cash and cash equivalents	10,632
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	$ 10,632

</TABLE>

(16) Selected Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly financial data for the fiscal years ended September 30, 1996 and 1995:

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	Three Months Ended			
	December 31	March 31	June 30	September 30
	(In Thousands, Except Per Share Data)			
<S>	<C>	<C>	<C>	<C>
Fiscal 1996				
Interest and dividend income	$ 3,821	$ 3,813	$ 4,267	$ 4,475
Interest expense	2,024	2,001	1,954	1,996
Net interest income	1,797	1,812	2,313	2,479
Provision for loan losses	100	50	237	75
Non-interest income	166	165	173	198
SAIF special assessment	-	-	-	1,166
Other non-interest expense	1,200	1,249	1,148	1,441
Income (loss) before income taxes	663	678	1,101	(5)
Income tax expense (benefit)	272	278	469	(102)
Net income	$ 391	$ 400	$ 632	$ 97
Earnings per share			$ 0.19	$ 0.03
Fiscal 1995				
Interest and dividend income	$ 3,299	$ 3,454	$ 3,574	$ 3,736
Interest expense	1,509	1,631	1,895	1,969

Net interest income	1,790	1,823	1,679	1,767
Provision for loan losses	125	75	75	218
Non-interest income	150	158	198	180
Non-interest expense	1,222	1,082	1,100	1,375
Income before income tax expense	593	824	702	354
Income tax expense	268	349	283	133
Net income	$ 325	$ 475	$ 419	$ 221

</TABLE>

YONKERS FINANCIAL CORPORATION
STOCKHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of stockholders will be held at 4:30 p.m., January 28, 1997, at The Yonkers Savings and Loan Association, FA, located at One Manor House Square, Yonkers, New York.

STOCK LISTING

The Company's stock is traded over the counter, on the NASDAQ National Market under the symbol "YFCB".

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

The table below shows the range of high and low bid prices and dividends paid in fiscal 1996. These prices do not represent actual transactions and do not include retail markups, markdowns or commissions.

QUARTER ENDED	HIGH	LOW	DIVIDENDS
June 30, 1996	$10 1/4	$9 1/4	$ ---
September 30, 1996	12 5/8	9 1/2	$0.05

The Board of Directors intends to continue the payment of cash dividends, dependent on the results of operations and financial condition of the Company, tax considerations, industry standards, economic conditions, general business practices and other factors. Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions. Restrictions on dividend payments are described in Note 11 of the Notes to Consolidated Financial Statements included in this report.

As of September 30, 1996, the Company had approximately 607 stockholders of record and 3,570,750 outstanding shares of common stock.

SHAREHOLDER AND GENERAL INQUIRIES

Joseph L. Macchia, Vice President
Yonkers Financial Corporation
6 Executive Plaza
Yonkers, New York 10701
(914) 965-2500

TRANSFER AGENT

Registrar & Transfer Co.
10 Commerce Drive
Cranford, New Jersey 07016
(800) 456-0596

ANNUAL AND OTHER REPORTS

The Company is required to file an annual report on Form 10-K for its fiscal year ended September 30, 1996, with the Securities and Exchange Commission. Copies of the Form 10-K annual report and the Company's quarterly reports may be obtained without charge by contacting:

Joseph L. Macchia, Vice President
Yonkers Financial Corporation
6 Executive Plaza
Yonkers, New York 10701
(914) 965-2500

YONKERS FINANCIAL CORPORATION
CORPORATE INFORMATION

COMPANY AND BANK ADDRESS

6 Executive Plaza
Yonkers, New York 10701

Telephone	(914) 965-2500
Fax	(914) 965-2599

DIRECTORS OF THE BOARD

William G. Bachop
Retired professional engineer and President of
Herbert G. Martin, Inc.

P. Anthony Sarubbi
A consulting engineer and President of P. Anthony Sarubbi, Inc.

Donald R. Angelilli
A real estate broker employed by Prudential Ragette

Michael J. Martin
Vice President of Herbert G. Martin, Inc.

Eben T. Walker
President of Graphite Metallizing Corporation

Charles D. Lohrfink
Retired Public Affairs Director for Consolidated
Edison

YONKERS FINANCIAL CORPORATION
OFFICERS

Richard F. Komosinski
President

Joseph D. Roberto
Vice President, Treasurer and
Chief Financial Officer

Joseph L. Macchia
Vice President and Secretary

INDEPENDENT AUDITORS

KPMG Peat Marwick LLP
3001 Summer Street
Stamford, Connecticut 06905

SPECIAL COUNSEL

Silver, Freedman & Taff, L.L.P.
1100 New York Avenue, N.W.
Seventh Floor -- East Tower
Washington, D.C. 20005

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

<TABLE>
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Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
<S>	<C>	<C>	<C>
Yonkers Financial Corporation	The Yonkers Savings and Loan Association, FA	100%	Federal
The Yonkers Savings and Loan Association, FA	Yonkers Financial Services Corporation	100%	New York

</TABLE>

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30,1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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