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ACCESSION NUMBER: 0001047469-99-021886
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COMPANY DATA:
COMPANY CONFORMED NAME: HAVEN CAPITAL TRUST II
CENTRAL INDEX KEY: 0001083632
STANDARD INDUSTRIAL CLASSIFICATION: SAVINGS INSTITUTION, FEDERALLY CHARTERED [6035]
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

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BUSINESS ADDRESS:
STREET 1: 615 MERRICK AVE
CITY: WESTBURY
STATE: NY
ZIP: 11590
BUSINESS PHONE: 5166834483

MAIL ADDRESS:
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FILER:

COMPANY DATA:
COMPANY CONFORMED NAME: HAVEN BANCORP INC
CENTRAL INDEX KEY: 0000900741

STANDARD INDUSTRIAL CLASSIFICATION: SAVINGS INSTITUTION, FEDERALLY CHARTERED [6035]
IRS NUMBER: 113153802
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

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BUSINESS ADDRESS:
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Filed pursuant to Rule 424(b)(1)
Registration Nos. 333-76191 & 333-76191-01.

$22,000,000
HAVEN CAPITAL TRUST II
10.25% Capital Securities

[LOGO]

(Liquidation Amount $10.00 per Capital Security)
Fully and unconditionally guaranteed,
to the extent described herein, by
HAVEN BANCORP, INC.

Haven Capital Trust II is offering capital securities representing preferred beneficial interests in Haven Capital to the public. Distributions on the capital securities will be paid quarterly at an annual rate of 10.25% of the aggregate liquidation amount of the capital securities on March 31, June 30, September 30 and December 31 of each year beginning June 30, 1999. Haven Capital has granted the underwriters a 30-day option to purchase up to 330,000

additional capital securities on the same terms set forth below solely to cover over-allotments.

The capital securities have been approved for quotation on the Nasdaq National Market under the trading symbol "HAVNP."

THE OFFERING

	Per Security	Total
Public Price (1)	$ 10.00	$22,000,000
Underwriting Discounts	(2)	(2)
Proceeds to Haven Capital	$ 10.00	$22,000,000

- ------------------------

(1) Plus accrued distributions from May 26, 1999 to the date of delivery.

(2) Haven Bancorp will pay the underwriters compensation of $0.30 per capital security. Haven Bancorp will pay the underwriters a total of $660,000 (or $759,000 if the over-allotment option is exercised in full).

PLEASE READ THE "RISK FACTORS" SECTION OF THIS PROSPECTUS, BEGINNING ON PAGE 8.

These securities are not deposits or other obligations of a bank and are not insured by the Federal Deposit Insurance Corporation or any other government agency.

Neither the Securities and Exchange Commission nor any state securities commission has approved these securities or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

FRIEDMAN BILLINGS RAMSEY

FIRST ALBANY CORPORATION

LADENBURG THALMANN & CO. INC.

May 21, 1999

[MAP OF BANK AND SUBSIDIARY OFFICE LOCATIONS]

WHERE YOU CAN FIND MORE INFORMATION

Haven Bancorp, Inc. ("Haven," "we," "us" or "our") files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document in our public files at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices at 7 World Trade Center, 13(th) Floor, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Avenue, Suite 1400, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's web site at http://www.sec.gov through the SEC's electronic data gathering, analysis and retrieval system, EDGAR. Our common stock is listed on the Nasdaq National Market under the symbol "HAVN." Information about us also is available from the NASD, 1735 K Street, N.W., Washington, D.C. 20006.

This prospectus is part of a registration statement that we and Haven Capital Trust II ("Haven Capital") filed with the SEC. Because the SEC allows us to omit parts of the registration statement from this prospectus, we did not include all the information in the registration statement in this prospectus. You should review the registration statement, including the exhibits, for additional information regarding Haven Capital, the capital securities and us. The registration statement and its exhibits may be inspected at the SEC's offices or on the SEC's web site described in the previous paragraph.

ADDITIONAL INFORMATION WE HAVE INCORPORATED IN THE PROSPECTUS

The SEC allows us to "incorporate by reference" the information we file with it, which means that we can disclose important information to you by referring you to those documents that are considered part of this prospectus. Information that we file with the SEC after the date of the registration statement will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 by us (1) after the date of the filing of our registration statement and prior to its effectiveness and (2) until our offering of securities has been completed.

- Annual Report on Form 10-K for the year ended December 31, 1998.

- Current Report on Form 8-K filed with the SEC on April 27, 1999.

- Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

For your convenience, we have attached a copy of our Annual Report on Form 10-K for the year ended December 31, 1998 (without exhibits) to this prospectus as Appendix A. We have also attached our management's discussion and analysis of our financial condition and results of operations, which was incorporated in our annual report on Form 10-K for the year ended December 31, 1998, as Appendix B and our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 as Appendix C. You may obtain a copy of our filings with the SEC at no cost, by writing or telephoning us at the following address:

Haven Bancorp, Inc.
Attention: Secretary
615 Merrick Avenue
Westbury, New York 11590
(516) 683-4292

You should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone else to provide you with different information. This prospectus is an offer to sell only the capital securities referred to in this prospectus, and only under

circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of the date of the prospectus.

FORWARD-LOOKING STATEMENTS RELATING TO HAVEN'S, HAVEN CAPITAL'S AND THE CAPITAL SECURITIES' FUTURE PERFORMANCE OR EXPECTATIONS

We have used and incorporated by reference "forward-looking statements" in this prospectus. Sentences containing words such as "believes," "expects," "may," "will," "should," "projected," "contemplates" or "anticipates" may constitute forward-looking statements. These statements are within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties that could cause our actual results to differ materially. We have used these statements to describe our expectations and estimates in various areas, including:

- our overall business conditions particularly in the markets in which we operate;
- fiscal and monetary policy;
- the market for mortgage originations and purchases;
- year 2000 compliance issues;
- competitive products and pricing;
- credit risk management; and
- changes in regulations affecting financial institutions.

Our actual results could vary materially from the future results covered in our forward-looking statements. The statements in the "Risk Factors" section are cautionary statements identifying important factors, including certain risks and uncertainties, that could cause our results to vary materially from the future results covered in such forward-looking statements. Other factors, such as the general state of the United States economy, could also cause actual results to

vary materially from the future results covered in such forward-looking statements. We disclaim any obligation to announce publicly future events or developments that affect the forward-looking statements in this prospectus.

SUMMARY INFORMATION

THE FOLLOWING INFORMATION IS A SUMMARY OF THE MAJOR TERMS OF THE OFFERING OF CAPITAL SECURITIES. YOU SHOULD READ THE MORE DETAILED DISCUSSION AND FINANCIAL INFORMATION APPEARING ELSEWHERE OR INCORPORATED IN THIS PROSPECTUS.

HAVEN BANCORP, INC.

We are a Delaware corporation and the savings association holding company for CFS Bank (the "Bank"), a federally chartered savings bank. We conduct our operations primarily through the Bank. The Bank is a community-oriented savings bank, which offers mortgage, insurance and investment products through its residential lending division, CFS Intercounty, its investment services subsidiary, CFS Investment Services, and through our insurance agency subsidiary, CFS Insurance Agency, Inc. The Bank also offers commercial real estate loans. Our insurance agency subsidiary allows us to offer property and casualty insurance and business lines of insurance to our customers. With our acquisitions in 1998 of CFS Intercounty and CFS Insurance, we have complemented our package of financial products and services to position the Bank as a comprehensive financial services provider.

The Bank offers these products and services through eight traditional branches and 59 supermarket branches in the New York City boroughs of Queens, Brooklyn, Manhattan and Staten Island; the New York counties of Nassau, Suffolk, Rockland and Westchester; and in New Jersey and Connecticut. In addition, the Bank operates six full-service residential loan origination offices and six satellite residential loan origination offices as part of the CFS Intercounty division in New York, New Jersey, Connecticut and Pennsylvania. CFS Insurance has three free-standing insurance agency offices in Long Island, New York. Our principal offices are located at 615 Merrick Avenue, Westbury, New York 11590, and our telephone number is (516) 683-4100.

As of December 31, 1998, we had on a consolidated basis total assets of $2.40 billion, total liabilities of $2.28 billion, which included $1.72 billion of total deposits, and total stockholders' equity of $119.9 million. As of March 31, 1999, we had on a consolidated basis total assets of $2.55 billion, total liabilities of $2.43 billion, which included $1.80 billion of total deposits, and total stockholders' equity of $119.1 million. Stockholders' equity for the first quarter of 1999 reflects net income of $2.6 million, which was offset by a reduction of $3.4 million in the unrealized gain on securities available for sale.

HAVEN CAPITAL TRUST II

We organized Haven Capital as a statutory Delaware business trust on March 26, 1999. Haven Capital will sell its capital securities to the public and its common securities to us. Haven Capital will use all of the proceeds from the sale of the capital securities and the common securities to buy our 10.25% junior subordinated deferrable interest debentures due June 30, 2029. The subordinated debentures have the same financial terms as the capital securities. We are obligated to make interest payments and other payments under the subordinated debentures to Haven Capital, which Haven Capital will use to make distributions and other payments on the capital securities to you. Our obligations under the subordinated debentures are unsecured and rank junior to all of our other borrowings, except borrowings that by their terms rank equal or junior to the capital securities. We will, on a subordinated basis, fully, irrevocably and unconditionally guarantee the payment by Haven Capital of the amounts that are required to be paid on the capital securities, to the extent that Haven Capital has funds available.

Haven Capital intends to maintain its status as an entity that is not taxable as a corporation for federal income tax purposes. Haven Capital has no separate financial statements. The statements would not be material to you because Haven Capital has no independent operations. Haven Capital has a term of approximately 55 years, but may be dissolved earlier.

HAVEN'S INVESTMENT OF THE PROCEEDS FROM THE SALE OF THE SUBORDINATED DEBENTURES

We currently intend to use the net proceeds from the sale of the subordinated debentures, which are estimated to be $22,680,500 ($26,082,500 if the underwriters exercise their over-allotment option in full), net of commissions and other estimated offering expenses, to invest in the Bank to increase its capital level. The increased capital will enable the Bank to expand its deposit base. The Bank will also invest this additional capital in residential and commercial real estate loans in our market area and in investment-grade mortgage-backed securities and investment securities. It is also possible that, if our board of directors determines that it is in the best interests of our shareholders, a portion of the net proceeds may be used for repurchases of our stock. Initially, we will invest the net proceeds in short-term investment-grade financial securities. For more information about our use of the proceeds from the sale of the subordinated debentures, you should read the "Use of Proceeds" section of this prospectus.

We will pay all fees and expenses related to Haven Capital and the offering of the capital securities, as well as all of the ongoing costs and expenses of Haven Capital. We will not be responsible for Haven Capital's obligations to pay you distributions or other amounts under the capital securities, except to the extent of our guarantee of the capital securities.

THE CAPITAL SECURITIES

Each capital security represents an undivided preferred beneficial interest

in the assets of Haven Capital. Each capital security that you own will entitle you to receive quarterly distributions as described in this prospectus. The underwriters are offering 2,200,000 capital securities at a price of $10.00 for each capital security, plus any accumulated distributions on the capital securities from May 26, 1999.

DISTRIBUTIONS ON THE CAPITAL SECURITIES

If you purchase any capital securities, you will be entitled to receive quarterly cash distributions at an annual rate of 10.25% of the liquidation amount of $10.00 for each capital security. You will be entitled to be paid distributions on March 31, June 30, September 30 and December 31 of each year, beginning June 30, 1999. The amount of each distribution will include amounts accrued up to the date the distribution is due. These payments are identical to the payments that we are required to make under the subordinated debentures.

HAVEN CAPITAL'S ABILITY TO DEFER PAYMENT OF YOUR DISTRIBUTIONS

We can, on one or more occasions, defer interest payments on the subordinated debentures for up to 20 consecutive quarters, unless an event of default exists under the subordinated debentures. We cannot defer interest payments beyond June 30, 2029, the stated maturity date of the subordinated debentures.

If we defer interest payments on the subordinated debentures, Haven Capital will also defer distributions on the capital securities. During this deferral period, the capital securities will still accumulate distributions at an annual rate of 10.25% of the liquidation amount of $10.00 for each capital security. Additionally, any unpaid distributions on the capital securities will accumulate additional distributions at the same rate, compounded quarterly, to the extent permitted by law. If Haven Capital defers your distributions, you will still be required to accrue interest income and include it in your gross income for U.S. federal income tax purposes, even if you are a cash basis taxpayer.

HAVEN'S GUARANTEE OF THE CAPITAL SECURITIES

We will fully, irrevocably and unconditionally guarantee, on a subordinated basis, to the extent that Haven Capital has funds legally available to make the following payment obligations:

- payments of distributions on the capital securities;

- payments on liquidation of Haven Capital; and

- payments on maturity or earlier redemption of the capital securities.

If we do not make a payment on the subordinated debentures, Haven Capital will not have sufficient funds to make payments on the capital securities. Our

guarantee does not cover the payment of distributions when Haven Capital does not have sufficient funds to pay the distributions. Our obligations under the guarantee and under the subordinated debentures are unsecured and rank junior to all of our other borrowings, except borrowings that by their terms rank equal or junior to the subordinated debentures. Our guarantee of the capital securities issued by Haven Capital Trust I and our 10.46% junior subordinated deferrable interest debentures that mature February 1, 2027 rank equal to our guarantee of the capital securities Haven Capital is offering by this prospectus.

REDEMPTION OF THE CAPITAL SECURITIES

Haven Capital will redeem the capital securities when we pay the subordinated debentures at maturity on June 30, 2029. In addition, if we redeem some or all of the subordinated debentures before maturity, Haven Capital will use the cash it receives from the redemption of the subordinated debentures to redeem proportionately an amount of capital securities and common securities having an aggregate liquidation amount (the number of securities times $10.00) equal to the aggregate principal amount of the subordinated debentures that we redeem.

We can redeem some or all of the subordinated debentures at any time on or after June 30, 2009 and before June 30, 2029 at their principal amount plus any accrued and unpaid interest to the date of redemption. If we redeem any subordinated debentures on or after June 30, 2009, we will pay a premium that declines each year from 5.125% beginning on June 30, 2009 to 0% on or after June 30, 2019.

We can redeem all of the subordinated debentures at any time before June 30, 2029 at their principal amount plus any accrued and unpaid interest to the date of redemption if changes in the bank regulatory, investment company or tax laws occur that would adversely impact the status of Haven Capital, the trust securities or the subordinated debentures.

We may have to obtain regulatory approvals, including the approval of the Office of Thrift Supervision, before we redeem any subordinated debentures prior to maturity.

TRUSTEES OF HAVEN CAPITAL

There are five trustees of Haven Capital. The Chase Manhattan Bank will be the property trustee, Chase Manhattan Bank Delaware will be the Delaware trustee and three individuals who are employees of Haven will be the administrative trustees of Haven Capital.

As the sole holder of the common securities, we can replace or remove any of the trustees. However, if an event of default exists under the trust agreement governing Haven Capital, only the holders of a majority in aggregate liquidation amount of the capital securities would be able to remove and replace the property trustee and the Delaware trustee. As owner of all of the common securities, only we can remove or replace the administrative trustees. The

duties and obligations of each trustee are governed by the trust agreement.

FORM OF THE CAPITAL SECURITIES WHEN THEY ARE ISSUED

The capital securities will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company, New York, New York ("DTC") or its nominee. This means that you will not receive a certificate for the capital securities. We expect that the capital securities will be ready for delivery through DTC on or about May 26, 1999.

PURCHASES OF THE CAPITAL SECURITIES FOR AN EMPLOYEE BENEFIT PLAN

If you are purchasing the capital securities for an employee benefit plan, you should read "ERISA Considerations" for a discussion of prohibited transactions and your fiduciary duties.

RISK FACTORS

AN INVESTMENT IN THE CAPITAL SECURITIES INVOLVES A NUMBER OF RISKS. SOME OF THESE RISKS RELATE TO THE CAPITAL SECURITIES AND OTHERS RELATE TO HAVEN. WE URGE YOU TO CAREFULLY CONSIDER THIS INFORMATION, TOGETHER WITH THE OTHER INFORMATION IN THIS PROSPECTUS AND IN THE DOCUMENTS THAT WE HAVE INCORPORATED BY REFERENCE IN THIS PROSPECTUS.

RISKS RELATED TO YOUR INVESTMENT IN THE CAPITAL SECURITIES

HAVEN CANNOT MAKE PAYMENTS UNDER THE GUARANTEE OR THE SUBORDINATED DEBENTURES IF HAVEN DEFAULTS ON ITS OTHER OBLIGATIONS THAT ARE MORE SENIOR.

Our obligations under the guarantee issued for your benefit are unsecured and rank

- junior to all of our other borrowings, except those borrowings that by their terms are equal or junior;

- equal to our 10.46% junior subordinated deferrable interest debentures that mature February 1, 2027 and our guarantee of the capital securities of Haven Capital Trust I; and

- senior to our common stock.

This means that we cannot pay under the guarantee if we default on payments of any of our other borrowings, unless, by their terms, those borrowings are equal or junior to the guarantee. If we liquidate, go bankrupt or dissolve, we would be able to pay under the guarantee only after we have paid all our other liabilities that are senior to the guarantee.

Our obligations under the subordinated debentures are unsecured and rank

junior in priority to all of our senior indebtedness, which includes our borrowings that are not by their terms equal or junior to the subordinated debentures. If we default on a payment on our senior indebtedness, we cannot pay principal or interest on the subordinated debentures. If we liquidate, go bankrupt or dissolve, we would be able to pay Haven Capital under the subordinated debentures only after we have made all payments on our senior indebtedness. These payments to Haven Capital would be made on a PRO RATA basis with our 10.46% junior subordinated deferrable interest debentures issued to Haven Capital Trust I. As of March 31, 1999, we had approximately $1.40 million in senior indebtedness.

If we default on our obligations to pay principal, premium or interest on the subordinated debentures, Haven Capital will not have sufficient funds to make distribution payments or liquidation payments on the capital securities. As a result, you will not be able to rely upon our guarantee for payment of these amounts. Instead, you or the property trustee may enforce the rights of Haven Capital under the subordinated debentures against us. For more information, please refer to "Description of Subordinated Debentures--Enforcement of Certain Rights by Holders" on page 53.

The capital securities, guarantee, the subordinated debentures and the indenture do not limit our ability to incur additional debt, including debt that is senior in priority of payment.

For more information on payments under the guarantee and the subordinated debentures, you should refer to "Description of Guarantee--Status of the Guarantee" on page 57 and "Description of Subordinated Debentures--Subordination" on page 54.

BANKING LAWS AND REGULATIONS LIMIT HAVEN'S ACCESS TO FUNDS, WHICH MAY PREVENT HAVEN FROM MAKING PAYMENTS UNDER THE SUBORDINATED DEBENTURES.

Because we are a savings association holding company, substantially all of our operating assets are owned by the Bank. We rely primarily on dividends from the Bank to pay principal and interest on our outstanding debt obligations and corporate expenses. The Board of Directors of the Bank has the sole discretion to declare and pay any dividends to us.

The Office of Thrift Supervision regulates us, as a savings association holding company, and the Bank, as a federal stock savings bank. The Office of Thrift Supervision limits all capital distributions by the Bank directly or indirectly to us, including dividend payments. Effective April 1, 1999, the Office of Thrift Supervision amended its capital distribution regulations. Under the amended regulations, the Bank will have to file a notice with the Office of Thrift Supervision with respect to each capital distribution that it proposes to make, unless the specific capital distribution requires an application. An application would be required if the total amount of all capital distributions (including the proposed capital distribution) for the applicable calendar year

exceeds net income for that year to date plus the retained net income for the preceding two years. Under the amended regulations, the Bank would also have to file an application for a proposed capital distribution that would result in the Bank's failure to meet any of its minimum capital requirements. If these regulations governing capital distributions and minimum capital requirements during 1999 had been in effect during 1998, the Bank could have paid dividends of $32.6 million without obtaining prior regulatory approval.

The Office of Thrift Supervision and the Federal Deposit Insurance Corporation have authority to prohibit the Bank or us from engaging in an unsafe or unsound practice in conducting our business. The payment of dividends, depending upon the financial condition of the Bank and us, could be deemed an unsafe or unsound practice.

In addition to regulatory restrictions on the payment of dividends, the Bank is subject to certain restrictions imposed by federal law on any extensions of credit it makes to its affiliates and on investments in stock or other securities of its affiliates. We are considered an affiliate of the Bank. These restrictions prevent affiliates of the Bank, including us, from borrowing from the Bank, unless the loans are secured by various types of collateral. Federal law limits the aggregate amount of loans to and investments in any single affiliate to 10% of the Bank's capital and surplus and also limits the aggregate amount of loans to and investments in all affiliates to 20% of the Bank's capital and surplus. As of March 31, 1999, approximately $13.3 million of credit was available to us under this limitation.

Under the prompt corrective action provisions of the Federal Deposit Insurance Act, the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making any capital distribution, the Bank would become undercapitalized as defined under the Federal Deposit Insurance Act. Based on the Bank's current financial condition, we do not expect that this provision will have any impact on our ability to obtain dividends from the Bank; however, we cannot be sure that the Bank will be able to pay dividends in the future.

Also, as a savings association holding company, our right to receive distributions from the Bank may be limited. If the Bank is liquidated or reorganized, depositors of the Bank would have the right to receive distributions from the Bank before us, unless we were considered a creditor of the Bank. If we did not receive distributions from the Bank, we could not pay the principal of (or premium, if any) or interest on the subordinated debentures to Haven Capital, and Haven Capital could not pay you distributions on the capital securities. At March 31, 1999, the Bank had total liabilities, including deposits, of $2.43 billion.

HAVEN CAN DEFER INTEREST PAYMENTS ON THE SUBORDINATED DEBENTURES, CAUSING YOUR PAYMENTS UNDER THE CAPITAL SECURITIES TO STOP, WHICH WILL HAVE TAX CONSEQUENCES TO YOU AND MAY AFFECT THE MARKET PRICE OF THE CAPITAL SECURITIES.

We have the right, at one or more times, unless an event of default exists

under the subordinated debentures, to defer interest payments on the subordinated debentures for up to 20 consecutive quarters, but not beyond June 30, 2029. If we defer interest payments, Haven Capital will defer paying distributions to you on your capital securities during the deferral period. Additionally, during this period, any unpaid distributions on the capital securities would accumulate additional distributions at the rate of 10.25% per year, compounded quarterly, to the extent permitted by law. During any deferral period, we will be prohibited from declaring or paying cash dividends on our capital stock or

from paying on or repaying, repurchasing or redeeming any debt which ranks equal or junior to the subordinated debentures, including payments with respect to our 10.46% junior subordinated deferrable interest debentures due February 1, 2027 held by Haven Capital Trust I. For more information, please refer to "Description of Capital Securities--Distributions."

When any deferral period ends and we pay all interest then accrued and unpaid on the subordinated debentures, we may elect to begin a new deferral period. There is no limitation on the number of times that we may elect to begin a deferral period. See "Description of Capital Securities-- Distributions" and "Description of Subordinated Debentures--Option to Extend Interest Payment Date."

If we exercise our right to defer payments of interest on the subordinated debentures, you will be required to accrue income (as original issue discount) in respect of the deferred stated interest allocable to your capital securities for U.S. federal income tax purposes, which will be allocated but not distributed to you. As a result, you will be required to recognize income for U.S. federal income tax purposes before you receive any cash and will not receive the cash related to this interest income from Haven Capital if you dispose of your capital securities prior to the record date for the distribution payment. For more information, you should read "Certain Federal Income Tax Consequences--Interest Income and Original Issue Discount" and "--Sales or Redemption of Capital Securities."

We do not currently intend to exercise our right to defer interest payments on the subordinated debentures. However, if we exercise this right in the future, the market price of the capital securities will probably be affected. The capital securities may trade at a price that does not fully reflect the value of accrued but unpaid interest on the subordinated debentures. If you sell your capital securities during a deferral period, you may not receive the same return on your investment as someone else who continues to hold the capital securities.

HAVEN CAPITAL MAY REDEEM THE CAPITAL SECURITIES IF A SPECIAL EVENT OCCURS.

If there are changes in the bank regulatory, investment company or tax laws that would adversely affect the status of Haven Capital, the trust securities or

the subordinated debentures, we have the right to redeem the subordinated debentures, in whole but not in part. Our redemption of the subordinated debentures will cause Haven Capital to redeem the capital securities and the common securities at a price equal to $10.00 per security plus any accrued and unpaid distributions. We may have to obtain regulatory approval, including the approval of Office of Thrift Supervision, before we redeem any subordinated debentures. For more information, you should refer to "Description of Capital Securities--Redemption."

IF WE DISTRIBUTE THE SUBORDINATED DEBENTURES, THERE MAY BE AN ADVERSE EFFECT ON THE TRADING MARKET AND TRADING PRICE OF YOUR INVESTMENT, AND THERE MAY BE ADVERSE TAX EFFECTS.

We have the right to dissolve Haven Capital at any time if we receive:

- an opinion of counsel stating that a distribution of the subordinated debentures will not be a taxable event to you; and

- any required regulatory approval.

Upon a dissolution of Haven Capital, and after satisfying the liabilities owed to Haven Capital's creditors under applicable law, the trustees will distribute the subordinated debentures to the holders of the capital securities, and us, as the holder of common securities.

If the trustees distribute the subordinated debentures, we will use our best efforts to list the subordinated debentures on the Nasdaq National Market. We cannot be sure that the subordinated debentures will be approved for listing on Nasdaq or that a trading market will exist for the subordinated debentures.

Under current U.S. federal income tax law, a distribution of the subordinated debentures following the dissolution of Haven Capital would not be a taxable event to you. However, any distributions of cash for the subordinated debentures would be a taxable event to you. You should refer to "Certain Federal Income Tax Considerations--Receipt of Subordinated Debentures or Cash Upon Liquidation of Haven Capital" for more information.

YOU WILL HAVE LIMITED VOTING RIGHTS.

As a holder of capital securities, you will have limited voting rights. You can vote only to modify the capital securities and to exercise Haven Capital's rights as a holder of the subordinated debentures. In general, only we can replace or remove any of the trustees. However, if an event of default exists under the trust agreement, the holders of the capital securities may replace the property trustee and the Delaware trustee.

We, along with the property trustee and the administrative trustees, may amend the trust agreement without your consent even if these actions adversely

affect your interests, to ensure that Haven Capital:

(a) will not be classified as an association taxable as a corporation for U.S. federal income tax purposes; and

(b) will not be required to register as an "investment company" under the Investment Company Act of 1940.

You will have no voting rights with respect to any matters submitted to a vote of our stockholders. For more information on your voting rights, please refer to "Description of Capital Securities--Voting Rights; Amendment of the Trust Agreement" and "--Removal of Trustees."

TRADING PRICE MAY NOT REFLECT THE FULL VALUE OF THE CAPITAL SECURITIES.

We cannot predict the market prices for the capital securities or the subordinated debentures that may be distributed if we dissolve Haven Capital. The capital securities or the subordinated debentures may trade at a discount from the price that you paid for the capital securities.

The capital securities may trade at prices that do not fully reflect the value of any accrued and unpaid interest on the underlying subordinated debentures.

We have applied for the capital securities to be listed on the Nasdaq National Market. Although the underwriters of the offering have indicated that they intend to make a market in the capital securities, they are not obligated to do so and may stop any market-making activities at any time without notice. We cannot be sure that there will be a liquid trading market for the capital securities.

RISKS RELATED TO HAVEN

INTEREST RATE CHANGES MAY REDUCE HAVEN'S PROFITABILITY.

To be profitable, we have to earn more money in interest income and fee income than we pay as interest on deposits and other interest-bearing liabilities and as other expenses. If interest rates fall, the amount of interest we earn on loans, mortgage-backed securities and investment securities may decrease more quickly than the amount of interest we pay on deposits. This would result in a decrease in our profitability.

Changes in the general level of interest rates also affect

- our ability to originate loans;

- the value of our loan and securities portfolios;

- our ability to realize gains from the sale of loans and securities assets;
- the average life of our deposits; and
- our ability to obtain deposits.

Fluctuations in interest rates will affect both the level of income and expense we record on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets, other than interest-earning assets that mature in the short term. The Bank's interest rate management strategy is designed to stabilize net interest income and preserve capital over a broad range of interest rate movements by matching the interest rate sensitivity of assets and liabilities. Although we believe that our current mix of loans, mortgage-backed securities, investment securities and deposits is reasonable, significant fluctuations in interest rates may have a negative effect on our profitability.

For more detailed information on our exposure to changes in interest rates, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations--Asset/ Liability Management" in our annual report on Form 10-K for the year ended December 31, 1998 that we have incorporated by reference in this prospectus. For your convenience, we have attached our management's discussion and analysis of our financial condition and results of operations, which was incorporated in our annual report on Form 10-K for the year ended December 31, 1998, as Appendix B.

BECAUSE A MAJORITY OF HAVEN'S SUPERMARKET BRANCHES ARE IN SUPERMARKETS OWNED AND OPERATED BY PATHMARK STORES, INC., HAVEN'S SUPERMARKET BANKING PROGRAM MAY BE MATERIALLY ADVERSELY AFFECTED BY THE ACQUISITION OF PATHMARK BY ROYAL AHOLD N.V.

In 1996, we entered into a fifteen year contract with Pathmark to open supermarket branches in 44 Pathmark stores that were then existing in New York. The contract also provides that we will open a branch in all new Pathmark supermarkets that open in New York (excluding one store in New York City), Bronx, Queens, Kings, Richmond, Nassau, Suffolk, Westchester and Rockland counties. We also have a right, but no obligation, to open and operate branches in any new stores that Pathmark opens in New York State other than the specified counties through 2011. We currently operate branches in 35 Pathmark stores. Pathmark has notified us that two stores in which we were originally required to open branches under the contract would not have space available for a supermarket branch. We are presently obligated to open branches in seven additional existing Pathmark stores. In addition, Pathmark is in the process of building three new stores in New York in which we will be required to open branches. Under the contract, if Pathmark or a successor to Pathmark sells a supermarket where the Bank operates a branch, the sale would be subject to our license related to that supermarket. If Pathmark or a successor to Pathmark closes a supermarket, the license would be subject to termination, and we would be entitled to, among other things, a rebate of some of the costs we incurred to open the branch. Each branch is under a five-year license that gives us an

option to renew the license for three additional five-year terms.

On March 9, 1999, Royal Ahold N.V., a Dutch food retailer, announced that it intends to acquire Pathmark. By acquiring Pathmark, Royal Ahold would become subject to, and bound by, our contract with Pathmark with respect to the Pathmark supermarkets that are part of Royal Ahold's acquisition. Royal Ahold also owns Edwards supermarkets and has stated that it intends to integrate its Edwards supermarkets into the Pathmark chain. We do not know if Royal Ahold intends to close any Pathmark stores, particularly in communities where there is both a Pathmark and an Edwards store. Our supermarket banking program may be materially adversely affected if Royal Ahold closes a significant number of Pathmark stores or decides not to open any additional stores in areas where it would have been advantageous for us to open supermarket branches.

IF HAVEN CANNOT SUCCESSFULLY MANAGE THE GROWTH IN ITS SUPERMARKET BANKING PROGRAM, HAVEN'S RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED.

In 1996, we began our supermarket banking program, and we opened four supermarket branches. In 1997, we opened 28 new supermarket branches, and in 1998 we opened 25 new supermarket branches. We currently operate 59 supermarket branches and anticipate opening three additional Pathmark supermarket branches and one Edwards supermarket branch in the second half of 1999. After we open these three branches, under the contract with Pathmark, we have the right and the obligation to open branches in five existing Pathmark stores, two Pathmark stores that are currently under construction and any other new stores opened by Pathmark in New York, Bronx, Queens, Kings, Richmond, Nassau, Suffolk, Westchester and Rockland counties. Although we are currently obligated to open supermarket branches in seven additional Pathmark stores, we are currently discussing the timing with respect to such openings with Pathmark. We anticipate that we will not open branches in most of these Pathmark stores in 1999. We also have established a relationship with a number of ShopRite operators in New Jersey and Connecticut where we have the right, but no obligation, to open supermarket branches in all of their new or renovated stores in New Jersey and Connecticut. We currently intend that when we reach a total of 63 supermarket branches, we will not open any additional supermarket branches in 1999, unless we are obligated, or we determine that it would be in our best interest, to do so.

Because supermarket banking is a relatively new business strategy for us and for other financial institutions in New York, New Jersey and Connecticut, there is little historical data with which to compare our performance and to base our expectations. We have incurred significant start-up costs with each branch opening. Non-interest expense directly attributable to these branches accounted for 28.2% of non-interest expense in 1998 and 26.7% for the first quarter of 1999. As of March 31, 1999, our expansion based on our supermarket banking program has increased our deposits by approximately 32.0%. The supermarket branches contributed 51.1% of deposit account fee income and non-traditional revenue in 1998 and contributed 59.4% of such income and revenue in the first

quarter of 1999.

Based on our experience, we expect that supermarket branches, on average, will reach profitability after about 18 months of operations. However, we may encounter unforseen difficulties and complications, including a continued flattening of the yield curve, that could prevent, or make it more difficult, for our supermarket branches to reach profitability within our expected time frame. In addition, the profitability of the supermarket banking program could be adversely affected by business matters related to the supermarkets that are not within our control. Specifically, labor issues between a supermarket's management and its employees, decreased advertising or promotions by the supermarket or a decline in a supermarket's popularity could reduce the number of existing customers purchasing our financial products and services and could make it more difficult for us to attract new customers. We do not know if we will be able to successfully achieve the anticipated benefits of our growth and expanded operations through the supermarket banking program.

IF HAVEN CANNOT SUCCESSFULLY INTEGRATE THE OPERATIONS OF CFS INTERCOUNTY MORTGAGE AND CFS INSURANCE AGENCY, HAVEN'S RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED.

In 1998, we completed two acquisitions. The Bank purchased the assets of Intercounty Mortgage, Inc. from Resource Bancshares Mortgage Group, Inc. in May 1998, and we purchased Century Insurance Agency, Inc. in November 1998. We are still in the process of integrating the operations of both of these companies. We have experienced, or may experience, difficulties combining the technological systems of the companies, assimilating new employees into our work environment and coordinating other operational functions that could delay our expected time to complete the integration of these companies. We will also have to continue to dedicate management and other employees to facilitate the integration of the operations of these companies. Although we expect to successfully

integrate these operations in 1999, if we fail to do so, our short-term financial condition and profitability could be adversely affected.

IF HAVEN CANNOT SUCCESSFULLY ORIGINATE LOANS AND SELL LOANS THAT ARE HELD FOR SALE, HAVEN'S RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED.

The future profitability of our CFS Intercounty division depends on our ability to originate loans and to efficiently sell, directly or through securitization, loans that are held for sale. In order for us to realize fee income on loan originations, CFS Intercounty must be able to efficiently originate loans for portfolio and for sale. We will earn interest income on the loans held in portfolio. Sales of loans may produce additional non-interest income if we realize gains on these sales. However, gains on these sales may not be sufficient to offset our expense of originating the loans and to produce net gains on sales. If we are unable to sell these loans into the secondary market efficiently, our expenses of originating the loans may not be offset by any

gains that we realize. Our ability to originate and to sell loans depends on general economic conditions, real estate market values, interest rates and our ability to compete with other financial institutions selling loans. Our regulatory capital and liquidity could be adversely affected if we have difficulty in selling and securitizing loans. In addition, if we are unable to sell or securitize loans in an efficient and timely manner, or we must retain a larger interest in loans than we anticipated, our ability to make and purchase loans in the future could be adversely affected.

BECAUSE HAVEN PRIMARILY SERVES NEW YORK, NEW JERSEY, CONNECTICUT AND PENNSYLVANIA, PARTICULARLY THE NEW YORK CITY METROPOLITAN AREA, A DECLINE IN THE LOCAL ECONOMY COULD LOWER HAVEN'S PROFITABILITY.

We serve New York, New Jersey and Connecticut with 19 branches in New York City, 33 branches in Westchester, Rockland, Suffolk and Nassau counties in New York, seven branches in Connecticut and eight branches in New Jersey. In addition, the Bank operates six full-service residential loan origination offices and six satellite residential loan origination offices in New York, New Jersey, Connecticut and Pennsylvania. CFS Insurance Agency has three free-standing insurance agency offices in Long Island, New York. Our profits depend on providing products and services to customers in this local region. An increase in unemployment, a decrease in real estate values or an increase in interest rates could weaken the local economy. With a weaker local economy,

- customers may not want or need our products and services;

- borrowers may be unable to repay their loans;

- the value of the collateral securing our loans to borrowers may decline; and

- the overall quality of our loan portfolio may decline.

Making residential mortgage loans is a significant source of our profits. If customers in the local area do not want residential mortgage loans, our profits may decrease. Although we could make other investments, we may earn less revenue on these investments than on residential mortgage loans. Also, our losses on loans may increase if borrowers are unable to make payments on their loans.

IF HAVEN IS UNABLE TO SUCCESSFULLY COMPETE FOR CUSTOMERS IN ITS MARKET AREA, HAVEN'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED.

We face intense and increasing competition in making loans, attracting deposits and providing other financial products and services. The market area in which we operate, New York, New Jersey, Connecticut and Pennsylvania, has numerous financial institutions that we compete with for customers. Our competition for loans comes principally from:

- commercial banks;
- savings banks;
- savings and loan associations;
- mortgage banking companies;
- finance companies; and
- credit unions.

Our competition for deposits comes principally from:

- commercial banks;
- savings banks;
- savings and loan associations;
- credit unions;
- brokerage firms;
- insurance companies;
- money market mutual funds;
- mutual funds (such as corporate and government securities funds); and
- annuities.

Many of these competitors have greater financial resources and name recognition, more locations, more advanced technology and more financial products to offer than we have. We have increased our presence in New York, New Jersey and Connecticut through our supermarket banking program. We offer a full range of financial products and services, including annuities, mutual funds, insurance and electronic banking. Our profitability depends on our continued ability to attract new customers and compete in New York, New Jersey, Connecticut and Pennsylvania. If we are unable to successfully compete, our financial condition and results of operations will be adversely affected.

THE YEAR 2000 PROBLEM COULD HURT HAVEN'S OPERATIONS AND PROFITS

We rely upon computers to conduct our daily business. If our computer systems fail to recognize a date using "00" as the year 2000, we may be unable to do our routine business and provide service to our customers. The failure of the computer systems of parties we do business with or utilities, including the electric and telephone companies, to recognize the year 2000 may also disrupt

our operations. For example, we may not be able to process withdrawals or deposits, prepare account statements or engage in any of the transactions that constitute our normal operations. This could hurt our profits.

We primarily use a third party vendor to process our electronic data. Our vendor has modified or replaced many of its computer applications and systems necessary to correct the year 2000 date issue. We have substantially completed testing the modified systems. We also use a combination of purchased and contract-based software as well as other third party vendors for many of our data processing needs.

Our assessment of potential computer issues for the year 2000 has been substantially completed. Where potential computer issues have been identified, the vendors have committed to definitive dates to resolve such issues. We have established contingency plans for systems for which year 2000 issues will not be corrected. If our vendors do not achieve year 2000 compliance, our operations could be adversely affected.

The Office of Thrift Supervision, our primary federal bank regulator, along with the other federal bank regulators, has identified the year 2000 issue as a substantive area of examination for both regularly scheduled and special bank examinations. Under regulatory guidelines issued by the federal banking regulators, we must substantially complete our testing of both internally and externally supplied systems and all renovations by June 30, 1999. Because of this oversight by the federal bank regulatory agencies, if we do not become year 2000 compliant, we could become subject to administrative remedies similar to those imposed on financial institutions otherwise found not to be operating in a safe and sound manner, including remedies available under prompt corrective action regulations.

There has been limited litigation filed against corporations regarding the year 2000 problem and a corporation's compliance efforts. However, the law in this area will probably continue to develop well into the new millennium. If we experience a year 2000 failure, our exposure could be significant and material, unless there is legislative action to limit year 2000 liability. Legislation has been introduced in several jurisdictions regarding the year 2000 problem. However, we cannot be sure that legislation will be enacted in jurisdictions where we do business that will limit any potential liability. Through March 31, 1999, we had incurred approximately $126,000 in costs associated with achieving year 2000 compliance. We expect to incur approximately $451,000 in additional costs to achieve year 2000 compliance during the remainder of 1999.

RECENT DEVELOPMENTS

RECENT LITIGATION

On May 18, 1999, the Bank was served with a complaint naming it as a defendant in a lawsuit. The lawsuit was commenced by the former president of the

Bank's residential mortgage lending division in the Superior Court of New Jersey, Law Division, Middlesex County. The plaintiff alleges in this complaint that the Bank terminated his employment without "cause" as defined in his employment agreement and further alleges that the Bank breached the employment agreement and its obligation of good faith and fair dealing. The plaintiff seeks, among other things, unspecified money damages, including severance benefits, as well as bonus compensation in accordance with the employment agreement. The plaintiff also seeks a declaratory judgment that certain post-employment non-compete and non-solicitation covenants should no longer be effective. We deny these allegations and intend to vigorously defend this action. Although we cannot assure the outcome of this action, we do not believe it will have a material adverse effect on our financial condition.

RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND 1998

At March 31, 1999, we had total assets of $2.55 billion, a 6.5% increase over total assets of $2.40 billion at December 31, 1998. Total deposits were $1.80 billion at March 31, 1999, a 4.8% increase over total deposits of $1.72 billion at December 31, 1998. Our average mortgage loans outstanding increased to $1.38 billion for the three months ended March 31, 1999 from $1.14 billion for the three months ended March 31, 1998. Stockholders' equity was $119.1 million, or $13.43 per share, at March 31, 1999. The Bank's tangible, core and risked-based regulatory capital ratios were 5.20%, 5.20% and 11.24%, respectively at March 31, 1999. These ratios exceeded the minimum regulatory requirements of 2.00%, 4.00% and 8.00%, respectively. The Bank is considered well capitalized by regulatory standards because its core capital ratio exceeds 5.00%.

At March 31, 1999, the Bank had 59 supermarket branches with total deposits of $578.1 million, an increase of $74.1 million, or 14.7%, from $504.0 million at December 31, 1998 when we had 57 supermarket branches open. Core deposits equaled 58.3% of total supermarket branch deposits, compared to a ratio of 45.3% in traditional branches. Core deposits for the supermarket branches included $209.3 million of "Liquid Asset" account balances at March 31, 1999. This account was introduced at the supermarket branches in the second quarter of 1998 and currently pays an initial rate of 4.25% for balances over $2,500. The supermarket branches added approximately 20,000 new core deposit accounts during the first quarter of 1999, bringing the total number of core deposit accounts in the supermarket branches to approximately 153,000.

We reported net income of $2.6 million, or $0.30 per basic common share ($0.29 per share, diluted) for the first quarter of 1999, compared to $2.1 million, or $0.25 per basic common share ($0.24 per share, diluted) in the first quarter of 1998.

Net interest income for the first quarter of 1999 was $16.2 million, a 20.1% increase over net interest income of $13.5 million in the first quarter of 1998. The increase was the result of interest-earning asset growth. Average

interest-earning assets increased by 20.7% in the first quarter of 1999 compared to the first quarter of 1998, primarily due to a 21.1% increase in average mortgage loans, as well as a 41.9% increase in average mortgage-backed securities. The net interest margin in the first quarter of 1999 was 2.80% compared to 2.82% in the first quarter of 1998.

The provision for loan losses in the first quarter of 1999 was $675,000 compared to $670,000 in the first quarter of 1998. The allowance for loan losses was $14.6 million, or 1.02% of loans at March 31, 1999 compared to $14.0 million, or 1.05% of loans at December 31, 1998.

Non-interest income increased to $11.1 million in the first quarter of 1999, a 148.1% increase from $4.5 million in the first quarter of 1998. The growth in non-interest income reflects the impact of the continued maturation of our supermarket banking program and significant progress in the integration of our mortgage banking and insurance businesses. Non-interest income in the first quarter of 1999 included $4.5 million in servicing released premiums and fees related to loans sold during the quarter. Deposit fees increased 72.6% in the first quarter of 1999 to $3.1 million from $1.8 million in the first quarter of 1998. Insurance, annuity and mutual funds fees for the first quarter of 1999 increased 66.4% to $2.0 million from $1.2 million in the first quarter of 1998. Non-interest income from supermarket branches totaled $3.2 million in the first quarter of 1999. This compares with non-interest income from supermarket branches of $1.4 million in the first quarter of 1998 and $3.0 million in the fourth quarter of 1998.

Non-interest expense increased by 59.2% to $22.4 million in the first quarter of 1999 compared to $14.1 million for the first quarter of 1998. The increase was due primarily to the addition of the expenses of the loan production franchise of CFS Intercounty since its acquisition in May 1998 and the Bank's expansion of its supermarket banking program from 39 branches at March 31, 1998 to 59 branches at March 31, 1999. Compensation and benefits expenses, which accounted for the majority of the increase, rose by 59.1% in the first quarter of 1999 compared to the prior year due primarily to the increased number of employees in our supermarket branches and residential loan division. Equipment and occupancy expenses increased by 50.7% to $3.3 million in the first quarter of 1999 compared to $2.2 million in the first quarter of 1998. Non-interest expense directly attributable to the supermarket branches was $6.0 million in the first quarter of 1999. This compares with non-interest expense directly attributable to the supermarket branches of $4.3 million for the first quarter in 1998 and $6.0 million for the fourth quarter in 1998.

Real estate loans originated and purchased for our loan portfolio totaled $166.2 million in the first quarter of 1999. We added another $160.6 million of residential loans originated for sale in the secondary market for a total of $326.8 million of real estate loans originated and purchased during the first quarter of 1999 compared to originations and purchases of $94.5 million in the first quarter of

1998. Mortgage banking operations added $4.5 million to non-interest income in the first quarter of 1999.

Non-performing assets at March 31, 1999, declined to $10.3 million, or 0.40% of total assets from $11.4 million, or 0.57% of total assets at March 31, 1998. Non-performing loans, comprising non-accrual loans and restructured loans, were $10.1 million and real estate owned, net, was $0.2 million at March 31, 1999. Non-performing loans totaled $10.8 million and real estate owned, net, equaled $0.6 million at March 31, 1998.

RESULTS FOR THE YEAR ENDED DECEMBER 31, 1998

At December 31, 1998, we had total assets of $2.40 billion, a 21.3% increase over total assets of $1.97 billion at December 31, 1997, and a 51.3% increase over total assets of $1.58 billion at December 31, 1996. Total deposits were $1.72 billion at December 31, 1998, a 26.2% increase over total deposits of $1.37 billion at December 31, 1997, and a 51.4% increase over total deposits of $1.14 billion at December 31, 1996. Our average mortgage loans outstanding increased to $1.27 billion in 1998 from $956.8 million in 1997 and $647.5 million in 1996. Along with our growth, we have maintained strong credit quality. At December 31, 1998, non-performing loans were 0.64% of total loans, and non-performing assets were 0.36% of total assets. Stockholders' equity at December 31, 1998 was $119.9 million, or 5.00% of total assets. The Bank's tangible, core and risk-based regulatory capital ratios were 5.43%, 5.43% and 11.96%, respectively. These ratios exceeded the minimum regulatory requirements of 2.00%, 4.00% and 8.00%, respectively. The Bank is considered well capitalized by regulatory standards because its core capital ratio exceeds 5.00%.

We reported net income of $8.2 million, or $0.95 per basic share ($0.89 per share, diluted) for 1998 compared to net income of $11.1 million, or $1.32 per basic share ($1.24 per share, diluted) for 1997. The $2.9 million decrease in earnings was primarily due to an increase of $31.5 million in non-interest expense, which resulted largely from our continuing supermarket banking expansion and the acquisition of the loan production franchise of CFS Intercounty. The increase in non-interest expense was partially offset by an increase of $6.0 million in net interest income, an increase of $19.2 million in non-interest income and a decrease of $3.2 million in income tax expense.

Net interest income increased by $6.0 million, or 11.6% to $57.9 million in 1998 from $51.9 million in 1997. Total average interest-earning assets increased by $388.9 million, or 23.0% to $2.08 billion in 1998 from $1.69 billion in 1997, primarily due to the increase of $309.0 million in the average mortgage loan balance. The average yield on interest-earning assets decreased to 7.28% in 1998 from 7.46% in 1997, as a result of an overall decline in market indices which serve as leading indicators for mortgage loan rates and rates on securities. The average balance of interest-bearing liabilities increased by $408.0 million, or 25.1% between 1997 and 1998 primarily due to the growth in deposit balances in the supermarket branches. The average cost of liabilities increased by 4 basis points to 4.61% in 1998 from 4.57% in 1997 primarily due to the growth in

certificate accounts and the introduction of the Liquid Asset savings account in 1998. The Liquid Asset account currently pays 4.25% on account balances of $2,500 or more. The net interest spread was 2.67% in 1998 compared to 2.89% in 1997.

Non-interest income increased by $19.2 million, or 138.3% from $13.9 million in 1997 to $33.1 million in 1998. We believe that the growth in non-interest income reflects the impact of the continued maturation of our supermarket branch network and significant progress in the integration of our mortgage banking business. More than half of the increase in non-interest income is attributable to the $10.3 million in servicing released premiums and fees on loans sold in the secondary market. We did not purchase CFS Intercounty's loan production pipeline (loans committed, but not yet closed) as part of the acquisition which closed on May 1, 1998. We closed these loans and delivered them to CFS Intercounty's former parent as part of the purchase agreement. Under the purchase agreement, we did not receive a servicing released premium upon delivering those loans, which would have offset certain

of our closing costs. Beginning July 1, 1998, we entered into correspondent agreements with unaffiliated third parties, and began selling loans from our pipeline on a servicing released basis to these parties. The remainder of the increase in non-interest income came primarily from retail banking fees and revenues from CFS Investment Services as a result of our supermarket banking expansion. Savings and checking fees were $9.8 million in 1998, a $4.3 million, or 79.3% increase over 1997. Insurance, annuity and mutual fund fees generated in 1998 were $5.9 million, a $2.1 million, or 56.3% increase over the $3.8 million earned in 1997. Other non-interest income increased by $1.0 million, or 65.2%, to $2.6 million in 1998, from $1.6 million in 1997, primarily as a result of ATM surcharge fees.

During 1998, we opened 25 new supermarket branches, and through the acquisition of the loan production franchise of CFS Intercounty, we added six full-service residential loan origination offices and six satellite residential loan origination offices to our facilities. Total non-interest expense increased by $31.5 million, or 68.6%, from $45.8 million in 1997 to $77.3 million in 1998. Compensation and benefits expense increased by $17.0 million, or 69.9%, from $24.3 million in 1997 to $41.2 million in 1998. Occupancy and equipment expense increased by $4.7 million, or 73.7% from $6.3 million in 1997 to $11.0 million in 1998. The increases in compensation and benefits, occupancy and equipment, and other general and administrative expenses were due primarily to our supermarket banking expansion, as well as the expansion of our residential lending function through CFS Intercounty. Occupancy and equipment expense also increased as a result of the purchase of our new headquarters, which was completed in the third quarter of 1998. We believe that since we have opened a majority of the supermarket branches that we are required to open under our agreement with Pathmark and have incurred the start-up costs, including the compensation costs of recruiting and training new personnel and the occupancy and equipment costs associated with setting up new branches, our non-interest

expense related to supermarket banking should stabilize.

Income tax expense was $2.9 million in 1998, compared to $6.1 million in 1997. The effective tax rate for 1998 was 26.4% compared to 35.6% in 1997. The decrease in the effective tax rate was primarily due to the establishment of Columbia Preferred Capital Corp., the Bank's real estate investment trust subsidiary, during the second quarter of 1997, which has resulted in certain tax savings. The tax provision for 1998 includes the effect of the real estate investment trust's operations for the full year of 1998 compared to a portion of the year in 1997. The lower tax rate was also due to an adjustment of the Bank's tax accrual upon the filing of our Federal, New York State and City tax returns for 1997 during September 1998, as well as a state tax credit recognized for mortgage recording taxes paid on loans originated in certain counties of New York State.

SELECTED CONSOLIDATED FINANCIAL DATA

We have selected highlights from our consolidated financial data as of, and for the years ended, December 31, 1998, 1997, 1996, 1995 and 1994 and our unaudited consolidated financial statements as of March 31, 1999, and for the quarters ended March 31, 1999 and 1998. Our management prepared the unaudited information on the same basis as our audited consolidated financial statements. In the opinion of our management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information together with our consolidated financial statements and related notes included elsewhere in this prospectus. For your convenience, we have attached our annual report on Form 10-K as Appendix A to this prospectus, our management's discussion and analysis of our financial condition and results of operations, which was incorporated in our Annual Report on Form 10-K for the year ended December 31, 1998, as Appendix B, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 as Appendix C.

	AT MARCH 31, 1999	AT DECEMBER 31, 1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)					
SELECTED CONSOLIDATED BALANCE SHEET DATA:						
Total assets..........................	$2,550,159	$2,395,523	$1,974,890	$1,583,545	$1,472,816	$1,268,774
Loans receivable, net.................	1,409,553	1,296,702	1,138,253	836,882	560,385	512,035
Securities available-for-sale.........	941,027	889,251	499,380	370,105	503,058	48,189
Debt securities held-to-maturity......	--	-				

- 66,404 97,307 127,796 130,706
Mortgage-backed securities held-to-
maturity.......................... -
- -- 163,057 197,940 190,714 495,111
Real estate owned, net...............
192 200 455 1,038 2,033 7,844
Deposits.............................
1,804,795 1,722,710 1,365,012
1,137,788 1,083,446 1,013,162 FHLB
advances........................
397,900 325,200 247,000 178,450
134,175 86,000 Other borrowed
funds................. 188,430
115,146 219,794 147,983 136,408 39,081
Stockholders' equity.................
119,130 119,867 112,865 99,384 98,519
86,235

THREE MONTHS ENDED MARCH 31, YEARS ENDED
DECEMBER 31, -------------------- -----------

1999 1998 1998 1997 1996 1995 1994 ---------
--------- --------- --------- --------- -----
---- --------- (DOLLARS IN THOUSANDS, EXCEPT
PER SHARE DATA) SELECTED CONSOLIDATED
OPERATING DATA: Interest
income............................ $ 40,480
$ 34,963 $ 151,685 $ 126,306 $ 109,253 $
96,434 $ 81,491 Interest
expense........................... 24,274
21,469 93,776 74,400 61,368 55,115 40,289 ---
------ --------- --------- --------- --------
- --------- --------- Net interest
income........................ 16,206
13,494 57,909 51,906 47,885 41,319 41,202
Provision for loan losses...................
675 670 2,665 2,750 3,125 2,775 13,400 ------
--- --------- --------- --------- --------- -
-------- --------- Net interest income after
provision for loan
losses...................................
15,531 12,824 55,244 49,156 44,760 38,544
27,802 --------- --------- --------- --------
- --------- --------- --------- Non-interest
income: Loan fees and servicing
income............... 505 518 1,627 3,110

1,807 2,241 790 Servicing released premiums
and fees on loans
sold......................................
4,531 -- 10,301 -- -- -- -- Savings/checking
fees........................ 3,125 1,811
9,822 5,478 3,378 2,861 2,282 Net gain (loss)
on sales of interest-earning
assets....................................
335 352 2,926 (5) 140 126 372 Insurance,
annuity and mutual fund fees...... 1,975
1,187 5,874 3,758 3,114 2,525 2,025
Other...
590 591 2,596 1,571 1,115 1,269 1,060 -------
-- --------- --------- --------- --------- --
------- --------- Total non-interest
income.................. 11,061 4,459 33,146
13,912 9,554 9,022 6,529 --------- ---------
--------- --------- --------- --------- -----
---- Non-interest expense: Compensation and
benefits................... 12,055 7,577
41,204 24,251 15,737 14,889 13,605 Occupancy
and equipment..................... 3,344
2,219 11,005 6,334 3,478 3,334 3,238 Real
estate operations, net..................
(151) 49 8 352 277 1,405 12,253 SAIF
recapitalization charge................ -- -
- -- -- 6,800 -- -- Federal deposit insurance
premiums........... 254 207 870 736 2,327
2,653 2,709
Other...
6,887 4,015 24,227 14,174 9,836 9,511 9,336 -
-------- --------- --------- --------- ------
--- --------- --------- Total non-interest
expense................. 22,389 14,067 77,314
45,847 38,455 31,792 41,141 --------- -------
-- --------- --------- --------- --------- --
------- Income (loss) before income tax
expense
(benefit)..................................
4,203 3,216 11,076 17,221 15,859 15,774
(6,810) Income tax expense
(benefit)................ 1,603 1,067 2,926
6,138 6,434 7,230 (2,475) --------- ---------
--------- --------- --------- --------- -----
---- Net income
(loss)(1)...................... $ 2,600 $
2,149 $ 8,150 $ 11,083 $ 9,425 $ 8,544 $
(4,335) --------- --------- --------- -------
-- --------- --------- --------- --------- --
------- --------- --------- --------- -------

-- --------- Net income (loss) per common share:
Basic(1).................................... $ 0.30 $ 0.25 $ 0.95 $ 1.32 $ 1.13 $ 0.99 $ (0.48)
Diluted(1).................................. $ 0.29 $ 0.24 $ 0.89 $ 1.24 $ 1.08 $ 0.96 $ (0.47)

- ------------------------

(1) Net income for 1996, excluding the one-time special assessment charge of $6.8 million that was imposed to recapitalize the Savings Association Insurance Fund ("SAIF"), would have been $13.5 million, or $1.62 per basic share ($1.55 per share, diluted).

AT OR FOR THE THREE MONTHS ENDED MARCH 31, AT OR FOR THE YEARS ENDED DECEMBER 31, ------ ---------------------- -------- ------------------------------- ------------------- 1999 1998 1998 1997 1996 1995 1994 ------ ------- ---------- ---------- - --------- ---------- ---------- ---------- (DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) PERFORMANCE RATIOS:
Return on average assets (1)..... 0.42%(2) 0.43% 0.37% 0.62% 0.62% 0.63% (0.35)%
Return on average equity (3)..... 8.67(2) 7.52 6.92 10.41 9.83 9.27 (4.90)
Stockholders' equity to total 4.67 5.65 5.00 5.72 6.28 6.69 6.80
assets........................
Net interest spread............. 2.75(2) 2.67 2.67 2.89 3.12 2.99 3.34
Net interest margin (4).......... 2.80(2) 2.82 2.78 3.06 3.29 3.17 3.48 Average interest-earning assets 101.43 103.17 102.28 104.02 103.95

104.23 104.42 to average
interest-bearing
liabilities...................
Operating expenses to average
3.61 2.78 3.49 2.54 2.04 2.18
2.26 assets
(5)....................
Stockholders' equity per
share... $ 13.43 $ 12.91 $
13.53 $ 12.85 $ 11.49 $ 10.92 $
9.47 EARNINGS TO FIXED CHARGES
(6): Excluding interest on
deposits... 1.56x 1.48x 1.38x
1.74x 1.94x 2.20x 0.19x
Including interest on
deposits... 1.17x 1.15x 1.12x
1.23x 1.26x 1.29x 0.83x ASSET
QUALITY RATIOS: Non-performing
loans to total 0.71% 0.91%
0.64% 1.09% 1.64% 2.97% 5.41%
loans (7).....................
Non-performing assets to total
0.40 0.57 0.36 0.66 0.94 1.28
2.85
assets........................
Allowance for loan losses to
non- 144.37 119.05 166.70 99.97
77.05 50.80 38.33 performing
loans (7)........... Allowance
for loan losses to 1.02 1.08
1.07 1.09 1.26 1.51 2.07 total
loans.................... BANK
CAPITAL RATIOS: Tangible
capital................ 5.20%
6.41% 5.43% 6.42% 6.14% 6.01%
6.27% Core
capital....................
5.20 6.41 5.43 6.42 6.14 6.01
6.27 Risk-based
capital.............. 11.24
14.01 11.96 14.04 13.22 14.62
14.47

OTHER DATA:							
Mortgage loans serviced for others.........................	$ 276,403	$ 171,146	$ 269,089	$ 174,866	$ 197,017	$ 219,752	$ 239,844
Loan originations and purchases..	$ 329,921	$ 97,641	$1,221,526	$ 471,338	$ 363,576	$ 143,329	$ 105,219
Number of deposit accounts.......	345,847	260,106	323,794	234,183	171,382	155,424	140,701

Number of shares outstanding.....	8,867,814	8,835,588	8,859,692	8,784,700	8,650,814	9,022,914	9,102,812
FACILITIES:							
Full service offices............	67	47	65	40	14	9	9

(NOTES ON THE FOLLOWING PAGE)

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(1) Return on average assets for 1996, excluding the one-time special assessment charge of $6.8 million to recapitalize the SAIF, would have been 0.89%.

(2) Annualized.

(3) Return on average equity for 1996, excluding the one-time special assessment charge of $6.8 million to recapitalize the SAIF, would have been 14.04%.

(4) Equal to net interest income before provision for loan losses divided by average interest-earning assets.

(5) For purposes of calculating these ratios, operating expenses equal non-interest expense less real estate operations, net, non-performing loan (income) expense, amortization of goodwill, and non-recurring expenses. For the three months ended March 31, 1999 and 1998, operating expenses equaled non-interest expense less amortization of goodwill, real estate operations, net and non-performing loan expenses of $190,000 and $108,000, respectively. Real estate operations, net was $8,000, $0.4 million, $0.3 million, $1.4 million and $12.3 million for the five years ended December 31, 1998, respectively. For the five years ended December 31, 1998, non-performing loan (income) expense was $(1.0) million, $0.2 million, $0.4 million, $0.6 million and $0.9 million, respectively. Amortization of goodwill for the five years ended December 31, 1998 was $0.8 million, $0.1 million, $0.1 million, $40,000, and $0, respectively. For the year ended December 31, 1996, the SAIF one-time special assessment charge of $6.8 million was also excluded.

(6) For purposes of computing the ratios of earnings to fixed charges, earnings represent net income plus total taxes based on income and fixed charges. Fixed charges, excluding interest on deposits, include interest expense (other than on deposits) and one-third (the proportion deemed representative of the interest factor) of rents. Fixed charges, including interest on deposits, include all interest expense and one-third (the proportion deemed representative of the interest factor) of rents.

(7) For purposes of calculating these ratios, non-performing loans consist of all non-accrual loans and restructured loans.

HAVEN BANCORP, INC.

We were organized on March 25, 1993 as the holding company for the Bank in connection with the Bank's conversion from a federal mutual savings bank to a federal stock savings bank. We are headquartered in Westbury, New York, and our principal business currently consists of operating the Bank.

The Bank's principal business is to attract retail deposits from the general public and invest those deposits, together with funds generated from operations, primarily in one- to four-family, owner-occupied residential mortgage loans. In addition, the Bank invests in debt, equity and mortgage-backed securities to supplement its lending portfolio. The Bank also invests, to a lesser extent, in multi-family residential mortgage loans, commercial real estate loans and other marketable securities.

The Bank's profits depend primarily on its net interest income, non-interest income and its ability to control operating expenses. Net interest income is the difference between the interest income earned on the Bank's loan and securities portfolios and its interest expense, which consists of the interest paid on its deposits and borrowed funds. Non-interest income, which includes the results of CFS Intercounty's operations beginning May 1998 and CFS Insurance's operations beginning November 1998, reflects fee income on products and services provided to customers and gains on sales of loans and loan servicing rights. Operating expenses include compensation and benefits, occupancy and equipment, real estate operations, net and federal deposit insurance premiums. The Bank's net income also is affected by its provision for loan losses and other general and administrative expenses.

General economic and competitive conditions, particularly changes in market interest rates, and, to a lesser extent, changes in government policies and actions of regulatory authorities, also significantly affect the Bank's earnings. In addition, certain litigation that we are involved in may impact our operations. Please refer to "Recent Developments--Recent Litigation." For more detailed information regarding the business of Haven and the Bank, please see our Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 that we have incorporated into this prospectus and attached as Appendix A and Appendix C, respectively.

OUR STRATEGY

Our mission is to provide our customers outstanding financial products and services at competitive prices, delivered with expertise and the highest level of care. We believe the best way to accomplish this is by applying our traditional banking strengths to supermarket banking. Along with the conveniences and advantages of supermarket banking, we can deliver to our customers our traditional banking services and the products and services offered by the Bank's mortgage banking division, CFS Intercounty, its investment

services subsidiary, CFS Investment Services, Inc., and our insurance agency subsidiary, CFS Insurance Agency, Inc.

We recently completed several initiatives that we believe form a solid foundation for our future. The Bank opened 25 new supermarket branches in 1998 and two additional supermarket branches to date in 1999, bringing the total of supermarket branches to 59. In May 1998, the Bank acquired the loan production franchise of Intercounty Mortgage, Inc. Through this acquisition, we expect to improve our loan origination capabilities and increase our net income through the interest and fee income generated from increased loan volume. Through this acquisition, we added 12 residential loan origination offices to the Bank and increased the lending staff from 20 to over 100 loan officers, enabling us to expand the volume and geographic range of our lending capabilities. In November 1998, we purchased Century Insurance Agency, Inc. to further complement our package of financial products and services that we offer to customers and to contribute to our fee income. As a result of this acquisition, we can now offer automobile, homeowners and casualty insurance in addition to life, health

and disability insurance. The insurance agency has the ability to write policies for top-rated insurance carriers, such as The Hartford, Metropolitan Life Assurance Company and The Progressive Corporation.

Both acquisitions fit well with the supermarket banking program. The expanded residential lending division provides a mechanism for the Bank to utilize the increased deposits from the supermarket banking program to invest in high quality residential loans and to expand the customer base to which the Bank can offer its financial products and services. We believe that the added insurance capabilities, including the ability to sell insurance underwritten by nationally recognized insurance providers, are attractive to market to supermarket customers. Although each of these acquisitions required an initial investment and had some negative impact on our 1998 earnings, we believe that the Bank now possesses a high quality distribution platform and a comprehensive package of financial products and services, which will enable us to better serve our customer base and to improve our shareholder value.

Our goals are to grow our earnings and achieve a high level of profitability by focusing on growing fee income from both the supermarket banking program and the residential lending division and net interest income from our supermarket banking program, while controlling operating expenses and maintaining strong credit quality. Over the past three years, our efforts have focused on establishing a supermarket branch structure by opening branches in New York, New Jersey and Connecticut. With 59 supermarket branches in operation, our focus has shifted to growing our existing supermarket branches and realizing the full potential of marketing our existing and newly acquired financial products and services to the growing supermarket customer base. We believe that through the comprehensive package of financial services and products, including our broader range of residential loans, insurance and investment products, we will continue to build relationships with, and generate business from, the customers in our

branches that will help us to attain our financial goals and increase our franchise value. Through these relationships, we believe that we will grow our customer base and increase fee income and net interest income. Because we anticipate reduced start-up costs associated with opening a limited number of new supermarket branches in 1999 as compared to the 25 branches opened in 1998, we believe we can effectively control our expenses. We intend to continue to implement this strategy by using the enhanced capital base resulting from this offering to assist us in expanding our deposit base in our existing supermarket branches and by continuing to expand our asset base through investments in residential and commercial real estate loans in our market area and in investment-grade mortgage-backed securities and investment securities.

SUPERMARKET BANKING PROGRAM

We believe that supermarket banking is the most effective way to expand the Bank's customer base, extend its banking franchise, improve profitability and ultimately enhance our shareholder value. Our store locations cover a wide, attractive geographical area, with a demographic profile that parallels the Bank's traditional customer base: stable, middle-income families. In addition to eight traditional branches, the Bank now operates 44 supermarket branches in New York State, eight in New Jersey and seven in Connecticut. We believe we have developed an effective marketing program for supermarket banking. The 15,000 to 30,000 customers who visit each store location every week provide marketing opportunities for our sales force. At December 31, 1998, deposits at our supermarket branches totaled $504.0 million compared to $157.2 million at year-end 1997 and $12.1 million at year-end 1996. Core deposits equaled 54.0% (consisting of 132,540 accounts) of total supermarket branch deposits, compared to core deposits of 45.5% in traditional branches. Fee income from retail banking fees and from the sales of our financial products and services through the supermarket branches was $8.8 million in 1998. Non-interest expense directly attributable to the supermarket branches was $21.8 million in 1998. At March 31, 1999, deposits at our supermarket branches totaled $578.1 million. Core deposits were equal to 58.3% of total in-store branch deposits at March 31, 1999. The supermarket branches generated savings and checking fees of $2.2 million for the first quarter of 1999.

Total non-interest income from our supermarket branches totaled $3.2 million in the first quarter of 1999, while non-interest expense directly attributable to the supermarket branches totaled $6.0 million for the period.

Our supermarket banking philosophy is to build relationships on a continual basis with our existing customers and prospective customers by marketing to them the full range of financial products and services that the Bank provides. Each branch manager and sales associate participates in joint promotions with the supermarket and talks with prospective customers in the supermarket aisles to establish an initial relationship. Branch employees telephone customers to follow-up on information obtained from these initial meetings. Our branch employees maintain the relationships with the supermarket customers during the

customers' subsequent visits to the store.

We currently have 328 full time employees assigned to our supermarket banking program. A single branch employee, in addition to establishing deposit accounts, can respond to customers' needs for a variety of financial products and services, including mortgages, insurance and investment services. The branch employee can provide these services either directly or through a referral to the Bank's residential lending division, the Bank's investment services subsidiary or our insurance agency. Each manager is licensed to sell term life and whole life insurance policies, fixed annuity products, mutual funds and variable annuities. Each sales associate is licensed to sell term life and whole life insurance policies, and some are also licensed to sell mutual funds and variable annuities. Branch employees refer customers to teams of dedicated sales agents from our investment services subsidiary for universal life, health, disability and long-term care insurance products and mutual funds and annuities. Branch employees also refer customers to our insurance agency for sales of property and casualty, business lines and auto insurance products. Each manager and sales associate has specific individual sales and referral goals and is responsible for selling all of our products and services.

The supermarket branches are open seven days a week at all locations. All of the supermarket branches are conveniently located in the front of the supermarket near the checkout aisles and have both interior and exterior signs that are easily readable from inside and outside the supermarket. Branches typically have three teller stations, a new account station and a private office for investment and loan sales as well as other customer services. Each branch typically has at least six employees: one branch sales manager, one assistant sales manager and four sales associates. In addition, some of our busier locations have dedicated part-time or full-time tellers.

We believe that we have already incurred the major start-up costs of our supermarket banking program, including the costs related to recruiting staff and establishing the branches and back-office support functions. With these efforts behind us, we believe that we are poised to experience substantial revenue growth on a relatively stable expense platform.

THE BANK'S RESIDENTIAL LENDING DIVISION

The acquisition of the loan production franchise of Intercounty Mortgage, Inc. presented an opportunity for us to expand our loan production capabilities so that we can effectively use the strong deposit inflows from the supermarket branches. Acquiring Intercounty and integrating it into the residential lending division of the Bank has enhanced our ability to originate loans through the addition of over 80 loan officers and six full-service and six satellite residential loan origination offices in New York, New Jersey, Connecticut and Pennsylvania. We believe that our residential lending division fits well geographically with our multi-state supermarket program. The acquisition also provided the Bank with an expanded loan product mix. We have supplemented Intercounty's prior loan mix of government agency eligible conforming loans with the Bank's broader range of mortgage products, including adjustable-rate

mortgages and jumbo mortgages. We believe that expanding the product line will result in increased mortgage origination opportunities. There are currently approximately 100 loan production officers employed in the residential lending division.

Total residential loan origination volume was $1.0 billion in 1998. The Bank originated $68.6 million in loans in the first quarter of 1998 before the acquisition of the loan production franchise of CFS Intercounty. After the acquisition of CFS Intercounty, the Bank's loan originations were $307.4 million in the second quarter, $344.9 million in the third quarter and $324.6 million in the fourth quarter of 1998. Total loan originations in the first quarter of 1999 were $329.9 million. One of the residential lending division's functions is to facilitate sales of mortgage loans in the secondary market. If successful, these sales could produce gains that would increase our non-interest income. Residential loan originations in 1998 included $570.0 million of loans originated and purchased for sale in the secondary market.

THE BANK'S INVESTMENT SERVICES SUBSIDIARY

CFS Investment is a wholly owned subsidiary of the Bank established in 1989 to distribute non-FDIC-insured products. This subsidiary is a licensed general agency for life and health insurance in New York, New Jersey and Connecticut. Through the investment services subsidiary, we offer fixed annuities to customers as a tax deferred alternative to a traditional bank account. Additionally, we offer all forms of life insurance (including term life, whole life, universal life and variable life) and health insurance (including disability, long term care and group health). Through a broker-dealer relationship, we offer customers various mutual funds and variable annuity products as well as discount brokerage services.

Our investment services subsidiary produced gross revenues of $3.8 million in 1997 and $5.8 million in 1998. In 1998, this revenue was generated by investment sales exceeding $100 million of customer assets, with the preponderance of this increase generated from activities in our supermarket branches. The supermarket branches contributed 38.4% of total revenue from investment services in 1998 compared to 12.4% in 1997.

HAVEN'S INSURANCE AGENCY

We acquired CIA Insurance Agency, Inc. on November 2, 1998 to complement the financial products and services that we can offer to our customers, particularly in the supermarket branches. Through this agency, we offer property and casualty insurance, auto insurance and business lines of insurance. We believe that this business fits well with our life, health and disability insurance business by providing automobile, homeowners and casualty insurance through numerous top-rated carriers, including The Hartford, Metropolitan Life Assurance Company and The Progressive Corporation. This agency obtained approximately $6.0 million in new and renewal premiums through calendar year 1998 and had $107,000 in

revenues from auto, homeowners and business insurance lines during its first two full months of operations as our subsidiary. We also intend to offer these products to the rest of our existing customer base, including residential and commercial real estate borrowers.

MANAGEMENT OF HAVEN AND THE BANK

DIRECTORS

Our board of directors also serves as the board of directors of the Bank. Members of each board are divided into three classes, each of which contains approximately one-third of the directors. Our shareholders elect our directors for staggered three year terms, or until their successors are elected and qualified. We, as sole shareholder of the Bank, elect the Bank's directors for the same terms. The following table sets forth information regarding the boards of directors of Haven and the Bank.

NAME	AGE(1)	POSITION(S) HELD WITH HAVEN AND THE BANK	DIRECTOR SINCE(2)	TERM EXPIRES
Philip S. Messina........................	55	Chairman, President, Chief Executive Officer and Director	1986	2000
William J. Jennings II...................	53	Executive Vice President, Assistant to the President and Director	1996	2001
Robert M. Sprotte........................	62	Director	1974	2001
George S. Worgul.........................	71	Director	1983	2002
Michael J. Fitzpatrick...................	60	Director	1988	2001
Michael J. Levine........................	54	Director	1996	2002
Msgr. Thomas J. Hartman..................	52	Director	1997	2000

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(1) At March 31, 1999.

(2) We were organized on September 23, 1993. All dates prior to 1993 reflect when a director was first elected to the board of the Bank.

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Our executive officers are elected annually and hold office until their respective successors have been elected and qualified or until death, resignation or removal by our board. Our executive officers also serve as executive officers of the Bank and are elected annually. The following table sets forth information about our executive officers who are not directors.

NAME	AGE(1)	POSITION(S) HELD WITH HAVEN AND THE BANK
Thomas J. Seery....................................	54	Executive Vice President--Operations
Gerard H. McGuirk..................................	56	Executive Vice President--Chief Lending Officer
Catherine Califano.................................	40	Senior Vice President--Chief Financial Officer
Mark A. Ricca, Esq................................	41	Senior Vice President--General Counsel, Secretary and Chief Compliance Officer

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(1) At March 31, 1999.

KEY EMPLOYEES

The following lists some key employees of the residential lending division, the investment services subsidiary and the insurance agency.

NAME	AGE(1)	POSITION(S)
Andrew L. Kaplan.........................	34	President, CFS Investment Services, Inc.
Joseph V.		

LoBalsamo...................... 43
Executive Vice President, CFS
Insurance Agency, Inc. Robert J.
Newell......................... 36
Executive Vice President, CFS
Insurance Agency, Inc. Mark
DiVirgilio..........................
42 Executive Vice President, CFS
Insurance Agency, Inc. Gary B.
Johansen......................... 38
Senior Vice President-Sales Manager,
CFS Intercounty Mortgage Ronald A.
Pasquini....................... 59
Senior Vice President-Lending
Operations Coordinator, CFS
Intercounty Mortgage James J.
Carpenter...................... 38
First Vice President-Commercial
Lending, CFS Bank Janet
Mangafas..........................
31 Vice President, Secondary
Marketing Manager, CFS Intercounty
Mortgage

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(1) At March 31, 1999.

DIRECTORS

PHILIP S. MESSINA began his career at the Bank on April 6, 1964. During the course of his career, he has held the positions of President and Chief Executive Officer, Executive Vice President/Secretary, Personnel Officer, Branch Coordinator, Branch Manager and teller. He was appointed Chairman of the Board of Haven and Chairman of the Board of the Bank in April 1998. Mr. Messina attended the City University of New York--Queens College and the Indiana University Savings & Loan Graduate School.

WILLIAM J. JENNINGS II recently retired as Managing Director, Chief of Staff to the Chairman of Salomon Smith Barney, Inc., a brokerage firm. He served as a Managing Director at Salomon Smith Barney, Inc. since 1997, and, prior to that, he was a Managing Director at Salomon Brothers, Inc. He received a B.B.A. from the University of Notre Dame and a J.D. from Villanova Law School. As of March 28, 1999, in addition to remaining a Director, Mr. Jennings became Executive Vice President and Assistant to the President of Haven and the Bank.

ROBERT M. SPROTTE is the President of Schmelz Bros., Inc., a plumbing contractor, President of RDR Realty Corp., a real estate holding company, and President of Three Rams Realty. He has a B.A. from Duke University.

GEORGE S. WORGUL retired as Chairman of the Board in April 1998, a position he held since June 1994. He served as our President and Chairman from September 1993 through June 1994. He served as President and Chairman of the Bank from June 1989 through June 1994. Mr. Worgul joined the Bank in 1964.

MICHAEL J. FITZPATRICK is a CPA, and is a retired Vice President-National Thrift Director at E.F. Hutton & Company, Inc., a national securities firm, and director of the Legal Aid Society of Suffolk County. He received a B.A. in Accounting and an M.B.A. in taxation from Pace University.

MICHAEL J. LEVINE is a CPA and President of Norse Realty Group, Inc. and Affiliates, a real estate owner and developer. He also is a partner in Levine and Schmutter, Certified Public Accountants. He received a B.S. from New York University in Public Accounting.

MSGR. THOMAS J. HARTMAN is President and Chief Executive Officer of Telecare Radio and Television for the Diocese of Rockville Centre, New York for Telecare Television Studios, a cable television station. Msgr. Hartman hosts several television and radio shows including "God Squad." He

is a regular religion commentator on "Good Morning America" on ABC-TV and "Imus in the Morning" on WFAN Radio. He received a B.A. from Niagra University, an M.A. in theology from Niagara University, a Master of Divinity from Our Lady of Angels Seminary and a Doctorate of Ministry from the Jesuit School of Theology.

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

THOMAS J. SEERY has served as Executive Vice President-Operations since January 1997. Mr. Seery has completed more than 20 years in the banking industry, the majority of which has been in retail banking and with the Bank. Mr. Seery joined the Bank in 1974. He received his B.A. from St. Francis College and his M.B.A. from St. John's University.

GERARD H. MCGUIRK has served as our Executive Vice President-Chief Lending Officer since January 1997. He joined the Bank as Senior Vice President-Chief Lending Officer in 1993. Prior to that, he served as the Vice President-Group Head of Real Estate Workouts for Fleet Bank, N.Y. He worked at Fleet from 1990 to 1993. He received his B.S. from Fairfield University, an M.A. in Banking and Money Management from Adelphi University and a J.D. from St. John's Law School.

CATHERINE CALIFANO is a CPA and has served as our Senior Vice President-Chief Financial Officer since February 1994. Prior to that she served as our Vice-President-Controller since May 1993. She was the Senior Vice President-Chief Financial Officer of Home Savings Bank, which was located in Brooklyn, New York from 1987 to 1992. Prior to 1987, she was a Manager at KPMG LLP from 1985 to 1987. She received a B.S. in Accounting and an M.B.A. in Finance from St. John's University.

MARK A. RICCA, ESQ. was a partner at Ricca & Donnelly, a general practice law firm, prior to joining Haven and the Bank in 1998. He has a B.A. from the University of Notre Dame, a J.D. from St. John's University and an LL.M. from New York University.

KEY EMPLOYEES

ANDREW L. KAPLAN joined the Bank in 1994 and is President of CFS Investments, Inc. Prior to joining the Bank, Mr. Kaplan held the position of Assistant Vice President at Citicorp Investment Services. He received a B.B.A. in Finance from Pace University. He holds NASD licenses 7, 24 and 63 and is licensed for life and health insurance in New York, New Jersey and Connecticut. He is currently enrolled in the National School of Banking offered by America's Community Bankers.

JOSEPH V. LOBALSAMO joined us in 1998 as Executive Vice President of CFS Insurance Agency, Inc. Prior to joining us, Mr. LoBalsamo was one of three principles who co-founded CIA Insurance Agency, Inc. He received a B.B.A. in Business Management from Dowling College.

ROBERT J. NEWELL joined us in 1998 as Executive Vice President of CFS Insurance Agency, Inc. Prior to joining us, Mr. Newell was one of three principles who co-founded CIA Insurance Agency, Inc. He received a B.A. in Finance from State University of New York at Old Westbury.

MARK DIVIRGILIO joined us in 1998 as Executive Vice President of CFS Insurance Agency, Inc. Prior to joining us, Mr. DiVirgilio was one of three principles who co-founded CIA Insurance Agency, Inc. He received a B.A. from the State University of New York at Oswego.

GARY B. JOHANSEN joined the Bank in 1998 and is currently Senior Vice President-Sales Manager of CFS Intercounty Mortgage. Prior to joining the Bank, Mr. Johansen was Vice President-Branch Manager of Intercounty Mortgage, Inc. from 1995 to 1998 and Vice President-Branch Manager-Fleet Mortgage Corp. from 1991 to 1995. He received a B.A. in Business Administration from Rutgers University.

RONALD A. PASQUINI joined the Bank in 1993 as Vice President, Mortgage Officer. He is currently Senior Vice President, Operations Coordinator. Prior to this, Mr. Pasquini has also held the positions

of First Vice President, Mortgage Officer and First Vice President, Wholesale Lending-Banker. He received his Columbia Society of Real Estate Appraisers Certificate from Adelphi University and his New York State Real Estate Brokers Certification from Adelphi University. He is a graduate of the American Savings & Loan Institute.

JAMES J. CARPENTER joined the Bank in 1991 and is currently First Vice President-Commercial Real Estate. Since joining the Bank, Mr. Carpenter has held various positions in Commercial Real Estate Lending and Asset Management including commercial loan origination, workout and the disposition of REO properties. He received a B.S. in Business Administration-Finance from the University of Richmond. He received an M.B.A. with a concentration in Accounting from Fordham University. He is currently enrolled in the National School of Banking offered by America's Community Bankers.

JANET MANGAFAS joined the Bank in April 1999 as Vice President of Secondary Marketing. Prior to that, Ms. Mangafas was employed at Long Island Savings Bank from 1994 to 1998 and held various positions in Secondary Marketing. She has a B.S. degree in finance from Fairfield University.

HAVEN CAPITAL TRUST II

We organized Haven Capital as a statutory business trust under Delaware law pursuant to the trust agreement that we, as sponsor, and the trustees executed. We, together with the trustees, filed a certificate of trust with the Delaware Secretary of State on March 26, 1999.

Haven Capital exists solely to:

- issue and sell the capital securities to the public and the common securities to us;

- use the proceeds from the sale of the capital securities and common securities to purchase our subordinated debentures, which will be the only assets of Haven Capital;

- maintain its status as a grantor trust for federal income tax purposes; and

- engage in other activities that are necessary or incidental to these purposes.

We will purchase all of the common securities of Haven Capital. The common securities will represent an aggregate liquidation amount equal to at least 3% of the Haven Capital's total capitalization. The capital securities will represent the remaining 97% of Haven Capital's total capitalization. The common securities will have terms substantially identical to the capital securities. However, if we default on our payments under the subordinated debentures, Haven Capital will only pay cash distributions and liquidation, redemption and other amounts payable to us with respect to the common securities after it pays you these amounts on the capital securities.

Haven Capital has a term of approximately 55 years, but we may dissolve it earlier as provided in the trust agreement. The trustees conduct Haven Capital's business and affairs. We appoint each trustee. The trustees are:

- The Chase Manhattan Bank, as property trustee;
- Chase Manhattan Bank Delaware, as Delaware trustee; and
- Three individuals who are our employees, as administrative trustees.

As the sole holder of the common securities, we can replace or remove any of the trustees. However, if an event of default exists under the trust agreement, the holders of the capital securities with at least a majority of aggregate liquidation amount of the capital securities will be able to remove and replace the property trustee and the Delaware trustee. Only we, as owner of all of the common securities, can remove or replace the administrative trustees. The duties and obligations of each trustee are governed by the trust agreement.

We will pay all fees and expenses related to Haven Capital and the offering of the capital securities, as well as all of the ongoing costs and expenses of Haven Capital. We will not be responsible for Haven Capital's obligations under the capital securities, except as provided by our guarantee of the capital securities.

Haven Capital has no separate financial statements. The statements would not be material to you because Haven Capital has no independent operations.

The principal executive office of Haven Capital is c/o Haven Bancorp, Inc., 615 Merrick Avenue, Westbury, New York 11590 and its telephone number is (516) 683-4100.

USE OF PROCEEDS

Haven Capital will use all of the proceeds from the sale of the capital securities and the common securities to invest in the subordinated debentures. We expect to receive an estimated amount of net proceeds equal to $22,680,500 ($26,082,500 if the underwriters exercise their over-allotment option in full), from the sale of the subordinated debentures, net of estimated commissions ($660,000, or $759,000, if the underwriters' over-allotment option is exercised in full) and other estimated offering expenses of $675,000. The underwriters' commissions are $0.30 per capital security.

We intend to invest the net proceeds from the sale of the subordinated debentures in the Bank to increase its capital level. The increased capital will enable the Bank to expand its deposit base. The Bank will also invest this additional capital in residential and commercial real estate loans in our market area and in investment-grade mortgage-backed securities and investment securities. It is also possible that, if our board of directors determines that it is in the best interests of our shareholders, a portion of the net proceeds may be used for repurchases of our stock. Initially, we will invest the net proceeds in short-term investment grade financial securities.

ACCOUNTING TREATMENT

For financial reporting purposes, we will treat Haven Capital as our subsidiary. We will include Haven Capital's accounts in our consolidated financial statements. The capital securities will be presented as a separate line item in our consolidated balance sheet under the caption "borrowed funds," and appropriate disclosures about the capital securities, the guarantee and the subordinated debentures will be included in the notes to our consolidated financial statements. For financial reporting purposes, we will record distributions payable on the capital securities as an expense in our consolidated statements of income.

CAPITALIZATION

The following table presents our consolidated capitalization at March 31, 1999 and as adjusted to show the effect of the completion of the offering of the capital securities (without giving effect to the underwriters' over-allotment option) and the issuance of the subordinated debentures to Haven Capital. You should read this table together with the consolidated financial statements and related notes, included elsewhere in this prospectus and incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and to our Quarterly Report on form 10-Q for the quarter ended March 31, 1999, and the "Use of Proceeds" section in this prospectus.

MARCH 31, 1999	ACTUAL	AS ADJUSTED
(DOLLARS IN THOUSANDS)		
Corporation-obligated mandatorily redeemable capital securities of Haven Capital Trust II at 10.25% due June 30, 2029 (1)	$ --	$ 22,000
Corporation-obligated mandatorily redeemable capital securities of Haven Capital Trust I at 10.46% due February 1, 2027 (2)	24,984	24,984
Other long-term debt (3)	1,395	1,395
Stockholders' Equity:		
Preferred stock, $0.01 par value per share, 2,000,000 shares authorized, none issued	--	--
Common stock, par value $0.01 per share: 30,000,000 shares authorized, 9,918,750 shares issued and 8,859,692 shares outstanding at March 31, 1999	100	100
Additional paid-in capital	51,580	51,580
Retained earnings	81,020	81,020
Accumulated other comprehensive income: Unrealized loss on securities available for sale, net of tax effect	(2,107)	(2,107)
Treasury stock, at cost, 1,050,936 shares	(9,753)	(9,753)
Unallocated common stock held by Employee Stock Ownership Plan	(1,149)	(1,149)
Unearned common stock held by Bank's Recognition Plans and Trusts	(262)	(262)
Unearned compensation	(299)	(299)
Total stockholders' equity	$ 119,130	$

119,130 ---------- ----------- ---------- ----------- Total capitalization.. $ 145,509 $ 167,509 ---------- ----------- ---------- -----------

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(1) The sole assets of Haven Capital, which we will treat as one of our subsidiaries, will be $22,680,500 aggregate principal amount of our 10.25% subordinated debentures, which will mature on June 30, 2029. Haven will own all of the common securities issued by Haven Capital. Please refer to "Description of Subordinated Debentures."

(2) The sole assets of Haven Capital Trust I, which we treat as one of our subsidiaries, are our 10.46% junior subordinated deferrable interest debentures, which will mature February 1, 2027.

(3) Represents the Bank's Employee Stock Ownership Plan debt (repayable through September 2003) which is guaranteed by us.

DESCRIPTION OF CAPITAL SECURITIES

THIS SUMMARY DESCRIBES THE MATERIAL PROVISIONS OF THE CAPITAL SECURITIES. IT IS NOT COMPLETE AND IS SUBJECT TO, AND QUALIFIED IN ITS ENTIRETY BY, THE TRUST AGREEMENT, INCLUDING THE DEFINITIONS USED IN THE TRUST AGREEMENT, AND THE TRUST INDENTURE ACT. WE HAVE INCORPORATED THE DEFINITIONS USED IN THE TRUST AGREEMENT IN THIS PROSPECTUS. WE HAVE FILED THE FORM OF THE TRUST AGREEMENT AS AN EXHIBIT TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART.

GENERAL

The capital securities of Haven Capital will rank equal to, and payments made on the capital securities will be made on a PRO RATA basis with, the common securities of Haven Capital, except as described under "--Subordination of Common Securities." The property trustee will have legal title to the subordinated debentures and will hold them in trust for the benefit of you and the other holders of the capital securities. Our guarantee for the benefit of the holders of the capital securities will be a guarantee on a subordinated basis with respect to the capital securities, but will not guarantee payment of distributions or amounts payable on redemption or liquidation of the capital securities when Haven Capital does not have funds legally available to pay distributions or other amounts to the holders of the capital securities. You should read "Description of Guarantee" for more information about our guarantee.

DISTRIBUTIONS

The capital securities represent beneficial ownership interests in Haven Capital. Distributions on the capital securities will be cumulative, and will

accumulate from the date that the capital securities are first issued. Distributions will be made at the annual rate of 10.25% of the stated liquidation amount of $10.00, payable quarterly in arrears on the distribution dates, which are March 31, June 30, September 30 and December 31 of each year, to holders of the capital securities on the relevant record dates. If the capital securities are in book-entry form, the record dates will be one business day prior to the relevant distribution date. If the capital securities are not in book-entry form, record dates will be the 15(th) day of the month in which the distribution is to be paid.

The first distribution date for the capital securities will be June 30, 1999. The period beginning on and including the date the capital securities are first issued and ending on but excluding June 30, 1999, and each period thereafter beginning on and including a distribution date and ending on but excluding the next distribution date is a distribution period. The amount of distributions payable for any distribution period will be based on a 360-day year of twelve 30-day months.

If any distribution date would otherwise fall on a day that is not a business day, the distribution date will be postponed to the next day that is a business day without any additional payments for the delay, unless the distribution would fall in the next calendar year, in which case the distribution date will be the last business day of the calendar year. A business day means any day other than a Saturday or a Sunday, or a day on which banks in New York, New York or Wilmington, Delaware are authorized or required by law or executive order to remain closed or a day on which the principal corporate trust office of the property trustee is closed for business.

Haven Capital's revenue available for distribution to holders of the capital securities will be limited to our payments to Haven Capital under our subordinated debentures. For more information, please refer to "Description of Subordinated Debentures--General." If we do not make interest payments on the subordinated debentures, the property trustee will not have funds available to pay distributions on the capital securities and on the common securities. We will guarantee the payment of distributions if and to the extent that Haven Capital has funds legally available to pay the distributions. You should read "Description of Guarantee" for more information about the extent of our guarantee.

OPTION TO DEFER INTEREST PAYMENTS

As long as no event of default exists, we have the right under the indenture to elect to defer the payment of interest on the subordinated debentures, at any time or from time to time, for no more than 20 consecutive quarters with respect to each deferral period, provided that no deferral period will end on a date other than an interest payment date on the subordinated debentures, or extend beyond June 30, 2029, the maturity date of the debentures. If we defer payments, Haven Capital will defer quarterly distributions on the capital securities

during a deferral period. During any deferral period distributions will continue to accrue on the capital securities and on any accrued and unpaid distributions, compounded quarterly from the relevant distribution date at the applicable distribution rate, which will be equal to the applicable interest rate on the subordinated debentures. The term distributions includes any accumulated additional distributions.

Before the end of any deferral period, we may extend the deferral period, as long as the extension does not cause the deferral period to exceed 20 consecutive quarters, or, to end on a date other than an interest payment date or extend beyond June 30, 2029. At the end of any deferral period and upon the payment of all amounts then due on any interest payment date, we may elect to begin a new deferral period, subject to the above requirements. No interest shall be due and payable during a deferral period until the deferral period ends. We must give the property trustee, the administrative trustees and the debenture trustee notice of our election to defer interest payments or to extend a deferral period at least five business days before the earlier of:

- the date the distributions on the capital securities would have been payable except for the election to begin a deferral period; and

- the date the administrative trustees are required to give notice to any securities exchange or automated quotation system or to holders of the capital securities of the record date or the date such distributions are payable, but in any event not less than five business days prior to such record date.

There is no limitation on the number of times that we may elect to begin a deferral period. Please refer to "Description of Subordinated Debentures--Option to Extend Interest Payment Date" and "Certain Federal Income Tax Consequences--Interest Income and Original Issue Discount."

During any deferral period, we may not:

- declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock;

- make any payment of principal of, or interest or premium, if any, on or repay, repurchase or redeem any debt securities (including our 10.46% junior subordinated deferrable interest debentures due 2027 and any other similar debentures) that rank equal or junior to the subordinated debentures; or

- make any guarantee payments with respect to any guarantee of the debt securities of any subsidiary (including our guarantee of the capital securities issued by Haven Capital Trust I and other similar guarantees) if such guarantee ranks equal or junior to the subordinated debentures.

Notwithstanding the foregoing, during a deferral period we may make the

following payments:

(1) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, our common stock;

(2) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto;

(3) payments under the guarantee;

(4) as a result of a reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock;

(5) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged; and

(6) purchases of common stock related to the issuance of common stock or rights under any of our benefit plans for our directors, officers or employees or any of our dividend reinvestment plans.

We do not currently intend to exercise our right to defer payments of interest on the subordinated debentures. Our obligations under the guarantee to make payments of distributions is limited (to the extent that Haven Capital has funds legally available to pay distributions, You should read "Description of Guarantee" for more information about the extent of our guarantee.

REDEMPTION

Upon repayment on June 30, 2029 or prepayment, in whole or in part prior to June 30, 2029, of the subordinated debentures (other than following the distribution of the subordinated debentures to you as a holder of the capital securities and us, as the holder of the common securities), the property trustee will apply the proceeds from the repayment or prepayment of the subordinated debentures (as long as the property trustee has received written notice no later than 45 days before the repayment) to redeem at the applicable redemption price (which may include a premium) an amount of trust securities having an aggregate liquidation amount equal to the principal amount of the subordinated debentures paid to Haven Capital. We will give notice of any redemption between 30 and 60 days prior to the redemption date.

If we prepay less than all of the subordinated debentures on a redemption date, then the property trustee will allocate the proceeds of the prepayment on a PRO RATA basis among the capital securities and the common securities. If a court of competent jurisdiction enters an order to dissolve Haven Capital, the

subordinated debentures will be subject to optional prepayment in whole, but not in part, on or after June 30, 2009.

We will have the right to prepay the subordinated debentures:

(1) in whole or in part, on or after June 30, 2009; and

(2) in whole but not in part, at any time, if there are changes in the bank regulatory, investment company or tax laws that would adversely affect the status of Haven Capital, the trust securities or the subordinated debentures.

We may have to obtain regulatory approval, including the approval of the Office of Thrift Supervision, before we redeem any subordinated debentures.

Please refer to "Description of Subordinated Debentures--Optional Prepayment" and "--Special Event Prepayment" for information on prepayment of the subordinated debentures.

LIQUIDATION OF HAVEN CAPITAL AND DISTRIBUTION OF SUBORDINATED DEBENTURES

We will have the right at any time to dissolve Haven Capital and, after satisfying the liabilities owed to Haven Capital's creditors as required by applicable law, we will have the right to distribute the

subordinated debentures to the holders of the capital securities and to us as holder of the common securities. Our right to dissolve Haven Capital is subject to our receiving:

- an opinion of counsel to the effect that if we distribute the subordinated debentures, the holders of the capital securities will not experience a taxable event; and

- any required regulatory approval.

Haven Capital will automatically dissolve if:

(1) certain bankruptcy events occur, or we dissolve or liquidate;

(2) we distribute subordinated debentures having a principal amount equal to the liquidation amount of the trust securities to holders of the trust securities and we, as sponsor, have given written directions to the property trustee to dissolve Haven Capital (which direction is at our option and, except as described above, wholly within our discretion, as sponsor);

(3) Haven Capital redeems all of the trust securities as described under "--Redemption;"

(4) Haven Capital's term expires; or

(5) a court of competent jurisdiction enters an order for the dissolution of Haven Capital.

If Haven Capital is dissolved as described in clause (1), (2), (4), or (5) above, Haven Capital will be liquidated by the trustees as quickly as the trustees determine to be possible by distributing to holders of the trust securities, after satisfying the liabilities owed to Haven Capital's creditors as provided by applicable law, subordinated debentures having a principal amount equal to the liquidation amount of the trust securities, unless the property trustee determines that this distribution is not practicable. If the property trustee determines that this distribution is not practicable, the holders of the trust securities will be entitled to receive an amount equal to the aggregate of the liquidation amount plus accumulated and unpaid distributions on the trust securities to the date of payment (such amount being the "liquidation distribution") out of the assets of Haven Capital legally available for distribution to holders, after satisfying the liabilities owed to Haven Capital's creditors as provided by applicable law. If the liquidation distribution can be paid only in part because Haven Capital has insufficient assets legally available to pay the full amount of the liquidation distribution, or if a debenture event of default exists, the capital securities will have a priority over the common securities. For more information, please refer to "--Subordination of Common Securities."

After the liquidation date is fixed for any distribution of subordinated debentures to holders of the trust securities:

(1) the trust securities will no longer be deemed to be outstanding;

(2) DTC or its nominee will receive in respect of each registered global certificate representing trust securities a registered global certificate representing the subordinated debentures to be delivered upon this distribution; and

(3) any certificates representing trust securities not held by DTC or its nominee will be deemed to represent subordinated debentures having a principal amount equal to the liquidation amount of those trust securities, and bearing accrued and unpaid interest in an amount equal to the accumulated and unpaid distributions on those trust securities until such certificates are presented to the administrative trustees or their agent for cancellation, in which case we will issue to those holders, and the debenture trustee will authenticate, a certificate representing the subordinated debentures.

We cannot assure you of the market prices for the capital securities or the subordinated debentures that may be distributed to you in exchange for the capital securities if a dissolution and liquidation of Haven Capital were to occur. Accordingly, the capital securities that you purchase, or the subordinated debentures that you may receive upon a dissolution and liquidation of Haven Capital,

may trade at a discount to the price that you paid to purchase the capital securities offered by this prospectus.

If we elect not to prepay the subordinated debentures prior to maturity and either elect not to or we are unable to liquidate Haven Capital and distribute the subordinated debentures to holders of the trust securities, the trust securities will remain outstanding until the repayment of the subordinated debentures on June 30, 2029.

REDEMPTION PROCEDURES

If we redeem the subordinated debentures, Haven Capital will redeem trust securities at the applicable redemption price with the proceeds that it receives from our redemption of the subordinated debentures. Any redemption of trust securities will be made and the applicable redemption price will be payable on the redemption date only to the extent that Haven Capital has funds legally available to pay the applicable redemption price. For more information, you should refer to "--Subordination of Common Securities."

If Haven Capital gives a notice of redemption for the capital securities, then, by 12:00 noon, New York City time, on the redemption date, to the extent funds legally are available, with respect to:

- the capital securities held by DTC or its nominees, the property trustee will deposit, or cause the paying agent to deposit, irrevocably with DTC funds sufficient to pay the applicable redemption price. For more information, you should refer to "--Depositary Procedures."

- the capital securities held in certificated form, the property trustee will irrevocably deposit with the paying agent funds sufficient to pay the applicable redemption price and will give the paying agent irrevocable instructions and authority to pay the applicable redemption price to the holders upon surrender of their certificates evidencing the capital securities. For more information, you should refer to "--Payment and Paying Agency."

The paying agent will initially be the property trustee and any co-paying agent chosen by the property trustee and acceptable to the administrative trustees and us.

Notwithstanding the foregoing, distributions payable on or before the redemption date will be payable to the holders of the capital securities on the relevant record dates for the related distribution dates. If Haven Capital gives a notice of redemption and funds are deposited as required, then upon the date of the deposit, all rights of the holders of the capital securities called for redemption will cease, except the right of the holders of the capital securities to receive the applicable redemption price, without interest, and the capital securities called to be redeemed will cease to be outstanding.

If any redemption date for the capital securities is not a business day, then the applicable redemption price, without interest or any other payment in respect of the delay, will be paid on the next business day, except that, if the next business day falls in the next calendar year, the payment shall be made on the last business day of the calendar year. If payment of the applicable redemption price is improperly withheld or refused and not paid either by Haven Capital or by us pursuant to the guarantee:

(1) distributions on the capital securities will continue to accumulate at the rate of 10.25% per year, from the redemption date originally established by Haven Capital to the date such applicable redemption price is actually paid; and

(2) the actual payment date will be the redemption date for purposes of calculating the applicable redemption price.

Notice of any redemption will be mailed between 30 and 60 days before the redemption date to each holder of trust securities at its registered address. Unless we default in payment of the applicable

redemption price on, or in the repayment of, the subordinated debentures, on and after the redemption date, distributions will cease to accrue on the trust securities called for redemption.

Subject to applicable law (including, without limitation, U.S. federal securities laws), we or our subsidiaries may at any time, and from time to time, purchase outstanding capital securities in the open market or by private agreement.

SUBORDINATION OF COMMON SECURITIES

Payment of distributions on, and the redemption price of, the capital securities and the common securities, as applicable, will generally be made on a PRO RATA basis. However, if a debenture event of default exists on any distribution or redemption date, no payment of any distribution on, or applicable redemption price of, any of the common securities, and no other payment on account of the redemption, liquidation or other acquisition of the common securities, will be made unless payment in full in cash of all accumulated and unpaid distributions on all of the outstanding capital securities for all distribution periods terminating on or before the distribution or redemption date, or payment of the applicable redemption price is made in full. All funds available to the property trustee will first be applied to the payment in full in cash of all distributions on, or redemption price of, the capital securities then due and payable.

In the case of any event of default, we, as holder of all of the common securities, will be deemed to have waived any right to act with respect to the event of default until the effect of the event of default has been cured, waived

or otherwise eliminated. Until any event of default has been cured, waived or otherwise eliminated, the property trustee will act solely on behalf of the holders of the capital securities and not on our behalf, and only the holders of the capital securities will have the right to direct the property trustee to act on their behalf.

EVENTS OF DEFAULT; NOTICE

An event of default under the indenture constitutes an event of default under the trust agreement. See "Description of Subordinated Debentures--Debenture Events of Default."

The trust agreement provides that within five (5) business days after any event of default actually known to the property trustee occurs, the property trustee will give notice of the event of default to the holders of the capital securities, the administrative trustees and to us, as sponsor, unless the event of default has been cured or waived. We, as sponsor, and the administrative trustees are required to file annually with the property trustee a certificate as to whether we and the administrative trustees have complied with the applicable conditions and covenants of the trust agreement.

If a debenture event of default exists, the capital securities will have a preference over the common securities as described under "--Liquidation of Haven Capital and Distribution of Subordinated Debentures" and "--Subordination of Common Securities." An event of default does not entitle the holders of capital securities to accelerate the maturity date of the capital securities.

REMOVAL OF TRUSTEES

Unless a debenture event of default exists, we may remove the property trustee and the Delaware trustee at any time. If a debenture event of default exists, the property trustee and the Delaware trustee may be removed only by the holders of a majority in liquidation amount of the outstanding capital securities. In no event will the holders of the capital securities have the right to vote to appoint, remove or replace the administrative trustees, because these voting rights are vested exclusively in us as the holder of all of the common securities. No resignation or removal of the property trustee or the Delaware trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the trust agreement.

MERGER OR CONSOLIDATION OF TRUSTEES

If the property trustee, the Delaware trustee or any administrative trustee that is not a natural person is merged, converted or consolidated into another entity, or the property trustee is a party to a merger, conversion or consolidation which results in a new entity, or an entity succeeds to all or substantially all of the corporate trust business of the property trustee, the

new entity shall be the successor of the respective trustee under the trust agreement, provided that the entity is otherwise qualified and eligible.

MERGERS, CONSOLIDATIONS, AMALGAMATIONS OR REPLACEMENTS OF HAVEN CAPITAL

Haven Capital may not merge with or into, consolidate, amalgamate or be replaced by, or convey, transfer or lease substantially all of its properties and assets to any corporation or other entity, except as described below or as otherwise described under "--Liquidation of Haven Capital and Distribution of Subordinated Debentures." Haven Capital may, at our request, as sponsor, and with the consent of the administrative trustees but without the consent of the holders of the capital securities, merge with or into, consolidate, amalgamate or be replaced by or convey, transfer or lease substantially all of its properties and assets to a trust organized as such under the laws of any state; provided, that:

(1) the successor either

(a) expressly assumes all of the obligations of Haven Capital with respect to the trust securities or

(b) substitutes securities for the trust securities that have substantially the same terms as the trust securities so long as the substitute securities rank equal to same as the trust securities in priority with respect to distributions and payments upon liquidation, redemption and otherwise;

(2) we appoint a trustee of the successor possessing the same powers and duties as the property trustee with respect to the subordinated debentures;

(3) the substitute securities are listed, or any substitute securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the trust securities are then listed or quoted, if any;

(4) if the capital securities, substitute securities or subordinated debentures are rated by any nationally recognized statistical rating organization prior to such transaction, the transaction does not cause any of those securities to be downgraded by the rating organization;

(5) the transaction does not adversely affect the rights, preferences and privileges of the holders of the trust securities (including any successor securities) in any material respect;

(6) the successor has a purpose substantially identical to that of Haven Capital;

(7) prior to the transaction, we received an opinion from independent counsel to Haven Capital experienced in such matters to the effect that

(a) the transaction does not adversely affect the rights, preferences and privileges of the holders of the trust securities (including any successor securities) in any material respect (other than any dilution of such holders' interests in the new entity), and

(b) following the transaction, neither Haven Capital nor the successor will be required to register as an investment company under the Investment Company Act; and

(8) we, or any permitted successor or assignee owns all of the common securities of the successor and guarantees the obligations of the successor under the substituted securities at least to the extent provided by the guarantee and the common securities guarantee.

Notwithstanding the foregoing, Haven Capital shall not, except with the consent of holders of 100% in liquidation amount of the trust securities, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if the transaction would cause Haven Capital or the successor to be classified as an association taxable as a corporation for U.S. federal income tax purposes.

VOTING RIGHTS; AMENDMENT OF THE TRUST AGREEMENT

Except as provided below and under "--Mergers, Consolidations, Amalgamations or Replacements of Haven Capital" and "Description of Guarantee--Amendments and Assignment" and as otherwise required by law and the trust agreement, the holders of the capital securities will have no voting rights.

We, together with the property trustee and the administrative trustees, may amend the trust agreement from time to time, without the consent of the holders of the trust securities:

(1) to cure any ambiguity, correct or supplement any provisions in the trust agreement that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the trust agreement, which are not inconsistent with the other provisions of the trust agreement; or

(2) to modify, eliminate or add to any provisions of the trust agreement as is necessary to ensure that at all times that any capital securities are outstanding, Haven Capital will not be classified as an association taxable as a corporation or to enable Haven Capital to qualify as a grantor trust, in each case for U.S. federal income tax purposes, or to ensure that Haven Capital will not be required to register as an investment company under the Investment Company Act;

PROVIDED, HOWEVER, that in the case of clause (1) the amendment would not adversely affect in any material respect the interests of the holders of the capital securities. Any amendments of the trust agreement pursuant to the foregoing shall become effective when notice of the amendment is given to the holders of the capital securities.

We, together with the trustees, may amend the trust agreement:

(1) with the consent of holders representing a majority (based upon liquidation amount) of the outstanding trust securities; and

(2) upon receipt by the trustees of an opinion of counsel experienced in such matters to the effect that the amendment or the exercise of any power granted to the trustees in accordance with the amendment will not affect Haven Capital's classification as an entity that is not taxable as a corporation or as being a grantor trust for U.S. federal income tax purposes or Haven Capital's exemption from status as an investment company under the Investment Company Act,

PROVIDED that, without the consent of each holder of trust securities, no amendment may change the amount or timing of any distribution on the trust securities or otherwise adversely affect the amount of any distribution required to be made in respect of the trust securities as of a specified date; or restrict the right of a holder of trust securities to sue for the enforcement of any payment on or after the specified date.

So long as any subordinated debentures are held by the property trustee, the trustees may not:

- direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee, or execute any trust or power conferred on the debenture trustee with respect to the subordinated debentures;

- waive certain past defaults under the indenture;

- exercise any right to rescind or annul a declaration accelerating the maturity of the principal of the subordinated debentures; or

- consent to any amendment, modification or termination of the indenture or the subordinated debentures, where such consent shall be required,

without, in each case, obtaining the prior consent of the holders of a majority in liquidation amount of all outstanding capital securities; PROVIDED, HOWEVER, that where a consent under the indenture would require the consent of each holder of subordinated debentures affected by the amendment, modification or termination, the property trustee will not give consent without the prior approval of each holder of the capital securities.

The trustees shall not revoke any action previously authorized or approved by a vote of the holders of the capital securities except by subsequent vote of such holders. The property trustee shall notify each holder of capital securities of any notice of default with respect to the subordinated debentures. In addition to obtaining the approvals of the holders of the capital securities, prior to taking any of the foregoing actions, the trustees shall obtain an opinion of counsel experienced in such matters to the effect that Haven Capital will not be classified as an association taxable as a corporation for U.S. federal income tax purposes on account of such action.

Any required approval of holders of capital securities may be given at a meeting of the holders convened for the purpose of approving the matter or pursuant to written consent. The property trustee will cause a notice of any meeting at which holders of capital securities are entitled to vote, or of any matter upon which action by written consent of such holders has been taken, to be given to each holder of record of capital securities in accordance with the trust agreement.

No vote or consent of the holders of capital securities will be required for Haven Capital to redeem and cancel the capital securities in accordance with the trust agreement.

Notwithstanding that holders of the capital securities are entitled to vote or consent under any of the circumstances described above, any of the capital securities that are owned by us, the trustees or any of our or any trustee's affiliates, shall, for purposes of such vote or consent, be treated as if they were not outstanding.

DEPOSITARY PROCEDURES

DTC has advised Haven Capital and us that it is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (collectively, "participants") and to facilitate the clearance and settlement of transactions in those securities between participants through electronic book-entry changes in accounts of its participants, to eliminate the need for physical movement of certificates. Participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (collectively, "indirect participants"). Persons who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants. The ownership interest and transfer of ownership interest of each actual purchaser of each security held by or on behalf of DTC are recorded on the records of participants and indirect participants.

DTC also has advised Haven Capital and us that, pursuant to procedures established by it, (1) upon deposit of the global capital securities, DTC will credit the accounts of participants designated by the underwriters with portions of the liquidation amount of the global capital securities and

(2) ownership of interests in the global capital securities will be shown on, and the transfer of ownership of the global capital securities, will be effected only through records maintained by DTC (with respect to participants) or by participants and indirect participants (with respect to other owners of beneficial interests in the global capital securities).

REGISTRATION OF CAPITAL SECURITIES

The capital securities will be represented by one or more global certificates registered in the name of DTC or its nominee. Beneficial interests in the capital securities will be shown on, and transfers of the global capital securities will be effected only through, records maintained by participants. Except as described below, capital securities in certificated form will not be issued in exchange for the global certificates. See "--Exchange of Book-Entry Capital Securities for Certificated Capital Securities."

You may hold your interests in the global capital security directly through DTC if you are a participant, or indirectly through organizations that are participants. All interests in a global capital security will be subject to the procedures and requirements of DTC. The laws of some states require that certain persons take physical delivery in certificated form of securities that they own. Consequently, the ability to transfer beneficial interests in a global capital security to those persons will be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants and certain banks, the ability of a person having beneficial interests in a global capital security to pledge its interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of its interests, may be affected by the lack of a physical certificate evidencing its interests. For certain other restrictions on the transferability of the capital securities, see "--Exchange of Book-Entry Capital Securities for Certificated Capital Securities."

Payments on the global capital security registered in the name of DTC, or its nominee, will be payable by the property trustee to DTC in its capacity as the registered holder under the trust agreement. Under the terms of the trust agreement, the property trustee will treat the persons in whose names the capital securities, including the global capital securities, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Neither the property trustee nor any agent thereof has or will have any responsibility or liability for:

- any aspect of DTC's records or any participant's or indirect participant's records relating to, or payments made on account of, beneficial ownership

interests in the global capital securities, or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the global capital securities; or

- any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC has advised Haven Capital and us that its current practice, upon receipt of any payment on the capital securities, is to credit the accounts of the relevant participants with the payment on the payment date, in amounts proportionate to their respective holdings in liquidation amount of the capital securities as shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payment date. Payments by participants and indirect participants to the beneficial owners of capital securities will be governed by standing instructions and customary practices and will be the responsibility of participants or indirect participants and will not be the responsibility of DTC, the property trustee, Haven Capital or us. None of Haven Capital, Haven nor the property trustee will be liable for any delay by DTC or any of its participants or indirect participants in identifying the beneficial owners of the capital securities, and Haven Capital, Haven and the property trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes.

Any secondary market trading activity in interests in the global capital securities will settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants. Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will settle in same-day funds.

DTC has advised Haven Capital and us that it will take any action permitted to be taken by a holder of capital securities (including, without limitation, presenting the capital securities for exchange as described below) only at the direction of one or more participants who have an interest in DTC's global capital securities in respect of the portion of the liquidation amount of the capital securities as to which the participant or participants has or have given direction. However, if an event of default exists under the trust agreement, DTC reserves the right to exchange the global capital securities for legended capital securities in certificated form and to distribute the certificated capital securities to its participants.

We believe that the information in this section concerning DTC and its book-entry system has been obtained from reliable sources, but we do not take responsibility for the accuracy of this information.

Although DTC has agreed to the procedures described in this section to facilitate transfers of interests in the global capital securities among participants in DTC, DTC is not obligated to perform or to continue to perform

these procedures, and these procedures may be discontinued at any time. None of Haven Capital, Haven nor the property trustee will have any responsibility or liability for any aspect of the performance by DTC or its participants or indirect participants of any of their respective obligations under the rules and procedures governing their operations or for maintaining, supervising or reviewing any records relating to the global capital securities that are maintained by DTC or any of its participants or indirect participants.

EXCHANGE OF BOOK-ENTRY CAPITAL SECURITIES FOR CERTIFICATED CAPITAL SECURITIES

A global capital security can be exchanged for capital securities in registered certificated form if:

(1) DTC notifies Haven Capital that it is unwilling or unable to continue as depositary for the global capital security and Haven Capital fails to appoint a successor depositary within 90 days of receipt of DTC's notice, or has ceased to be a clearing agency registered under the Exchange Act and Haven Capital fails to appoint a successor depositary within 90 days of becoming aware of this condition;

(2) we, in our sole discretion, elect to cause the capital securities to be issued in certificated form; or

(3) an event of default, or any event which after notice or lapse of time or both would be an event of default, exists under the trust agreement.

In addition, beneficial interests in a global capital security may be exchanged by or on behalf of DTC for certificated capital securities upon request by DTC, but only upon at least 20 days' prior written notice given to the property trustee in accordance with DTC's customary procedures. In all cases, certificated capital securities delivered in exchange for any global capital security will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures).

PAYMENT AND PAYING AGENCY

Haven Capital will make payments on the capital securities that are held in global form to DTC, which will credit the relevant accounts at DTC on the applicable distribution dates. Haven Capital will make payments on the capital securities that are not held by DTC by mailing a check to the address of

the holder entitled to the payment as the holder's address appears on the register. The paying agent will initially be the property trustee and any co-paying agent chosen by the property trustee and acceptable to the administrative trustees and us. The paying agent will be permitted to resign as paying agent upon 30 days' notice to the property trustee, the administrative trustees and us. In the event that the property trustee is no longer the paying

agent, the administrative trustees will appoint a successor (which must be a bank or trust company acceptable to the administrative trustees and us) to act as paying agent.

REGISTRAR AND TRANSFER AGENT

The property trustee will act as registrar and transfer agent for the capital securities.

Haven Capital will register transfers of the capital securities without charge, except for any tax or other governmental charges that may be imposed in connection with any transfer or exchange. Haven Capital will not be required to have the transfer of the capital securities registered after they have been called for redemption.

INFORMATION CONCERNING THE PROPERTY TRUSTEE

Except if an event of default exists, the property trustee will undertake to perform only the duties specifically set forth in the trust agreement. After an event of default, the property trustee must exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the property trustee is not obligated to exercise any of the powers vested in it by the trust agreement at the request of any holder of trust securities, unless it is offered reasonable indemnity against the costs, expenses and liabilities that it might incur. If no event of default exists and the property trustee is required to decide between alternative causes of action, construe ambiguous provisions in the trust agreement or is unsure of the application of any provision of the trust agreement, and the matter is not one on which holders of the capital securities or the common securities are entitled under the trust agreement to vote, then the property trustee shall take such action as directed by us and, if not directed, shall take such action as it deems advisable and in the best interests of the holders of the trust securities and will have no liability, except for its own bad faith, negligence or willful misconduct.

MISCELLANEOUS

The administrative trustees are authorized and directed to conduct the affairs of and to operate Haven Capital in such a way that:

(1) Haven Capital will not be deemed to be an investment company required to be registered under the Investment Company Act;

(2) Haven Capital will be classified as a grantor trust for U.S. federal income tax purposes; and

(3) the subordinated debentures will be treated as our indebtedness for U.S. federal income tax purposes.

We, together with the administrative trustees, are authorized to take any

action, not inconsistent with applicable law, the certificate of trust of Haven Capital or the trust agreement, that we and the administrative trustees determine in our discretion is necessary or desirable, as long as it does not materially adversely affect the interests of the holders of the trust securities.

The trust agreement provides that holders of the trust securities have no preemptive or similar rights to subscribe for any additional trust securities and the issuance of trust securities is not subject to preemptive rights.

Haven Capital may not borrow money, issue debt, execute mortgages or pledge any of its assets.

DESCRIPTION OF SUBORDINATED DEBENTURES

THIS SUMMARY DESCRIBES THE MATERIAL PROVISIONS OF THE SUBORDINATED DEBENTURES. IT IS NOT COMPLETE AND IS SUBJECT TO, AND QUALIFIED IN ITS ENTIRETY BY, THE INDENTURE AND THE TRUST INDENTURE ACT. WE HAVE INCORPORATED THE DEFINITIONS USED IN THE INDENTURE IN THIS PROSPECTUS. WE HAVE FILED THE INDENTURE AS AN EXHIBIT TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART. THE CHASE MANHATTAN BANK WILL ACT AS DEBENTURE TRUSTEE UNDER THE INDENTURE. THE INDENTURE IS QUALIFIED UNDER THE TRUST INDENTURE ACT.

GENERAL

Haven Capital will invest the proceeds from the sale of the trust securities in the subordinated debentures issued by Haven. The subordinated debentures will bear interest at the annual rate of 10.25% of the principal amount of the subordinated debentures, payable quarterly in arrears on interest payment dates of March 31, June 30, September 30 and December 31 of each year and at maturity to the person in whose name each subordinated debenture is registered at the close of business on the relevant record date. The first interest payment date for the subordinated debentures will be June 30, 1999. The period beginning on and including the date the subordinated debentures are first issued and ending on but excluding June 30, 1999 and each period beginning on and including an interest payment date and ending on but excluding the next interest payment date is an interest period.

We anticipate that, until the liquidation, if any, of Haven Capital, each subordinated debenture will be held by the property trustee in trust for the benefit of the holders of the capital securities. The amount of interest payable for any interest period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any interest payment date would otherwise fall on a day that is not a business day, the interest payment date will be postponed to the next business day (without any interest or other payment due to the delay) unless it would fall in the next calendar year, in which case the interest payment date shall be the last business day of the calendar year.

Accrued interest that is not paid on the applicable interest payment date will bear additional interest (to the extent permitted by law) at the rate of 10.25% per year, compounded quarterly from the relevant interest payment date. The term "interest" as used in this prospectus includes quarterly interest payments and interest on quarterly interest payments not paid on the applicable interest payment date.

Notwithstanding anything to the contrary set forth above, if the maturity date falls on a day that is not a business day, the payment of principal and interest will be paid on the next business day, with the same force and effect as if made on the maturity date, and no interest on such payments will accrue from and after the maturity date.

The subordinated debentures will be issued as a series of junior subordinated deferrable interest debentures under the indenture.

The subordinated debentures will mature on June 30, 2029.

The subordinated debentures will rank equal to all of our other subordinated debentures which have been or may be issued to other trusts established by us, in each case similar to Haven Capital, including, without limitation, our 10.46% junior subordinated deferrable interest debentures due 2027, and will be unsecured and rank subordinate and junior to all indebtedness for money that we borrow to the extent and in the manner set forth in the indenture. See "--Subordination."

We are a savings and loan holding company regulated by the Office of Thrift Supervision, and substantially all of our operating assets are owned by the Bank. We are a legal entity separate and distinct from our subsidiaries. Holders of subordinated debentures should look only to us for payments on the subordinated debentures. The principal sources of our income are dividends, interest and fees from the Bank. We rely primarily on dividends from the Bank to meet our obligations for payment of principal and interest on our outstanding debt obligations and corporate expenses. Dividend payments

from the Bank are subject to regulatory limitations, generally based on current and retained earnings, imposed by the various regulatory agencies with authority over the Bank. In addition to regulatory restrictions on the payment of dividends, the Bank is subject to restrictions imposed by federal law on any extensions of credit to us and other affiliates of the Bank and on investments in stock or other securities of affiliates. Also, as a savings association holding company, our right to receive distributions from the Bank may be limited if the Bank is liquidated or reorganized. For more information about these regulatory limits, you should read "Risk Factors--Risks related to your investment in the capital securities--Banking laws and regulations limit Haven's access to funds, which may prevent Haven from making payments under the subordinated debentures."

The subordinated debentures will be effectively subordinated to all existing and future liabilities of the Bank (including the Bank's deposit liabilities) and all liabilities of any of our future subsidiaries. The indenture does not limit us or the Bank from incurring or issuing other secured or unsecured debt, including senior indebtedness. See "--Subordination."

FORM, REGISTRATION AND TRANSFER

If the subordinated debentures are distributed to the holders of the trust securities, the subordinated debentures may be represented by one or more global certificates registered in the name of Cede & Co., as the nominee of DTC. The depositary arrangements for such subordinated debentures are expected to be substantially similar to those in effect for the capital securities. For a description of DTC and the terms of the depositary arrangements relating to payments, transfers, voting rights, redemptions and other notices and other matters, you should read "Description of Capital Securities--Depositary Procedures."

PAYMENT AND PAYING AGENTS

Payment of principal of (and premium, if any) and interest on the subordinated debentures will be made at the office of the debenture trustee in New York, New York or at the office of such paying agent or paying agents as we may designate from time to time, except that, at our option, payment of any interest may be made, except in the case of subordinated debentures in global form:

- by check mailed to the address of the person or entity entitled to the interest payment as such address shall appear in the register for the subordinated debentures; or

- by transfer to an account maintained by the person or entity entitled to the interest payment as specified in the register, provided that proper transfer instructions have been received by the relevant record date.

Payment of any interest on any subordinated debenture will be made to the person or entity in whose name the subordinated debenture is registered at the close of business on the record date for the interest payment date, except in the case of defaulted interest. We may at any time designate additional paying agents or rescind the designation of any paying agent; however we will always be required to maintain a paying agent in each place of payment for the subordinated debentures.

Any moneys deposited with the debenture trustee or any paying agent, or then held by us, in trust for the payment of the principal of (or premium, if any) or interest on any subordinated debenture and remaining unclaimed for two years after such principal (or premium, if any) or interest has become due and payable shall, at our request, be repaid to us and the holder of the subordinated debenture shall thereafter look, as a general unsecured creditor, only to us for

payment.

OPTION TO EXTEND INTEREST PAYMENT DATE

So long as no debenture event of default exists, we will have the right under the indenture to defer the payment of interest on the subordinated debentures, at any time and from time to time, for no more than 20 consecutive quarters for each deferral period, provided that no deferral period shall end

on a date other than an interest payment date or extend beyond June 30, 2029. At the end of a deferral period, we must pay all interest then accrued and unpaid (together with interest thereon at the rate of 10.25% per year, compounded quarterly from the relevant interest payment date, to the extent permitted by applicable law). During a deferral period, interest will continue to accrue, and holders of the trust securities or, if the subordinated debentures have been distributed to holders of the trust securities, holders of subordinated debentures, will be required to include that deferred interest in gross income for U.S. federal income tax purposes on an accrual method of accounting prescribed by the Code and Treasury regulation provisions on original issue discount prior to the receipt of cash attributable to that income. See "Certain Federal Income Tax Consequences--Interest Income and Original Issue Discount."

During any such deferral period, we may not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock;

(2) make any payment of principal of, or interest or premium, if any, on or repay, repurchase or redeem any of our debt securities (including our 10.46% junior subordinated deferrable interest debentures due 2027 and any other debentures) that rank equal to or junior to the subordinated debentures; or

(3) make any guarantee payments with respect to any guarantee by us of the debt securities of any of our subsidiaries (including our guarantee of the capital securities of Haven Capital Trust I and any other guarantees) if such guarantee ranks equal or junior to the subordinated debentures other than:

(a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, our common stock;

(b) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any rights pursuant thereto;

(c) payments under the guarantee;

(d) as a result of a reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock;

(e) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged; and

(f) purchases of our common stock related to the issuance of common stock or rights under any of our benefit plans for our directors, officers or employees or any of our dividend reinvestment plans.

We do not currently intend to exercise our option to defer payments of interest on the subordinated debentures.

Before the end of any deferral period, we may extend the deferral period, as long as no event of default exists and the extension does not cause the deferral period to exceed 20 consecutive quarterly periods, to end on a date other than an interest payment date or to extend beyond June 30, 2029. At the end of any deferral period and upon the payment of all then accrued and unpaid interest (together with interest thereon at the rate of 10.25% per year, compounded quarterly, to the extent permitted by applicable law), we may elect to begin a new deferral period, subject to the requirements set forth herein. No interest shall be due and payable during a deferral period until the deferral period ends. We

must give the property trustee, the administrative trustees and the debenture trustee notice of our election at least five business days before the earlier of:

- the date the distributions on the trust securities would have been payable except for the election to begin or extend such deferral period;

- the date the administrative trustees are required to give notice to any securities exchange or automated quotation system on which the capital securities are listed or quoted or to holders of capital securities of the record date for such distributions; or

- the date such distributions are payable, but at least five business days prior to the record date.

The debenture trustee will notify holders of the capital securities of our election to begin or extend a new deferral period.

There is no limit on the number of times that we may elect to begin a deferral period.

OPTIONAL PREPAYMENT

The subordinated debentures will be prepayable, in whole or in part, at our option on or after June 30, 2009, subject to our receipt of any required regulatory approval, at an optional prepayment price equal to the percentage of the outstanding principal amount of the subordinated debentures specified below, plus, in each case, accrued and unpaid interest on the subordinated debentures, if any, to the date of prepayment if redeemed during the 12-month period beginning June 30 of the years indicated below:

YEAR	PERCENTAGE
2009	105.125%
2010	104.613%
2011	104.100%
2012	103.588%
2013	103.075%
2014	102.563%
2015	102.050%
2016	101.538%
2017	101.025%
2018	100.513%
2019 and thereafter	100.000%

SPECIAL EVENT PREPAYMENT

If there are changes in the bank regulatory, investment company or tax laws that adversely affect the status of Haven Capital, the capital securities or the subordinated debentures, we may, at our option and at any time, subject to our receipt of any required regulatory approval, prepay the subordinated debentures, in whole but not in part, at any time within 90 days of the change in the law, at the special event prepayment price. If we exercise our option to prepay the subordinated debentures under these circumstances, then the proceeds of that prepayment must be applied to redeem the trust securities at a prepayment price equal to 100% of the principal amount of the subordinated debentures so prepaid, plus, in each case, accrued and unpaid interest on the subordinated debentures, if any, to the date of prepayment. See "Description of Capital Securities--Redemption."

A change in the bank regulatory law means our receipt of an opinion of

independent bank regulatory counsel experienced in such matters to the effect that, as a result of:

- any amendment to, or change (including any announced prospective change) in, any laws or regulations of the United States or any rules, guidelines or policies of an applicable regulatory agency or authority; or

- any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations,

which amendment or change is effective or which pronouncement or decision is announced on or after the date the trust securities are first issued, the capital securities do not constitute, or within 90 days of the opinion will not constitute, Tier 1 Capital (or its then equivalent if we were subject to such capital requirement) applied as if we were a bank holding company for purposes of the capital adequacy guidelines of the Federal Reserve Board (or any successor regulatory authority with jurisdiction over bank holding companies) or any capital adequacy guidelines then in effect and applicable to us.

A change in the investment company law means the receipt by us and Haven Capital of an opinion of independent securities counsel experienced in such matters to the effect that, as a result of:

- any amendment to, or change (including any announced prospective change) in, any laws or regulations of the United States or any rules, guidelines or policies of any applicable regulatory agency or authority; or

- any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations,

which amendment or change is effective or which pronouncement or decision is announced on or after the date the trust securities are first issued, Haven Capital is, or within 90 days of the date of the opinion will be, considered an investment company that is required to be registered under the Investment Company Act.

A change in tax law means the receipt by us and Haven Capital of an opinion of independent tax counsel experienced in such matters to the effect that, as a result of:

- any amendment to, or change (including any announced prospective change) in, any laws or regulations of the United States or any political subdivision or taxing authority thereof or therein; or

- any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations,

which amendment or change is effective or which pronouncement or decision is

announced on or after the date the trust securities are first issued, there is more than an insubstantial risk that:

- Haven Capital is, or will be within 90 days of the date of such opinion, subject to U.S. federal income tax with respect to any income received or accrued on the subordinated debentures;

- interest payable by us on the subordinated debentures is not, or within 90 days of the date of such opinion will not be, deductible by us, in whole or in part, for U.S. federal income tax purposes; or

- Haven Capital is, or will be within 90 days of the date of such opinion, subject to more than a DE MINIMIS amount of other taxes, duties or other governmental charges.

We will mail any notice of prepayment between 30 and 60 days before the prepayment date to each holder of subordinated debentures to be prepaid at its registered address. Unless we default in payment of the prepayment price, on the prepayment date interest shall cease to accrue on the subordinated debentures called for prepayment.

If Haven Capital is required to pay any additional taxes, duties or other governmental charges as a result of a change in the tax law, we will pay as additional amounts on the subordinated debentures any amounts as may be necessary in order that the amount of distributions then due and payable by Haven

Capital on the outstanding trust securities shall not be reduced as a result of any additional sums, including taxes, duties or other governmental charges to which Haven Capital has become subject as a result of a change in the tax law.

CERTAIN COVENANTS OF HAVEN

We will also covenant that we will not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock;

(2) make any payment of principal of, or interest or premium, if any, on or repay, repurchase or redeem any of our debt securities (including our 10.46% junior subordinated deferrable interest debentures due 2027) that rank equal or junior to the subordinated debentures; or

(3) make any guarantee payments with respect to any of our guarantees of the debt securities of any of our subsidiaries (including our guarantee of payments on the capital securities issued by Haven Capital Trust I) if such guarantee ranks equal or junior to the subordinated debentures; other than:

(a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, our common stock;

(b) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto;

(c) payments under the guarantee;

(d) as a result of a reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock;

(e) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged; and

(f) purchases of our common stock related to the issuance of common stock or rights under any of our benefit plans for its directors, officers or employees or any of our dividend reinvestment plans,

if at such time:

- we have actual knowledge that there is any event that is, or with the giving of notice or the lapse of time, or both, would be, a debenture event of default and that we have not taken reasonable steps to cure;

- we are in default with respect to our payment of any obligations under the guarantee; or

- we have given notice of our election to exercise our right to defer interest payments on the subordinated debentures as provided in the indenture and the deferral period, or any extension of the deferral period, is continuing.

So long as the trust securities remain outstanding, we also will covenant:

- to directly or indirectly maintain 100% direct or indirect ownership of the common securities; PROVIDED, HOWEVER, that any of our permitted successors under the indenture may succeed to our ownership of the common securities;

- to use commercially reasonable efforts to cause Haven Capital to remain a business trust, except in connection with the distribution of subordinated debentures to the holders of trust securities in liquidation of Haven Capital, the redemption of all of the trust securities, or certain mergers, consolidations or amalgamations, each as permitted by the trust agreement;

- to use commercially reasonable efforts to cause Haven Capital to otherwise continue not to be classified as an association taxable as a corporation and to be classified as a grantor trust for U.S. federal income tax purposes;

- to use commercially reasonable efforts to cause each holder of trust securities to be treated as owning an undivided beneficial interest in the subordinated debentures; and

- to not cause, as sponsor of Haven Capital, or permit, as holder of the common securities, the dissolution, winding-up or liquidation of Haven Capital, except as provided in the trust agreement.

MODIFICATION OF INDENTURE

From time to time, we, together with the debenture trustee, may, without the consent of the holders of subordinated debentures, amend the indenture for specified purposes, including, among other things, curing ambiguities, defects or inconsistencies, provided that any amendment in the indenture does not materially adversely affect the interest of the holders of subordinated debentures, and qualifying, or maintaining the qualification of, the indenture under the Trust Indenture Act.

The indenture permits us and the debenture trustee, with the consent of the holders of a majority in aggregate principal amount of subordinated debentures, to modify the indenture in a manner affecting the rights of the holders of the subordinated debentures; provided that no modification may, without the consent of the holders of each outstanding subordinated debenture affected:

- change the stated maturity date, or reduce the principal amount, of the subordinated debentures;

- reduce the amount payable on prepayment or reduce the rate or extend the time of payment of interest except pursuant to our right under the indenture to defer the payment of interest (see "--Option to Extend Interest Payment Date");

- make the principal of, (or premium, if any) or interest on, the subordinated debentures payable in any coin or currency other than that provided in the subordinated debentures;

- impair or affect the right of any holder of subordinated debentures to institute suit for the payment thereof; or

- reduce the percentage of the principal amount of the subordinated debentures, the holders of which are required to consent to any such modification.

DEBENTURE EVENTS OF DEFAULT

A "debenture event of default" is:

- our failure for 30 days to pay any interest (including compounded interest and additional sums, if any) on the subordinated debentures or any other debentures (including our 10.46% junior subordinated deferrable interest debentures due 2027) when due (subject to the deferral of any interest due date in the case of a deferral period with respect to the subordinated debentures or other debentures as the case may be); or

- our failure to pay any principal or premium, if any, on the subordinated debentures or any other debentures when due whether at maturity, upon prepayment, by accelerating the maturity or otherwise; or

- our failure to observe or perform, in any material respect, any other covenant contained in the indenture for 90 days after written notice to us from the debenture trustee or to us and the debenture trustee from the holders of at least 25% in aggregate outstanding principal amount of subordinated debentures; or

- certain events related to our bankruptcy, insolvency or reorganization.

The holders of a majority in aggregate outstanding principal amount of the subordinated debentures have, subject to certain exceptions, the right to direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee. The debenture trustee or the holders of not less than 25% in aggregate outstanding principal amount of the subordinated debentures may declare the principal due and payable immediately upon a debenture event of default. The holders of a majority in aggregate outstanding principal amount of the subordinated debentures may annul this declaration and waive the default if the default (other than the non-payment of the principal of the subordinated debentures which has become due solely by such acceleration) has been cured and a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration has been deposited with the debenture trustee.

The holders of a majority in aggregate outstanding principal amount of the subordinated debentures affected may, on behalf of the holders of all the subordinated debentures, waive any past default, except a default in the payment of principal (or premium, if any) or interest (unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal (and premium, if any) due otherwise than by acceleration has been deposited with the debenture trustee) or a default in respect of a covenant or provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding subordinated debenture.

The indenture requires that we file with the debenture trustee a certificate annually as to the absence of defaults specified under the indenture.

The indenture provides that the debenture trustee may withhold notice of a debenture event of default from the holders of the subordinated debentures if the debenture trustee considers it in the interest of the holders to do so.

ENFORCEMENT OF CERTAIN RIGHTS BY HOLDERS OF CAPITAL SECURITIES

If a debenture event of default exists that is attributable to our failure to pay the principal of (or premium, if any) or interest (including compounded interest and additional sums, if any) on the subordinated debentures on the due date, a holder of capital securities may institute a direct action. We may not amend the indenture to remove this right to bring a direct action without the prior written consent of the holders of all of the capital securities. Notwithstanding any payments that we make to a holder of capital securities in connection with a direct action, we shall remain obligated to pay the principal of (or premium, if any) or interest (including compounded interest and additional sums, if any) on the subordinated debentures, and we shall be subrogated to the rights of the holder of the capital securities with respect to payments on the capital securities to the extent that we make any payments to a holder in any direct action.

The holders of the capital securities will not be able to exercise directly any remedies, other than those described in the above paragraph, available to the holders of the subordinated debentures, unless an event of default exists under the trust agreement. See "Description of Capital Securities--Events of Default; Notice."

CONSOLIDATION, MERGER, SALE OF ASSETS AND OTHER TRANSACTIONS

The indenture provides that we will not consolidate with or merge into any other person or convey, transfer or lease all or substantially all of our properties to any person, and no person shall consolidate with or merge into us or convey, transfer or lease all or substantially all of its properties to us, unless:

- in case we consolidate with or merge into another person or convey or transfer all or substantially all of our properties to any person, the successor is organized under the laws of the

  United States or any state or the District of Columbia, and the successor expressly assumes our obligations under the indenture with respect to the subordinated debentures;

- immediately after giving effect to the transaction, no debenture event of default, and no event which, after notice or lapse of time or both, would become a debenture event of default, exists; and

- certain other conditions as prescribed in the indenture are met.

The general provisions of the indenture do not afford holders of the subordinated debentures protection in the event of a highly leveraged or other transaction that we may become involved in that may adversely affect holders of the subordinated debentures.

SATISFACTION AND DISCHARGE

The indenture provides that when, among other things,

- all subordinated debentures not previously delivered to the debenture trustee for cancellation have become due and payable or will become due and payable at maturity or called for prepayment within one year, and

- we deposit or cause to be deposited with the debenture trustee funds, in trust, for the purpose and in an amount sufficient to pay and discharge the entire indebtedness on the subordinated debentures not previously delivered to the debenture trustee for cancellation, for the principal (and premium, if any) and interest (including compounded interest and additional sums, if any) to the date of the prepayment or to June 30, 2029, as the case may be,

then the indenture will cease to be of further effect (except as to our obligations to pay all other sums due pursuant to the indenture and to provide the officers' certificates and opinions of counsel), and we will be deemed to have satisfied and discharged the indenture.

SUBORDINATION

We have promised that any subordinated debentures issued under the indenture will be ranked junior to all senior indebtedness to the extent provided in the indenture. Upon any payment or distribution of our assets to creditors upon our liquidation, dissolution, winding up, reorganization, assignment for the benefit of our creditors, marshaling of our assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding of us, the senior indebtedness must be paid in full before the holders of the subordinated debentures will be entitled to receive or retain any payment in respect thereof.

If the maturity of subordinated debentures is accelerated, the holders of all senior indebtedness outstanding at such time will first be entitled to receive payment in full of such senior indebtedness before the holders of subordinated debentures will be entitled to receive or retain any payment in respect of the principal of (or premium, if any) or interest, if any, on the subordinated debentures.

No payments on account of principal (or premium, if any) or interest, if any, in respect of the subordinated debentures may be made if there is a default in any payment with respect to senior indebtedness, or an event of default exists with respect to any senior indebtedness that accelerates the maturity of

the senior indebtedness, or if any judicial proceeding shall be pending with respect to the default.

Indebtedness for money borrowed means any obligation of or any obligation guaranteed by us, to repay borrowed money, whether or not evidenced by bonds, debentures, notes or other written instruments; except that indebtedness for money borrowed does not include trade accounts payable or accrued liabilities arising in the ordinary course of business.

Indebtedness ranking on a parity with the subordinated debentures means:

- indebtedness for money borrowed, whether outstanding on the date the indenture is executed or created, assumed or incurred after the date that the indenture is executed, to the extent the indebtedness for money borrowed by its terms ranks equal to and not prior to the subordinated debentures in the right of payment upon the happening of our dissolution, winding-up, liquidation or reorganization; and

- all other debt securities, and guarantees in respect of those debt securities, issued to any trust other than Haven Capital, or a trustee of the trust, partnership or other entity affiliated with us, that is our financing vehicle (a "financing entity"), in connection with the issuance by the financing entity of equity securities or other securities guaranteed by us pursuant to an instrument that ranks equal to, with or junior to the guarantee, including, without limitation, our 10.46% junior subordinated deferrable interest debentures due 2027 and the guarantee issued with respect to the capital securities of Haven Capital Trust I. The securing of any indebtedness otherwise constituting indebtedness ranking on a parity with the subordinated debentures shall not be deemed to prevent such indebtedness from constituting indebtedness ranking on a parity with the subordinated debentures.

Indebtedness ranking junior to the subordinated debentures means any indebtedness for money borrowed, whether outstanding on the date the indenture is executed or created, assumed or incurred after the date the indenture is executed, to the extent the indebtedness for money borrowed by its terms ranks junior to and not equal to or prior to the subordinated debentures (and any other indebtedness ranking on a parity with the subordinated debentures) in right of payment upon the happening of our dissolution or winding-up or liquidation or reorganization. The securing of any indebtedness for money borrowed otherwise constituting indebtedness ranking junior to the subordinated debentures shall not be deemed to prevent the indebtedness for money borrowed from constituting indebtedness ranking junior to the subordinated debentures.

Senior indebtedness means all indebtedness for money borrowed, whether outstanding on the date the indenture is executed or created, assumed or incurred after the date the indenture is executed, except indebtedness ranking on a parity with the subordinated debentures or indebtedness ranking junior to

the subordinated debentures, and any deferrals, renewals or extensions of the senior indebtedness.

For information regarding the regulatory limitations applicable to dividends and other payments by the Bank, you should read "Risk Factors--Risks related to your investments in the capital securities-- Banking laws and regulations limit Haven's access to funds, which may prevent Haven from making payments under the subordinated debentures."

GOVERNING LAW

The indenture and the subordinated debentures will be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of law principles.

INFORMATION CONCERNING THE DEBENTURE TRUSTEE

The debenture trustee will have and be subject to all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the debenture trustee is not obligated to exercise any of the powers vested in it by the indenture at the request of any holder of subordinated debentures, unless offered reasonable indemnity by the holder against the costs, expenses and liabilities which might be incurred thereby. The debenture trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties under the indenture if the debenture trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

DESCRIPTION OF GUARANTEE

THE GUARANTEE WILL BE EXECUTED AND DELIVERED BY HAVEN AT THE SAME TIME AS THE CAPITAL SECURITIES. THE CHASE MANHATTAN BANK WILL ACT AS GUARANTEE TRUSTEE UNDER THE GUARANTEE TO COMPLY WITH THE TRUST INDENTURE ACT. THE GUARANTEE WILL BE QUALIFIED AS AN INDENTURE UNDER THE TRUST INDENTURE ACT. THIS SUMMARY OF THE MATERIAL PROVISIONS OF THE GUARANTEE IS NOT COMPLETE AND IS SUBJECT TO, AND QUALIFIED IN ITS ENTIRETY BY, THE GUARANTEE AND THE TRUST INDENTURE ACT. THE FORM OF THE GUARANTEE HAS BEEN FILED AS AN EXHIBIT TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS PART. THE GUARANTEE TRUSTEE WILL HOLD THE GUARANTEE FOR THE BENEFIT OF THE HOLDERS OF THE CAPITAL SECURITIES.

GENERAL

We will irrevocably agree to pay in full on a subordinated basis, to the extent set forth herein, the payments with respect to the capital securities to the extent not paid by Haven Capital. The payments that will be subject to the guarantee are:

- any accumulated and unpaid distributions required to be paid on the

capital securities, to the extent that Haven Capital has funds legally available at that time;

- the applicable redemption price with respect to the capital securities called for redemption, to the extent that Haven Capital has funds legally available at that time; and

- upon a voluntary or involuntary dissolution, winding-up or liquidation of Haven Capital (other than in connection with the distribution of the subordinated debentures to holders of the capital securities or the redemption of all capital securities), the lesser of (a) the liquidation distribution, to the extent Haven Capital has funds legally available at that time, and (b) the amount of assets of Haven Capital remaining available for distribution to holders of capital securities after satisfying the liabilities owed to Haven Capital's creditors as required by applicable law.

The guarantee will rank subordinate and junior to all senior indebtedness to the extent provided in the guarantee. See "--Status of the Guarantee." Our obligation to make a guarantee payment may be satisfied by our direct payment of the required amounts to the holders of the capital securities or by causing Haven Capital to pay these amounts to the holders of the capital securities.

The guarantee will be an irrevocable guarantee on a subordinated basis of Haven Capital's obligations under the capital securities, but will apply only to the extent that Haven Capital has funds sufficient to make these payments. If we do not make interest payments on the subordinated debentures held by Haven Capital, Haven Capital will not be able to pay you distributions on the capital securities and will not have funds legally available. Please refer to the "Relationship among the Capital Securities, the Subordinated Debentures and the Guarantee" section of this prospectus. The guarantee does not limit us from incurring or issuing other secured or unsecured debt, including senior indebtedness, whether under the indenture, any other indenture that we may enter into in the future or otherwise.

The holders of at least a majority in aggregate liquidation amount of the capital securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the guarantee trustee in respect of our guarantee or to direct the exercise of any trust power conferred upon the guarantee trustee under our guarantee. Any holder of the capital securities may institute a legal proceeding directly against us to enforce their rights under the guarantee without first instituting a legal proceeding against Haven Capital, the guarantee trustee or any other person or entity.

If we default on our obligation to pay amounts payable under the subordinated debentures, Haven Capital will lack funds for the payment of distributions or amounts payable on redemption of the capital securities or otherwise, and the holders of the capital securities will not be able to rely

upon the guarantee for payment of such amounts. Instead, if a debenture event of default exists that is attributable to our failure to pay principal of (or premium, if any) or interest on the subordinated debentures on a payment date, then any holder of capital securities may institute a direct action against us pursuant to the terms of the indenture for enforcement of payment to that holder of the principal of (or premium, if any) or interest on such subordinated debentures having a principal amount equal to the aggregate liquidation amount of the capital securities of that holder. In connection with a direct action, we will have a right of set-off under the indenture to the extent that we made any payment to the holder of capital securities in the direct action. Except as described herein, holders of capital securities will not be able to exercise directly any other remedy available to the holders of the subordinated debentures or assert directly any other rights in respect of the subordinated debentures. The trust agreement provides that each holder of trust securities by accepting the trust securities agrees to the provisions of the guarantee and the indenture.

We will, through our guarantee, the trust agreement, the subordinated debentures and the indenture, taken together, fully, irrevocably and unconditionally guarantee all of Haven Capital's obligations under the capital securities. No single document standing alone, or operating in conjunction with fewer than all of the other documents, constitutes that guarantee. Only the combined operation of these documents provides a full, irrevocable and unconditional guarantee of Haven Capital's obligations under the capital securities. You should refer to "Relationship among the Capital Securities, the Subordinated Debentures and the Guarantee" for more information about our guarantee.

STATUS OF THE GUARANTEE

Our guarantee will constitute an unsecured obligation and will rank subordinate and junior to all senior indebtedness in the same manner as the subordinated debentures. See "Description of Subordinated Debentures--Subordination." In addition, because we are a holding company, our right to participate in any distribution of the Bank's assets upon the Bank's liquidation or reorganization or otherwise is subject to the prior claims of the Bank's creditors (including its depositors), except to the extent we may be recognized as a creditor of the Bank. Accordingly, our obligations under the guarantee effectively will be subordinated to all existing and future liabilities of our present and future subsidiaries (including depositors of the Bank). As a result, claimants should look only to our assets for payments under the guarantee. See "Description of Subordinated Debentures--General."

Our guarantee will rank equal to all of our other guarantees with respect to preferred beneficial interests issued by other trusts, including our guarantee of the capital securities issued by Haven Capital Trust I. Our guarantee of Haven Capital's capital securities does not limit the amount of secured or unsecured debt, including senior indebtedness, that we or any of our subsidiaries may incur. We expect from time to time that we will incur additional indebtedness and that our subsidiaries will also incur additional

liabilities. Our guarantee will constitute a guarantee of payment and not of collection, enabling the guaranteed party to institute a legal proceeding directly against us to enforce their rights under the guarantee without first instituting a legal proceeding against any other person or entity. Our guarantee will be held for the benefit of the holders of the capital securities. Our guarantee will not be discharged, except by payment of the guarantee payments in full to the extent that Haven Capital has not paid, or upon distribution of the subordinated debentures to, the holders of the capital securities.

EVENTS OF DEFAULT

There will be an event of default under the guarantee if we fail to perform any of our payment or other obligations under the guarantee; except that with respect to a default in payment of any guarantee payment, we shall have received notice of default and shall not have cured the default within 60 days after receipt of the notice. The holders of at least a majority in liquidation amount of the capital securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the guarantee trustee in respect of our guarantee or to direct the exercise of any trust or power conferred upon the guarantee trustee under our guarantee.

Any holder of the capital securities may institute a legal proceeding directly against us to enforce the rights of the holders of the capital securities under the guarantee without first instituting a legal proceeding against Haven Capital, the guarantee trustee or any other person or entity.

We, as guarantor, will be required to file annually with the guarantee trustee a certificate regarding our compliance with the applicable conditions and covenants under our guarantee.

AMENDMENTS AND ASSIGNMENT

Except with respect to any changes that do not materially adversely affect the rights of holders of the capital securities (in which case no vote will be required), the guarantee may not be amended without the prior approval of the holders of a majority of the liquidation amount of such outstanding capital securities. You should read "Description of Capital Securities--Voting Rights; Amendment of the Trust Agreement" for more information about the manner of obtaining the holders' approval. All guarantees and agreements contained in the guarantee agreement shall bind our successors, assigns, receivers, trustees and representatives and shall inure to the benefit of the holders of the capital securities then outstanding.

TERMINATION OF THE GUARANTEE

Our guarantee will terminate and be of no further force and effect upon:

- full payment of the applicable redemption price of all outstanding capital

securities;

- full payment of the liquidation amount payable upon liquidation of Haven Capital; or

- distribution of subordinated debentures to the holders of the capital securities.

Our guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the capital securities must restore payment of any sums paid under the capital securities or the guarantee.

INFORMATION CONCERNING THE GUARANTEE TRUSTEE

The guarantee trustee, except if we default under the guarantee, will undertake to perform only such duties as are specifically set forth in the guarantee and, in case a default with respect to the guarantee has occurred, must exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the guarantee trustee will not be obligated to exercise any of the powers vested in it by the guarantee at the request of any holder of the capital securities unless it is offered reasonable indemnity against the costs, expenses and liabilities that it might incur.

GOVERNING LAW

The guarantee will be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of law principles.

RELATIONSHIP AMONG THE CAPITAL SECURITIES, THE SUBORDINATED DEBENTURES AND THE GUARANTEE

FULL AND UNCONDITIONAL GUARANTEE TO THE EXTENT THAT HAVEN CAPITAL HAS FUNDS LEGALLY AVAILABLE TO PAY DISTRIBUTIONS

We will irrevocably guarantee payments of distributions and other amounts due on the capital securities to the extent Haven Capital has funds legally available to pay distributions as and to the extent set forth under "Description of Guarantee." Taken together, our obligations under the subordinated debentures, the indenture, the trust agreement and the guarantee will provide, a full, irrevocable and unconditional guarantee of Haven Capital's payments of distributions and other amounts due on the capital securities. No single document standing alone or operating in conjunction with fewer than all of the other documents constitutes this guarantee. Only the combined operation of these documents effectively provides a full, irrevocable and unconditional guarantee of Haven Capital's obligations under the capital securities.

If and to the extent that we do not make the required payments on the

subordinated debentures, Haven Capital will not have sufficient funds to make its related payments, including distributions on the capital securities. Our guarantee will not cover any payments when Haven Capital does not have sufficient funds legally available to make those payments. Your remedy, as a holder of capital securities, is to institute a direct action. Our obligations under the guarantee will be subordinate and junior to all senior indebtedness.

SUFFICIENCY OF PAYMENTS

As long as we pay the interest and other payments when due on the subordinated debentures, Haven Capital will have sufficient funds to cover distributions and other payments due on the capital securities, primarily because:

- the aggregate principal amount or prepayment price of the subordinated debentures will equal the sum of the liquidation amount or redemption price, as applicable, of the trust securities;

- the interest rate and interest payment dates and other payment dates on the subordinated debentures will match the distribution rate and distribution payment dates and other payment dates for the trust securities;

- as sponsor, we will pay for all and any costs, expenses and liabilities of Haven Capital, except for Haven Capital's obligations to holders of trust securities; and

- the trust agreement also provides that Haven Capital is not authorized to engage in any activity that is not consistent with its limited purposes.

ENFORCEMENT RIGHTS OF HOLDERS OF CAPITAL SECURITIES

You, as holder of capital securities, may institute a legal proceeding directly against us to enforce your rights under our guarantee without first instituting a legal proceeding against the guarantee trustee, Haven Capital or any other person or entity.

A default or event of default under any senior indebtedness would not constitute a default or event of default under the trust agreement. However, if there are payment defaults under, or accelerations of, senior indebtedness, the subordination provisions of the indenture provide that we cannot make payments in respect of the subordinated debentures until we have paid the senior indebtedness in full or we have cured any payment default or a payment default has been waived. Our

failure to make required payments on subordinated debentures would constitute an event of default under the trust agreement.

LIMITED PURPOSE OF HAVEN CAPITAL

The capital securities will represent beneficial interests in Haven Capital, and Haven Capital exists for the sole purpose of issuing and selling the trust securities, using the proceeds from the sale of the trust securities to acquire our subordinated debentures and engaging in only those other activities necessary, advisable or incidental thereto. A principal difference between the rights of a holder of a capital security and a holder of a subordinated debenture is that a holder of a subordinated debenture will be entitled to receive from us the principal amount of (and premium, if any) and interest on subordinated debentures held, while a holder of capital securities is entitled to receive distributions from Haven Capital (or, in certain circumstances, from us under our guarantee) if and to the extent Haven Capital has funds legally available to pay the distributions.

RIGHTS UPON DISSOLUTION

Unless the subordinated debentures are distributed to holders of the trust securities, if Haven Capital is voluntarily or involuntarily dissolved, wound-up or liquidated, after satisfying the liabilities owed to Haven Capital's creditors as required by applicable law, the holders of the trust securities will be entitled to receive, out of assets held by Haven Capital, the liquidation distribution in cash. See "Description of Capital Securities--Liquidation of Haven Capital and Distribution of Subordinated Debentures."

If we are voluntarily or involuntarily liquidated or bankrupted, the property trustee, as holder of the subordinated debentures, would be one of our subordinated creditors, subordinated in right of payment to all senior indebtedness, but entitled to receive payment in full of principal (and premium, if any) and interest, before any of our stockholders receive payments or distributions. Since we will be the guarantor under the guarantee and will agree to pay all costs, expenses and liabilities of Haven Capital (other than Haven Capital's obligations to the holders of its trust securities), the positions of a holder of capital securities and a holder of subordinated debentures relative to other creditors and to our stockholders in the event of our liquidation or bankruptcy are expected to be substantially the same.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

GENERAL

In the opinion of Thacher Proffitt & Wood, special federal income tax counsel to us and Haven Capital, the following describes the material U.S. federal income tax consequences of the purchase, ownership and disposition of a capital security.

This summary addresses only the tax consequences to a person that acquires a capital security on its original issuance at its original issue price and that holds the security as a capital asset. This summary does not address all tax

consequences that may be applicable to a beneficial owner of a capital security and does not address the tax consequences to holders subject to special tax regimes (like banks, thrifts, real estate investment trusts, regulated investment companies, insurance companies, dealers in securities or currencies, tax-exempt investors or persons that will hold a capital security as a position in a "straddle," as part of a "synthetic security" or "hedge" or as part of a "conversion transaction" or other integrated investment). This summary does not include any description of any alternative minimum tax consequences or the tax laws of any state or local government or of any foreign government that may apply to a capital security. Except as noted below in the discussion of Non-U.S. Holders, this discussion is addressed to a U.S. Holder, which is defined as a beneficial owner of a capital security that, for U.S. federal income tax purposes, is (or is treated as):

(1) a citizen or individual resident of the United States;

(2) a corporation or partnership (or entity treated for federal income tax purposes as a corporation or partnership) created or organized in or under the laws of the United States or any political subdivision thereof;

(3) an estate the income of which is includible in gross income for U.S. federal income tax purposes without regard to its source; or

(4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the ability to control all substantial decisions of the trust.

This summary does not address the tax consequences to any shareholder, partner or beneficiary of a holder of a capital security. This summary is based on the Code, Treasury regulations thereunder and the administrative and judicial interpretations thereof, as of the date hereof, all of which are subject to change, possibly on a retroactive basis. An opinion of Thacher Proffitt & Wood is not binding on the IRS or the courts. No rulings have been or are expected to be sought from the IRS with respect to any of the matters described herein. We can give no assurance that the opinions expressed herein will not be challenged by the IRS or, if challenged, that the challenge will not be successful.

CLASSIFICATION OF THE SUBORDINATED DEBENTURES

We intend to take the position that the subordinated debentures will be classified for U.S. federal income tax purposes as our indebtedness. Thacher Proffitt & Wood will render its opinion that, under then current law, based on the representations, facts and assumptions set forth in this prospectus and certain assumptions and qualifications referenced in the opinion, and assuming full compliance with the terms of the indenture (and other relevant documents), the subordinated debentures will be characterized for U.S. federal income tax

purposes as our indebtedness. We, together with Haven Capital and the holders of the capital securities (by acceptance of a beneficial interest in a capital security) will agree to treat the subordinated debentures as our indebtedness for all U.S. federal income tax purposes. We cannot be sure that this position will not be challenged by the IRS or, if challenged, that the challenge will not be successful. The remainder of this discussion assumes that the subordinated debentures will be classified as our indebtedness for U.S. federal income tax purposes.

CLASSIFICATION OF HAVEN CAPITAL

In connection with the issuance of the capital securities, Thacher Proffitt & Wood will render its opinion that, under then current law and assuming full compliance with the terms of the trust agreement and the indenture (and certain other documents), and based on certain facts and assumptions contained in that opinion, Haven Capital will not be classified for U.S. federal income tax purposes as an association taxable as a corporation. Accordingly, for U.S. federal income tax purposes, Haven Capital will not be subject to U.S. federal income tax, and each holder of a capital security will be required to include in its gross income any interest (or accrued original issue discount) with respect to its allocable share of the subordinated debentures.

INTEREST INCOME AND ORIGINAL ISSUE DISCOUNT

Under the indenture, we have the right to defer the payment of interest on the subordinated debentures at any time or from time to time for one or more deferral periods not exceeding 20 consecutive quarterly periods each, provided that no deferral period shall end on a date other than an interest payment date or extend beyond June 30, 2029. By reason of that right, the Treasury regulations will subject the subordinated debentures to the rules in the Code and Treasury regulations on debt

instruments issued with original issue discount, unless the indenture or subordinated debentures contain terms or conditions that make the likelihood of exercise of the deferral option remote. Under the Treasury regulations, a "remote" contingency that stated interest will not be timely paid will be ignored in determining whether a debt instrument is issued with original issue discount. Although the answer is not clear, we believe that the likelihood that we would exercise our option to defer payments of interest is "remote" since exercising that option would, among other things, prevent us from declaring dividends on any class of our equity securities. Accordingly, we intend to take the position that the subordinated debentures will not be considered to be issued with original issue discount and, accordingly, stated interest on the subordinated debentures generally will be taxable to a holder as ordinary income at the time it is paid or accrued in accordance with such holder's method of accounting.

Under the Treasury regulations, if we were to exercise our option to defer

payments of interest, the subordinated debentures would at that time be treated as issued with original issue discount, and all stated interest on the subordinated debentures would thereafter be treated as original issue discount as long as the subordinated debentures remain outstanding. If this occurred, all of a holder's interest income with respect to the subordinated debentures would thereafter be accounted for on an economic accrual basis regardless of such holder's method of tax accounting, and actual distributions of stated interest would not be reported as taxable income. Consequently, a holder of a capital security would be required to include in gross income original issue discount even though we would not make actual cash payments during a deferral period. The amount of such includible original issue discount could be significant. Also, under the Treasury regulations, if the option to defer the payment of interest were determined not to be "remote," the subordinated debentures would be treated as having been originally issued with original issue discount. In such event, a holder would be required to include in gross income an amount of original issue discount each taxable year that approximates the amount of interest that accrues on the subordinated debentures at the stated interest rate, regardless of such holder's method of tax accounting, and actual cash payments of interest on the subordinated debentures would not be separately includible in gross income. These Treasury regulations have not yet been addressed in any rulings or other interpretations by the IRS, and it is possible that the IRS could take a position contrary to the interpretation described herein.

Because income on the capital securities will constitute interest or original issue discount, corporate holders of the capital securities will not be entitled to a dividends-received deduction with respect to any income recognized with respect to the capital securities.

RECEIPT OF SUBORDINATED DEBENTURES OR CASH UPON LIQUIDATION OF HAVEN CAPITAL

We will have the right at any time to liquidate Haven Capital and cause the subordinated debentures to be distributed to the holders of the trust securities. Under current law, the liquidation of Haven Capital and the distribution of the subordinated debentures to trust security holders, for U.S. federal income tax purposes, would be treated as a nontaxable event to each holder, and the aggregate tax basis of each holder in the subordinated debentures received by such holder would be equal to the holder's aggregate tax basis in those capital securities surrendered. A holder's holding period in the subordinated debentures received in liquidation of Haven Capital would be no shorter than the period during which the capital securities were held by that holder.

The subordinated debentures may be prepaid in cash, and the proceeds of that prepayment would be distributed to holders in redemption of their capital securities. Under current law, that redemption would constitute, for U.S. federal income tax purposes, a taxable disposition of the redeemed capital securities, the tax consequences of which are described below under "--Sales or Redemptions of Capital Securities."

SALES OR REDEMPTIONS OF CAPITAL SECURITIES

On a sale or redemption of a capital security for cash, a holder will recognize gain or loss equal to the difference between its adjusted tax basis in the capital security and the amount realized on the sale or redemption of that capital security. If the rules regarding original issue discount do not apply, a holder's adjusted basis in a capital security generally will be its initial purchase price, and if the holder uses an accrual method of accounting, the holder will have a basis in any accrued but unpaid interest. If the rules regarding original issue discount apply, a holder's adjusted basis in a capital security generally will be its initial purchase price increased by any original issue discount previously included in the holder's gross income to the date of disposition and decreased by any payments received on the capital security. Gain or loss recognized on a sale or redemption of a capital security will be capital gain or loss. Capital gain recognized by an individual in respect of a capital security held for more than one year as of the date of sale or redemption is subject to a maximum U.S. federal income tax rate of 20 percent.

The capital securities may trade at a price that discounts any accrued but unpaid interest on the subordinated debentures. Therefore, the amount realized by a holder who disposes of a capital security between distribution payment dates and whose adjusted basis in the capital security has been increased by the amount of any accrued but unpaid original issue discount (or interest) may be less than the holder's adjusted basis in the capital security. A holder's basis in a capital security could be increased either under the rules regarding original issue discount or, if those rules do not apply, in the case of a holder that uses an accrual method of accounting, under the accrual accounting rules. In that case, the holder will recognize a capital loss. Subject to a limited exception in the case of individual taxpayers, capital losses cannot be applied to offset ordinary income for U.S. federal income tax purposes.

NON-U.S. HOLDERS

For purposes of this discussion, a "Non-U.S. Holder" generally is any corporation, individual, partnership, estate or trust that is not a U.S. Holder for U.S. federal income tax purposes.

Under current U.S. federal income tax laws, subject to the discussion below of backup withholding, payments by Haven Capital or any of its paying agents to a Non-U.S. Holder will not be subject to U.S. federal withholding tax, provided that (a) the Non-U.S. Holder does not own, actually or constructively, ten percent or more of the total combined voting power of all classes of our stock entitled to vote, (b) the Non-U.S. Holder is not a controlled foreign corporation that is related to us through stock ownership, (c) the Non-U.S. Holder is not a bank whose receipt of interest on the subordinated debentures is described in Section 881(c)(3)(A) of the Code, and (d) either (A) the Non-U.S. Holder certifies to Haven Capital or its agent, under penalties of perjury, that it is not a U.S. Holder and provides its name and address or (B) a securities clearing organization, bank or other financial institution that holds customers'

securities in the ordinary course of business (a "Financial Institution") and holds the capital security in that capacity certifies to Haven Capital or its agent, under penalties of perjury, that the statement has been received from the Non-U.S. Holder by it or by a Financial Institution between it and the Non-U.S. Holder and furnishes Haven Capital or its agent with a copy thereof. New Treasury regulations provide alternative methods for satisfying the certification requirements described in clause (d), effective for certain payments made after December 31, 1999.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on the capital securities (or the subordinated debentures) is effectively connected with the conduct of that trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed above, will be subject to U.S. federal income tax on that interest on a net income basis in generally the same manner as if it were a U.S. Holder. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits that are repatriated or treated as repatriated. For this purpose, the interest income would be included

in the foreign corporation's earnings and profits. In the case of a Non-U.S. Holder entitled to the benefits of a tax treaty with the United States, the foregoing discussion generally applies only if the Non-U.S. Holder is engaged in business in the United States through a U.S. permanent establishment and the income on the subordinated debentures is attributable to that permanent establishment within the meaning of the treaty, and the rate of the branch profits tax may be limited to a rate prescribed by the treaty for the withholding of tax on dividends. New final Treasury regulations generally prescribe new methods for certifying that a Non-U.S. Holder is exempt from the withholding of U.S. federal income tax by reason of being engaged in trade or business in the United States.

Any gain recognized upon a sale or other disposition of capital securities (or subordinated debentures) generally will not be subject to U.S. federal income tax unless (1) the gain is, or is treated as, effectively connected with a U.S. trade or business of the Non-U.S. Holder or (2) in the case of a Non-U.S. Holder who is an individual, that individual is present in the United States for 183 days or more in the taxable year of the sale or other disposition, and certain other conditions are met.

BACKUP WITHHOLDING TAX AND INFORMATION REPORTING

The amount of interest, including original issue discount, accrued on capital securities held of record by U.S. persons (other than corporations and other exempt holders) will be reported to the IRS. "Backup" withholding at a rate of 31% will apply to payments of interest to non-exempt U.S. persons unless the holder furnishes its taxpayer identification number in the manner prescribed in applicable Treasury regulations, certifies that the number is correct,

certifies as to no loss of exemption from backup withholding and meets certain other conditions.

Payment of the proceeds from the disposition of capital securities to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner establishes an exemption from information reporting and backup withholding.

Non-U.S. Holders are generally exempt from the information reporting and backup withholding rules but may be required to comply with certain certification and identification requirements to prove their exemption.

Any amount withheld from a holder under the backup withholding rules will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

It is anticipated that income on capital securities will be reported to holders on Form 1099 and mailed to holders of capital securities by January 31 following each calendar year.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. YOU SHOULD CONSULT YOUR TAX ADVISER WITH RESPECT TO THE TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF A CAPITAL SECURITY, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

ERISA CONSIDERATIONS

The primary purpose of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") is to protect the interests of participants in employee benefit plans by mandating standards of conduct, obligations and responsibilities for the people who serve as the fiduciaries of these plans. A person is a fiduciary with respect to an employee benefit plan under ERISA to the extent that he or she exercises discretionary authority over the management or the investment of the plan's assets.

Accordingly, before investing the assets of an employee benefit plan in capital securities, a fiduciary must determine whether the investment satisfies the prudence and diversification requirements of ERISA and whether the investment, itself, is permitted under the plan's governing documents.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code, from engaging in certain transactions involving "plan assets" with persons who are "parties-in-interest" under ERISA or "disqualified persons" under the Code with respect to the plan. Violation of the "prohibited transaction" rules will result in the imposition of an excise tax or other liabilities on the

"parties-in-interest" or the "disqualified persons," as applicable, unless exemptive relief is available under a statutory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code; however, governmental plans may be subject to similar provisions under applicable state laws.

The U.S. Department of Labor has issued special regulations governing certain investments by employee benefits plans covered by ERISA. These regulations are known as the "Plan Asset Regulations." Under these Regulations, the assets of Haven Capital will be deemed to be the assets of the employee benefit plan for purposes of ERISA and Section 4975 of the Code if the plan's assets are used to acquire an equity interest in Haven Capital and no exception under the Plan Asset Regulations applies to the transaction. An "equity interest" is defined in the Plan Asset Regulations to specifically include a beneficial interest in a trust such as Haven Capital.

The Plan Asset Regulations do, however, contain certain exceptions to this general rule. Under one exception, the assets of Haven Capital will not be deemed to be the "plan assets" of the investing plans if, at all times, less than 25% of the value of each class of equity interest in Haven Capital is held by all employee benefit plans, including, for this purpose, employee benefit plans not subject to ERISA or Section 4975 of the Code, such as governmental, church and foreign plans, and any other plans whose assets qualify as "plan assets" under the Plan Asset Regulations (collectively, the "Benefit Plan Investors"). Alternatively, the assets of Haven Capital will not be deemed to be "plan assets" of the investing plans if the capital securities constitute "publicly-offered securities" within the meaning of the Plan Asset Regulations. Potential employee benefit plan investors should be aware that although these exceptions exist, we cannot give plan investors any assurance that the capital securities held by Benefit Plan Investors will be less than 25% of the total value of the capital securities either at the completion of this offering or at any subsequent time. In addition, no assurance can be given that the capital securities offered in this Prospectus constitute "publicly-offered securities" within the meaning of the Plan Asset Regulations. We will purchase and initially hold all of the common securities of Haven Capital.

By operation of the Plan Asset Regulations, certain transactions involving Haven Capital and an employee benefit plan may be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code. A direct or indirect prohibited transaction may occur if the assets of Haven Capital are deemed to be the "plan assets" of the plan investing in Haven Capital. For example, if we were a party-in-interest with respect to a plan (either directly or by reason of its ownership of the Bank or other subsidiaries), an extension of credit between us and Haven Capital (as represented by the subordinated debentures and the guarantee) would occur which is likely to be prohibited by Section 406(a)(1)(B) of ERISA and Section 4975(c)(1)(B) of the Code, unless exemptive relief is available. In addition, if we qualify as a fiduciary with respect to Haven Capital as a result of certain

powers we hold under the trust agreement (such as the powers to remove and replace the property trustee and the administrative trustees), it is possible that the optional redemption or acceleration of the subordinated debentures would be considered to be prohibited transactions under

Section 406(b) of ERISA and Section 4975(c)(1)(E) of the Code. In order to avoid engaging in these prohibited transactions, each investing plan, by purchasing capital securities, will be deemed to have directed Haven Capital to invest in the subordinated debentures and to have appointed the property trustee.

The U.S. Department of Labor has issued five separate prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief to an employee benefit plan for direct or indirect prohibited transactions that may arise from the purchase or holding of the capital securities. The available PTCE's include:

- PTCE 96-23 which may be applicable for certain transactions involving in-house asset managers;

- PTCE 95-60 which may be applicable for certain transactions involving insurance company general accounts;

- PTCE 91-38 which may be applicable for certain transactions involving bank collective investment funds;

- PTCE 90-1 which may be applicable for certain transactions involving insurance company separate accounts; and

- PTCE 84-14 which may be applicable for certain transactions involving qualified professional asset managers.

Because the capital securities may be deemed to be equity interests in Haven Capital for purposes of applying ERISA and Section 4975 of the Code, the capital securities may not be purchased or held by any employee benefit plan ("Plan"), any entity whose underlying assets include "plan assets" by reason of any plan's investment in the entity (a "Plan Asset Entity") or any person investing the "plan assets" of any plan, unless the purchaser or holder is exempt from all of ERISA's prohibited transaction rules because of the relief provided under one of the PTCE's identified above or another applicable exemption. Any purchaser or holder of capital securities (or any interest in such securities) will be deemed to have represented, through the fact of the purchase and holding of the capital securities, that the purchaser either (a) is not a Plan or a Plan Asset Entity and is not purchasing the capital securities on behalf of, or with the "plan assets" of, any Plan or (b) is exempt from ERISA's prohibited transaction rules because of the relief provided under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. If a Plan or Plan Asset Entity purchases or holds capital securities and elects to rely on an exemption other than PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, we, together with Haven Capital, may require an opinion of legal counsel or other satisfactory evidence that such exemption is

available.

Due to the complexity of these rules and the penalties that may be imposed on persons involved in non-exempt prohibited transactions, it is critical that Plan fiduciaries consult with legal counsel regarding the consequences that may result if the assets of Haven Capital are deemed to be the "plan assets" of the Plan by operation of the Plan Asset Regulations and the exemptive relief, described above, is not available.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement, dated May 20, 1999, we, together with Haven Capital, have agreed that Haven Capital will sell to each of the underwriters named below, and each of such underwriters has severally agreed to purchase from Haven Capital, the respective number of capital securities set forth opposite its name below:

	NUMBER OF CAPITAL SECURITIES
Friedman, Billings, Ramsey & Co., Inc.	912,500
First Albany Corporation	547,500
Ladenburg Thalmann & Co. Inc.	365,000
Advest Inc.	62,500
Fahnestock & Co. Inc.	62,500
Howe Barnes Investments, Inc.	62,500
Janney Montgomery Scott Inc.	62,500
Ryan, Beck & Co.	62,500
Wedbush Morgan Securities Inc.	62,500
Total	2,200,000

Under the terms and conditions of the underwriting agreement, the underwriters are committed to take and pay for all of the capital securities if any are taken.

The underwriters propose initially to offer the capital securities in part directly to the public at the initial public offering price set forth on the cover page of this prospectus. In addition, we anticipate that no more than 100,000 capital securities will be sold to our directors and executive officers. The underwriters also propose to offer the capital securities in part to several securities dealers at the initial public offering price less a concession of no more than $0.20 for each capital security. The underwriters and dealers may allow and reallow, a concession of no more than $0.10 for each capital security

to other brokers and dealers. After the capital securities are released for sale to the public, the initial public offering price and other selling terms may from time to time be varied by the underwriters. No underwriter will execute any transaction in a discretionary account without prior approval of the customer.

Because the proceeds from the sale of the capital securities will be used to purchase our subordinated debentures, the underwriting agreement provides that we will pay the underwriters compensation for arranging Haven Capital's investment in our subordinated debentures of $0.30 for each capital security sold in the offering.

We and Haven Capital have granted the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an additional 330,000 capital securities at the initial public offering price set forth on the cover page hereof less underwriting discounts. The underwriters may exercise such option to purchase additional capital securities solely for the purpose of covering over-allotments, if any, incurred in the sale of the capital securities. If this option is exercised in full, total proceeds from the sale of the capital securities to Haven Capital will be $25,300,000.

To the extent that the underwriters exercise their option to purchase additional capital securities, Haven Capital will issue and sell to us additional capital securities and we will issue and sell to Haven Capital our subordinated debentures in an aggregate principal amount equal to the total liquidation amount of the additional capital securities being purchased pursuant to the option and the additional capital securities.

We, together with Haven Capital, have agreed that, for a period of 180 days from the date of the underwriting agreement, we together with Haven Capital, will not offer, sell, contract to sell or

otherwise dispose of, any other beneficial interests in the assets of Haven Capital, or any preferred securities or any other securities of Haven Capital or of us which are substantially similar to the capital securities, including any guarantee of these securities, or any securities convertible into or exchangeable for or representing the right to receive preferred securities or any such substantially similar securities of either Haven Capital or of us, without the prior written consent of the underwriters, except for the capital securities offered in connection with this offering.

Prior to the offering, there has been no public market for the capital securities. Although the underwriters have indicated to us and to Haven Capital that they intend to make a market in the capital securities, they are not obligated to do so and may discontinue any such market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading markets for the capital securities.

We, together with Haven Capital, have agreed to indemnify the several

underwriters against certain liabilities, including liabilities under the Securities Act.

It is expected that delivery of the capital securities will be made in book-entry form only through the facilities of DTC in New York, New York against payment therefor on or about May 26, 1999, as agreed upon by us, Haven Capital and the underwriters in accordance with Rule 15c6-1 under the Exchange Act.

Certain of the underwriters or their affiliates have provided from time to time, and expect to provide in the future, investment services to us and our affiliates, for which such underwriters or their affiliates have received or will receive customary fees and commissions.

VALIDITY OF SECURITIES

The validity of the capital securities, the guarantee and the subordinated debentures will be passed upon for us by Thacher Proffitt & Wood and for the underwriters by Greenberg Traurig, P.A. Certain matters relating to U.S. federal income tax considerations described in this prospectus will be passed upon for us by Thacher Proffitt & Wood.

EXPERTS

The consolidated financial statements of Haven as of December 31, 1998 and 1997, and for each of the years in the three year period ended December 31, 1998, have been included in this prospectus in reliance upon the report of KPMG LLP, independent auditors, whose report is included herein, and upon their authority as experts in accounting and auditing.

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*   Included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, attached to this prospectus as Appendix C.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Haven Bancorp, Inc.:

We have audited the accompanying consolidated statements of financial condition of Haven Bancorp, Inc. (the "Company") as of December 31, 1998 and 1997, 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 December 31, 1998. 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 the Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

January 28, 1999
Melville, New York

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, DECEMBER 31, 1998 1997 ------------ ------------ (DOLLARS IN THOUSANDS, EXCEPT FOR SHARE DATA) ASSETS Cash and due from banks.. $ 43,088 35,745
Money market investments.. 1,720 4,561 Securities available for sale (notes 3 and 11)................................... 889,251 499,380 Loans held for sale (note 6)... 54,188 -- Debt

securities held to maturity (estimated fair value of $66,372 in 1997) (note
4)...
-- 66,404 Federal Home Loan Bank of NY Stock, at
cost.................................... 21,990 12,885 Mortgage-backed
securities held to maturity (estimated fair value of $163,326 in 1997) (notes 5 and
11)... -- 163,057 Loans
receivable (note 6): First mortgage
loans... 1,271,784
1,098,894 Cooperative apartment
loans... 3,970 19,596 Other
loans..
34,926 32,291 ------------ ------------ Total loans
receivable... 1,310,680
1,150,781 Less allowance for loan losses (note
7)... (13,978) (12,528) ------------ -----
------- Loans receivable,
net.. 1,296,702
1,138,253 Premises and equipment, net (note
8)... 39,209 27,062 Accrued interest
receivable (notes 3, 4, 5 and 6).................................. 12,108 12,429
Other assets (note
9)... 37,267 15,114 --
---------- ------------ Total
assets...
$2,395,523 1,974,890 ------------ ------------ ------------ ------------
LIABILITIES AND STOCKHOLDERS' EQUITY Liabilities: Deposits (note
10)... $1,722,710
1,365,012 Borrowed funds (note
11)... 440,346 466,794
Due to
broker...
97,458 10,000 Other
liabilities..
15,142 20,219 ------------ ------------ Total
liabilities..
2,275,656 1,862,025 ------------ ------------ Commitments and contingencies (notes
7 and 16) Stockholders' Equity (note 17): Preferred stock, $.01 par value,
2,000,000 shares authorized, none issued........... -- -- Common stock, $.01 par
value, 30,000,000 shares authorized, 9,918,750 issued; 8,859,692 and 8,784,700
shares outstanding in 1998 and 1997, respectively.......... 100 100 Additional
paid-in capital.. 51,383
50,065 Retained earnings, substantially restricted (note
17).............................. 79,085 73,567 Accumulated other comprehensive
income: Unrealized gain on securities available for sale, net of tax effect (note
3)....... 945 1,671 Treasury stock, at cost (1,059,058 and 1,134,050 shares in 1998
and 1997,
respectively)..
(9,800) (10,246) Unallocated common stock held by ESOP (note
14).................................... (1,222) (1,529) Unearned common stock
held by Bank's Recognition Plans and Trusts (note

14)... (263) (364) Unearned
compensation (note 14).. (361)
(399) ------------ ------------ Total stockholders'
equity.. 119,867 112,865 -
----------- ------------ Total liabilities and stockholders'
equity.. $2,395,523 1,974,890 ------------
------------ ------------ ------------

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, -------------------------------- 1998 1997 1996 -----
---- ---------- ---------- (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
INTEREST INCOME: Mortgage
loans.. $ 96,146
75,266 53,110 Other
loans... 3,303
3,220 3,638 Mortgage-backed
securities.. 42,040 32,755
37,517 Money market
investments... 186 343 176
Debt and equity securities...
10,010 14,722 14,812 ---------- ---------- ---------- Total interest
income... 151,685
126,306 109,253 ---------- ---------- ---------- INTEREST EXPENSE: Deposits:
Savings accounts...
12,415 9,338 9,314 NOW
accounts... 1,364
1,130 999 Money market
accounts... 2,041 1,823
1,929 Certificate
accounts.. 49,965 39,309
32,436 Borrowed
funds... 27,991
22,800 16,690 ---------- ---------- ---------- Total interest
expense... 93,776 74,400
61,368 ---------- ---------- ---------- Net interest income before provision for
loan losses.......................... 57,909 51,906 47,885 Provision for loan
losses (note 7).. 2,665 2,750 3,125
---------- ---------- ---------- Net interest income after provision for loan
losses.......................... 55,244 49,156 44,760 ---------- ---------- --
-------- NON-INTEREST INCOME: Loan fees and servicing
income.. 1,627 3,110 1,807
Servicing released premiums and fees on loans sold...........................
10,301 -- -- Savings/checking
fees.. 9,822 5,478

3,378 Net gain (loss) on sales of interest-earning assets.......................... 2,926 (5) 140 Insurance, annuity and mutual funds fees.................................. 5,874 3,758 3,114 Other.. 2,596 1,571 1,115 --------- ---------- ---------- Total non-interest income.. 33,146 13,912 9,554 --------- ---------- ---------- NON-INTEREST EXPENSE: Compensation and benefits (notes 13 and 14)................................ 41,204 24,251 15,737 Occupancy and equipment (notes 8 and 16)...................................... 11,005 6,334 3,478 Real estate owned operations, net... 8 352 277 SAIF recapitalization charge (note 10)...................................... -- -- 6,800 Federal deposit insurance premiums.. 870 736 2,327 Other.. 24,227 14,174 9,836 --------- ---------- ---------- Total non-interest expense.. 77,314 45,847 38,455 --------- ---------- ---------- Income before income tax expense.. 11,076 17,221 15,859 Income tax expense (note 12)... 2,926 6,138 6,434 --------- ---------- ---------- Net income.. $ 8,150 11,083 9,425 --------- ---------- ---------- --------- ---------- ---------- --- NET INCOME PER COMMON SHARE:

Basic.. $ 0.95 1.32 1.13 --------- ---------- ---------- --------- ---------- ----------

Diluted.. $ 0.89 1.24 1.08 --------- ---------- ---------- --------- ---------- ----------

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THE THREE YEARS ENDED DECEMBER 31, 1998

ACCUMULATED UNALLOCATED ADDITIONAL OTHER COMMON COMMON PAID-IN RETAINED COMPREHEN- TREASURY STOCK HELD TOTAL STOCK CAPITAL EARNINGS SIVE INCOME STOCK BY ESOP --------- -------- ----- ----------- -------- --- ------------ -------- --- ------------ (IN THOUSANDS OF DOLLARS, EXCEPT FOR SHARE DATA) Balance at December 31, 1995......................

$ 98,519 100 47,281 57,919
2,083 (6,023) (2,197)
Comprehensive income: Net
income................
9,425 -- -- 9,425 -- -- --
Other comprehensive
income, net of tax Net
unrealized depreciation on
securities available for
sale, net of
reclassification
adjustment (1)..........
(2,923) -- -- -- (2,923) -
- -- ---------
Comprehensive
income........ 6,502
Dividends
declared.......... (2,229)
-- -- (2,229) -- -- --
Purchase of treasury stock
(451,074 shares)..........
(5,516) -- -- -- --
(5,516) -- Treasury stock
issued for deferred
compensation plan (60,162
shares)........... -- --
410 -- -- 372 -- Stock
options exercised and
related tax effect (18,812
shares)..................
199 -- 104 (23) -- 118 --
Allocation of ESOP stock
and amortization of award
of RRP stock and related
tax
benefits.................
1,719 -- 999 -- -- -- 343
Amortization of deferred
compensation plan.........
190 -- -- -- -- -- -- ----
----- --- ----------- ----
------- ------ -----------
------ Balance at December
31,
1996.....................
99,384 100 48,794 65,092
(840) (11,049) (1,854)
Comprehensive income: Net
income................
11,083 -- -- 11,083 -- --

-- Other comprehensive
income, net of tax......
Net unrealized
appreciation on securities
available for sale, net of
reclassification
adjustment (1)..........
2,511 -- -- -- 2,511 -- --
--------- Comprehensive
income........ 13,594
Dividends
declared.......... (2,608)
-- -- (2,608) -- -- --
Treasury stock issued for
RRP and deferred
compensation plan (18,904
shares)..................
-- -- 236 -- -- 113 --
Stock options exercised
and related tax effect
(114,982 shares)..........
806 -- 116 -- -- 690 --
Allocation of ESOP stock
and amortization of award
of RRP stock and related
tax
benefits.................
1,353 -- 919 -- -- -- 325
Amortization of deferred
compensation plan.........
336 -- -- -- -- -- -- ----
----- --- ----------- ----
------- ------ -----------
------ Balance at December
31,
1997.....................
112,865 100 50,065 73,567
1,671 (10,246) (1,529)
UNEARNED COMMON UNEARNED
STOCK HELD COMPEN- BY RRPS
SATION ------------- -----
-------- Balance at
December 31,
1995.....................
(644) -- Comprehensive
income: Net
income................ --
-- Other comprehensive
income, net of tax Net
unrealized depreciation on

securities available for
sale, net of
reclassification
adjustment (1).......... -
- -- Comprehensive
income........ Dividends
declared......... -- --
Purchase of treasury stock
(451,074 shares)..........
-- -- Treasury stock
issued for deferred
compensation plan (60,162
shares)........... --
(782) Stock options
exercised and related tax
effect (18,812
shares)...................
-- -- Allocation of ESOP
stock and amortization of
award of RRP stock and
related tax
benefits..................
377 -- Amortization of
deferred compensation
plan......... -- 190 --- -
-- Balance at December 31,
1996......................
(267) (592) Comprehensive
income: Net
income................ --
-- Other comprehensive
income, net of tax......
Net unrealized
appreciation on securities
available for sale, net of
reclassification
adjustment (1).......... -
- -- Comprehensive
income........ Dividends
declared......... -- --
Treasury stock issued for
RRP and deferred
compensation plan (18,904
shares)...................
(206) (143) Stock options
exercised and related tax
effect (114,982
shares).......... -- --
Allocation of ESOP stock
and amortization of award

of RRP stock and related tax benefits.................. 109 -- Amortization of deferred compensation plan......... -- 336 --- --- Balance at December 31, 1997...................... (364) (399)

ACCUMULATED UNALLOCATED ADDITIONAL OTHER COMMON COMMON PAID-IN RETAINED COMPREHEN- TREASURY STOCK HELD TOTAL STOCK CAPITAL EARNINGS SIVE INCOME STOCK BY ESOP --------- ------------- ----------- ----------- ------------- ----------- -------------
(IN THOUSANDS OF DOLLARS, EXCEPT FOR SHARE DATA)
Balance at December 31, 1997..................... 112,865 100 50,065 73,567 1,671 (10,246) (1,529)
Comprehensive income: Net income................. 8,150 -- -- 8,150 -- -- -- Other comprehensive income, net of tax Net unrealized depreciation on securities available for sale, net of reclassification adjustment (1)......... (1,607) -- -- -- (1,607) -- -- Net unrealized appreciation on securities transferred from held to maturity to available for sale (note 3)............... 881 -- -- -- 881 -- -- ---------
Comprehensive income....... 7,424
Dividends

declared......... (2,632)
-- -- (2,632) -- -- --
Treasury stock issued for
deferred compensation
plan (14,384 shares).....
-- -- 280 -- -- 86 --
Stock options exercised
and related tax effect
(60,608 shares)..........
516 -- 156 -- -- 360 --
Allocation of ESOP stock
and amortization of award
of RRP stock and related
tax benefits.............
1,290 -- 882 -- -- -- 307
Amortization of deferred
compensation plan........
404 -- -- -- -- -- -- ---
------ --- ----------- --
--------- ------ --------
--- ------ Balance at
December 31,
1998.....................
$ 119,867 100 51,383
79,085 945 (9,800)
(1,222) --------- --- ---
-------- ----------- ----
-- ----------- ------ ---
------ --- ----------- --
--------- ------ --------
--- ------ UNEARNED
COMMON UNEARNED STOCK
HELD COMPEN- BY RRPS
SATION ------------- ----
--------- Balance at
December 31,
1997.....................
(364) (399) Comprehensive
income: Net
income................. -
- -- Other comprehensive
income, net of tax Net
unrealized depreciation
on securities available
for sale, net of
reclassification
adjustment (1)......... -
- -- Net unrealized
appreciation on
securities transferred

from held to maturity to
available for sale (note
3)............... -- --
Comprehensive
income....... Dividends
declared......... -- --
Treasury stock issued for
deferred compensation
plan (14,384 shares).....
-- (366) Stock options
exercised and related tax
effect (60,608
shares).......... -- --
Allocation of ESOP stock
and amortization of award
of RRP stock and related
tax benefits............
101 -- Amortization of
deferred compensation
plan........ -- 404 --- -
-- Balance at December
31,
1998.....................
(263) (361) --- --- --- -
--

- ------------------------

(1) Disclosure of reclassification adjustment:

FOR THE YEARS
ENDED ------------

- (IN THOUSANDS)
1998 1997 1996 - -

-- --------- -----
---- --------- Net
unrealized holding
(losses) gains
arising during the
year..............
$ (10) 2,499
(2,707)
Reclassificaton
adjustment for net

gains (losses)
included in net
income... 716 (12)
216 --------- ----
----- ---------
Net unrealized
(losses) gains on
securities
available for
sale.............
(726) 2,511
(2,923) ---------
--------- --------
- --------- ------
--- ---------

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, ------------------------------
1998 1997 1996 --------- --------- --------- (DOLLARS IN
THOUSANDS) Cash flows from operating activities: Net
income.. $
8,150 11,083 9,425 Adjustments to reconcile net income to
net cash provided by operating activities: Amortization of
cost of stock benefit plans................ 1,526 1,689
1,909 Amortization of net deferred loan origination
fees.......... (1,546) (231) (245) Premiums and discounts
on loans, mortgage-backed and debt
securities..
(1,503) 210 233 Provision for loan
losses................................. 2,665 2,750
3,125 Provision for losses on real estate
owned.................. 35 251 291 Deferred income
taxes.................................... 1,139 (1,540)
230 Origination and purchases of loans held for sale, net
of proceeds from
sales.................................... (54,188) -- -
- Net (gain) loss on sales of interest-earning
assets......... (2,926) 5 (140) Depreciation and
amortization............................ 3,087 1,592
878 Decrease (increase) in accrued interest
receivable.......... 321 (257) (1,436) Increase (decrease)
in due to broker....................... 87,458 9,000
(4,000) (Decrease) increase in other
liabilities................... (5,077) 1,315 3,672

Increase in other
assets.................................. (22,930)
(1,265) (1,804) --------- --------- --------- Net cash
provided by operating activities.................. 16,211
24,602 12,138 --------- --------- --------- Cash flows
from investing activities: Net increase in loans
receivable.......................... (264,136) (306,328)
(269,343) Proceeds from disposition of assets (including
REO)......... 721 2,785 4,313 Purchases of securities
available for sale................. (749,013) (511,075)
(321,162) Principal repayments on securities available for
sale....... 195,118 48,377 73,472 Proceeds from sales of
securities available for sale........ 454,971 337,696
374,840 Purchases of debt securities held to
maturity.............. -- -- (6,989) Principal
repayments, maturities and calls on debt securities held
to maturity............................ 21,020 30,954
37,511 Purchases of mortgage-backed securities held to
maturity.... -- -- (38,357) Principal repayment on
mortgage-backed securities held to
maturity..
24,834 34,660 32,004 Purchases of Federal Home Loan Bank
Stock, net............. (9,105) (2,995) (1,752) Net
increase in premises and equipment.....................
(15,102) (19,834) (2,108) --------- --------- ---------
Net cash used in investing
activities...................... (340,692) (385,760)
(117,571) --------- --------- ---------

YEARS ENDED DECEMBER 31, ------------------------------
1998 1997 1996 --------- --------- --------- (DOLLARS IN
THOUSANDS) Cash flows from financing activities: Net
increase in deposits.................................
357,698 227,224 54,342 Net (decrease) increase in borrowed
funds.................. (26,448) 140,361 55,850 Purchase
of treasury stock.................................. -- --
(5,516) Payment of common stock
dividends.......................... (2,627) (2,598)
(2,475) Stock options
exercised.................................... 360 760 95
--------- --------- --------- Net cash provided by
financing activities.................. 328,983 365,747
102,296 --------- --------- --------- Net increase
(decrease) in cash and cash equivalents........ 4,502
4,589 (3,137) Cash and cash equivalents at beginning of
year.............. 40,306 35,717 38,854 --------- --------
- --------- Cash and cash equivalents at end of

year.................... $ 44,808 40,306 35,717 ---------
--------- --------- --------- --------- ---------
Supplemental information: Cash paid during the year for:
Interest..
$ 93,751 73,757 60,187 Income
taxes... 1,699
5,893 7,824 Additions to real estate
owned............................ 623 1,695 3,470 Loans
transferred from loans held for sale.................. --
-- (10,594) Securities purchased not yet received,
net.................. 97,458 10,000 1,000 Loans
securitized..
105,691 -- -- Mortgage-backed securities and debt
securities held to maturity transferred to securities
available for sale..... 183,639 -- -- --------- ---------
--------- --------- --------- ---------

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Haven Bancorp, Inc. (the "Holding Company") was formed on March 25, 1993, as the holding company for CFS Bank, (the "Bank"). On September 23, 1993, the Holding Company completed its initial public offering of 9,918,750 shares of common stock in connection with the Bank's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank (the "Conversion"). Concurrent with the conversion process, the Holding Company acquired all of the issued and outstanding stock of the Bank with a portion of the net proceeds.

The accounting and reporting policies of the Holding Company and the Bank and its subsidiaries (the "Company") conform to generally accepted accounting principles and to general practices within the banking industry. The following summarizes the significant policies and practices:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Holding Company and its subsidiary, the Bank, and its wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of each consolidated statement of financial condition and revenues and expenses for the year then ended. Actual results could differ from those estimates. Certain

reclassification adjustments have been made to prior year amounts to conform to the current year presentation.

On October 23, 1997, the Company's Board of Directors approved a two-for-one common stock split. The additional shares were issued on November 28, 1997 to shareholders of record on October 31, 1997. The par value of the Company's common stock remains unchanged at $.01. Accordingly, all information with respect to shares of common stock fully reflects the stock split.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and money market investments. Money market investments represent instruments with maturities of ninety days or less. These investments are carried at cost, adjusted for premiums and discounts which are recognized in interest income over the period to maturity.

DEBT, EQUITY AND MORTGAGE-BACKED SECURITIES

Debt and mortgage-backed securities ("MBSs") which the Company has the positive intent and ability to hold until maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts on a level yield method over the remaining period to contractual maturity, adjusted, in the case of MBSs, for actual prepayments. Debt and equity securities and MBSs to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale securities and are recorded at fair value, with unrealized gains (losses), net of tax, reported as accumulated other comprehensive income, a separate component of stockholders' equity. Gains and losses on the sale of securities are determined using the specific identification method and are included in non-interest income.

LOANS RECEIVABLE AND LOANS HELD FOR SALE

Loans receivable are carried at their unpaid principal balances, less unearned discounts, net deferred loan origination fees and the allowance for loan losses. Loans held for sale are carried at the aggregate lower of cost or market value. Loan origination fees, less certain direct loan origination costs, are deferred and amortized as an adjustment of the loan's yield over the life of the loan by the interest method. When loans are sold, any remaining unaccreted net deferred fees (costs) are recognized as income at the time of sale. Purchased loans are recorded at cost. Related premiums or discounts are amortized (accreted) to interest income using the level-yield method over the estimated life of the loans.

Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" and the amendment thereof, SFAS No. 118, "Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures" require that impaired loans that are within their scope be measured

based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient, at the loan's current observable market price, or the fair value of the collateral if the loan is collateral dependent. The amount by which the recorded investment of an impaired loan exceeds the measurement value is recognized by creating a valuation allowance through a charge to the provision for loan losses. SFAS No. 114 does not apply to those large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which, for the Company, include one- to four-family first mortgage loans and cooperative apartment loans ("residential loans") and consumer loans.

Loans individually reviewed for impairment by the Company within the scope of SFAS No. 114 are limited to loans modified in a troubled debt restructuring ("TDR") and commercial and multi-family first mortgage loans. The measurement value of the Company's impaired loans was based on the fair value of the underlying collateral. The Company's impaired loan identification and measurement process are conducted in conjunction with the Company's review of the adequacy of its allowance for loan losses. Specific factors utilized in the impaired loan identification process include, but are not limited to, delinquency status, loan-to-value ratio, the condition of the underlying collateral, credit history and debt coverage. At a minimum, such loans are classified as impaired by the Company when they become 90 days past due.

The Company places loans, including impaired loans, on non-accrual status when they become 90 days past due. All interest previously accrued and not collected is reversed against interest income and income is subsequently recognized only to the extent cash is received until, in management's judgement, a return to accrual status is warranted.

Cash receipts on impaired loans are applied to principal and interest in accordance with the contractual terms of the loan unless full payment of principal is not expected, in which case, both principal and interest payments received are applied as a reduction of the carrying value of the loan. For non-performing impaired loans, interest income is recognized to the extent received in cash and not otherwise utilized to reduce the carrying value of the loan. For impaired loans not classified as non-performing by the Company, interest income is recognized on an accrual basis as the Company anticipates the full payment of principal and interest due. The Company's policy is to recognize income on a cash basis for TDRs for a period of six months, after which such loans are returned to an accrual status.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Impaired loans and related reserves have been identified and calculated in accordance with the provisions of SFAS No. 114. The total allowance for loan losses has been determined in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies." The Company's allowance for loan losses is intended to be maintained at a level sufficient to absorb all estimable and probable losses inherent in the loan portfolio. The Company reviews the adequacy of the allowance for loan losses on a monthly basis taking into account past loan loss experience, known and

inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current and prospective economic conditions and current regulatory guidance.

Management believes that the allowance for loan losses is adequate. While Management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and the reviews of various regulatory agencies.

The Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective January 1, 1997. Under this statement, after transfers of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, if any, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

In accordance with SFAS No. 125, the Company recognizes servicing assets on loans that have been originated or purchased, and where the loans are subsequently sold or securitized with the servicing rights retained. The total cost of the mortgage loans is allocated between the loans and the servicing assets based on their relative fair values. The statement also requires that servicing assets be assessed for impairment based on the current fair values of those assets with any impairment recognized through a valuation allowance.

Fees earned for servicing loans for others are reported as income when the related mortgage loan payments are collected. Servicing assets are amortized as a reduction to loan servicing fee income using the interest method over the estimated remaining life of the underlying mortgage loans.

PREMISES AND EQUIPMENT

Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets except for leasehold improvements which are amortized over the related lease term or estimated useful life.

REAL ESTATE OWNED

Real estate properties acquired through loan foreclosure are recorded at the lower of cost or estimated fair value less estimated selling costs at the time of foreclosure. Subsequent valuations are periodically performed by management and the carrying value may be adjusted by a valuation allowance, established through charges to income and included in real estate operations, net to reflect subsequent declines in the estimated fair value of the real estate. Real estate owned ("REO") is shown net of the allowance. Operating results of REO, including rental income, operating expenses, and gains and losses realized from the sales

of properties owned, are also recorded in real estate operations, net.

REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements are accounted for as financing transactions. Accordingly, the collateral securities continue to be carried as assets and a borrowing liability is established for the transaction proceeds.

INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Additionally, the recognition of net deferred tax assets is based upon the likelihood of realization of tax benefits in the future. A valuation allowance would be provided for deferred tax assets which are determined more than likely not to be realized.

BENEFIT PLANS

The Company maintains various pension, savings, employee stock ownership and other benefit plans and programs for its employees, including the Bank's Retirement Plan covering substantially all employees who have attained minimum service requirements. The Bank's funding policy is to make contributions to the plan at least equal to the amounts required by applicable Internal Revenue Service regulations. The Bank periodically evaluates the overall effectiveness and economic value of such programs, in the interest of maintaining a comprehensive benefit package for employees. Based on an evaluation of the Retirement Plan in 1996, the Bank concluded that future benefit accruals under the Retirement Plan would cease, or "freeze" on July 1, 1996. Although the benefit accruals are frozen, the Bank will continue to maintain and provide benefits under its Employee Stock Ownership Plan ("ESOP") and Employee 401(k) Thrift

Incentive Savings Plan ("401(k) Plan"). In connection with the Retirement Plan "freeze," the Bank resumed its matching of contributions to the 401(k) Plan on July 1, 1996.

Post-retirement and post-employment benefits are recorded on an accrual basis with an annual provision that recognizes the expense over the service life of the employee, determined on an actuarial basis.

Effective January 1998, the Company adopted SFAS No. 132, "Employers Disclosures about Pensions and Other Post Retirement Benefits". SFAS No. 132

revises employers' disclosures about pension and other postretirement benefit plans, but does not change the measurement or recognition of those plans. SFAS No. 132 also standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful. As the requirements of SFAS No. 132 are disclosure related, its implementation did not have any impact on the Company's financial condition or results of operations.

STOCK COMPENSATION PLANS

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 permits either the recognition of compensation cost for the estimated fair value of employee stock-based compensation arrangements on the date of grant, or the continued application of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for its plans with disclosure in the notes to the financial statements of the pro forma effects on net income and earnings per share, determined as if the fair value-based method had been applied in measuring compensation cost. The Company has adopted the disclosure option. Accordingly, no compensation cost has been recognized for the Company's stock option plans.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Company has utilized interest rate caps to manage its interest rate risk. Generally, the net settlements on such transactions used as hedges of non-trading liabilities are accrued as an adjustment to interest expense over the life of the agreements.

EARNINGS PER COMMON SHARE

The Company adopted SFAS No. 128, "Accounting for Earnings Per Share" effective December 15, 1997 and restated all prior-period earnings per share ("EPS") data. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the relevant period. The weighted average number of shares outstanding does not include shares which are unallocated by the ESOP in accordance with American Institute of CPAs ("AICPA") Statement of Position ("SOP") 93-6, "Employers Accounting for ESOPs." Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock that then shares in the earnings of the entity.

COMPREHENSIVE INCOME

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," effective January 1, 1998. The Statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. Comprehensive

income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. Under SFAS No. 130 the Company is required to: (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position; and (c) reclassify all prior periods presented.

SEGMENT REPORTING

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Statement establishes standards for the way an enterprise reports information about operating segments in annual financial statements and requires that enterprises report selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of an enterprise that engage in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision maker in deciding how to allocate resources and in assessing performance, and for which discrete financial information is available. The Statement requires a reconciliation of total segment revenue and expense items and segment assets to the amounts in the enterprise's financial statements. The Statement also requires a descriptive report on how the operating segments were determined, the products and services provided by the operating segments, and any measurement differences used for segment reporting and financial statement reporting. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. In the initial year of application, comparative information for earlier years is to be restated. The Company currently does not manage its various business activities as separate operating segments and does not readily produce meaningful discrete financial information for any such business activity. Therefore, under the Company's current operating and reporting structure, SFAS No. 131 disclosures are not applicable.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 and does not require restatement of prior periods. Management of the Company currently believes the implementation of SFAS No. 133 will not have a material impact on the Company's financial condition or results of operations.

In October 1998, the FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise". SFAS No. 134 changes the way mortgage banking firms account for certain securities and other interests they retain after securitizing mortgage loans that were held for sale. Under current practice, a bank that securitizes credit card receivables has a choice in how it classifies any retained securities based on its intent and ability to hold or sell those investments. SFAS No. 134 gives the mortgage banking firms the opportunity to apply the same intent-based accounting that is applied by other companies. SFAS No. 134 is effective for the fiscal quarter beginning after December 15, 1998. Management of the Company anticipates that the implementation of SFAS No. 134 will not have a material impact on the Company's financial condition or results of operations.

2. BUSINESS COMBINATIONS

ACQUISITION OF INTERCOUNTY MORTGAGE, INC.

On May 1, 1998, the Bank completed the purchase of the production franchise of Intercounty Mortgage, Inc. ("IMI") from Resource Bancshares Mortgage Group, Inc. The Bank paid approximately $5.6 million for IMI's production franchise and fixed assets. The business operates as a division of the Bank under the name CFS Intercounty Mortgage Company originating and purchasing residential loans for the Bank's portfolio and for sale in the secondary market, primarily through six loan origination offices located in New York, New Jersey, and Pennsylvania. Loan sales in the secondary market are primarily on a servicing-released basis, for which the Company earns servicing released premiums.

The transaction was accounted for under the purchase method. The excess of cost over the fair value of net assets acquired (goodwill) of approximately $5.1 million is being amortized over 5 years. The Company will assess the recoverability of goodwill by determining whether the amortization of the goodwill over its remaining life can be recovered through future operating cash flow of the production franchise. The unamortized balance of goodwill relating to the acquisition of IMI was approximately $4.4 million at December 31, 1998.

ACQUISITION OF CENTURY INSURANCE AGENCY

On November 2, 1998 the Company completed the purchase of 100% of the outstanding common stock of Century Insurance Agency, Inc. ("CIA") for approximately $1.2 million. CIA, which is headquartered in Centereach, New York, provides automobile, homeowners and casualty insurance to individuals and various lines of commercial insurance to businesses. CIA operates as a wholly owned subsidiary of the Company. The transaction was accounted for under the purchase method. Goodwill of approximately $1.6 million is being amortized over 10 years. The Company will assess the recoverability of goodwill by determining whether the amortization of the goodwill over its remaining life can be recovered through future operating cash flow of CIA. The unamortized balance of

goodwill relating to the acquisition of CIA was approximately $1.6 million at December 31, 1998.

3. SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair values of securities available for sale at December 31, are summarized as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
1998				
Debt and equity securities available for sale:				
U.S. Government and agency obligations	$ 78,017	141	(453)	77,705
Preferred stock	11,700	30	(140)	11,590
Corporate debt securities	19,850	--	(166)	19,684
	109,567	171	(759)	108,979
MBSs available for sale:				
GNMA Certificates	430	4	--	434
FNMA Certificates	177,495	1,530	(258)	178,767
FHLMC Certificates	51,590	689	(112)	52,167
CMOs and REMICs	548,644	2,218	(1,958)	548,904
	778,159	4,441	(2,328)	780,272
Total	$ 887,726	4,612	(3,087)	889,251
1997				
Debt and equity securities available for sale:				
U.S. Government and agency obligations	$ 115,466	285	(1,093)	114,658
Preferred stock	4,095	38	(10)	4,123
	119,561	323	(1,103)	118,781
MBSs available for sale:				
GNMA Certificates	943	39	--	982
FNMA Certificates	45,860	556	(531)	45,885
FHLMC Certificates	62,649	1,074	(85)	63,638
CMOs and REMICs	267,754	3,228	(888)	270,094
	377,206	4,897	(1,504)	380,599
Total	$ 496,767	5,220	(2,607)	499,380

Gross gains of approximately $1,737,000, $1,044,000 and $1,948,000 for the years ended December 31, 1998, 1997 and 1996, respectively, were realized on sales of securities available for sale. Gross losses amounted to approximately $505,000, $1,064,000 and $1,577,000 for the years ended December 31, 1998, 1997, and 1996 respectively.

The Company's portfolio of MBSs available for sale has an estimated weighted average expected life of approximately 5.5 years at December 31, 1998. At December 31, 1998, $242.6 million of MBSs available for sale were adjustable-rate securities.

The Company's privately-issued CMOs and REMICs have generally been underwritten by large investment banking firms with the timely payment of principal and interest on these securities supported (credit enhanced) in varying degrees by either insurance issued by a financial guarantee insurer, letters of credit or subordination techniques. Substantially all such securities are rated AAA by one or more of the nationally recognized securities rating agencies. These securities are subject to certain credit-related risks normally not associated with U.S. Government and agency mortgage-backed securities. Among such risks is the limited loss protection generally provided by the various forms of credit enhancements as losses in excess of certain levels are not protected. Furthermore, the credit enhancement itself is subject to the credit worthiness of the enhancer. Thus, in the event a credit enhancer does not fulfill its obligations, the MBS holder could be subject to risk of loss similar to the purchaser of a whole loan pool. Management believes that the credit enhancements are adequate to protect the Company from losses, and therefore the Company has not provided an allowance for losses on its privately issued MBSs.

U.S. Government and agency obligations at December 31, 1998 had contractual maturities between April 30, 1999 and June 25, 2024. Accrued interest receivable on securities available for sale amounted to approximately $4,901,000 and $4,286,000 at December 31, 1998 and 1997, respectively.

Corporate debt securities at December 31, 1998 had contractual maturities between March 22, 1999 and July 26, 1999.

On June 30, 1998, the Company transferred the then remaining $138.2 million of MBSs and $45.4 million of debt securities held to maturity to securities available for sale.

In August 1998, the Company securitized $105.7 million of residential mortgage loans with FNMA. The resulting MBSs were retained and are included in securities available for sale as of December 31, 1998.

4. DEBT SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and estimated fair values of debt securities held to maturity at December 31, 1997 are summarized as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
		(IN THOUSANDS)		
U.S. Government and agency obligations	$ 21,014	70	(27)	21,057
Corporate debt securities	45,390	31	(106)	45,315
Total	$ 66,404	101	(133)	66,372

Accrued interest receivable on debt securities held to maturity amounted to approximately $667,000 at December 31, 1997.

5. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and estimated fair values of MBSs held to maturity at December 31, 1997 are summarized as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
		(IN THOUSANDS)		
FNMA Certificates	$ 61,492	258	(657)	61,093
FHLMC Certificates	27,472	465	(168)	27,769
CMOs and REMICs	74,093	821	(450)	74,464
Total	$ 163,057	1,544	(1,275)	163,326

At December 31, 1997, $8.8 million, of the MBSs held to maturity portfolio consists of adjustable-rate securities. Such securities had an estimated fair value of $8.8 million.

Accrued interest receivable on MBSs held to maturity amounted to approximately $1,025,000 at December 31, 1997.

6. LOANS RECEIVABLE AND LOANS HELD FOR SALE

Loans receivable, net at December 31, are summarized as follows:

	1998	1997
	(IN THOUSANDS)	
First mortgage loans:		
Principal balances:		
One- to four-family	$ 886,405	802,766
Multi-family	215,542	143,559
Commercial	163,935	148,745
Construction	2,731	2,263
Partially guaranteed by VA or insured by FHA	2,205	2,924
	1,270,818	1,100,257
Less net deferred loan origination fees, unearned discounts and unamortized premiums	966	(1,363)
Total first mortgage loans	1,271,784	1,098,894
Cooperative apartment loans, net	3,970	19,596
Other loans:		
Consumer loans	17,473	14,413
Home equity loans	15,173	15,449
Other	2,280	2,429
Total other loans	34,926	32,291
	1,310,680	1,150,781
Less allowance for loan losses	(13,978)	(12,528)
Total	$ 1,296,702	1,138,253

Included in total loans are loans on which interest is not being accrued and loans which have been restructured and for which interest has been reduced or foregone. The principal balances of these loans at December 31 are summarized as follows:

	1998	1997
	(IN THOUSANDS)	
Non-accrual loans	$ 6,528	10,396
Restructured loans	1,857	2,136
Total	$ 8,385	12,532

If interest income on non-accrual loans had been current in accordance with the original terms, approximately $425,000, $736,000 and $688,000 of interest

income would have been recorded for the years ended December 31, 1998, 1997 and 1996, respectively. Approximately $117,000, $146,000 and $220,000 of interest income was recognized on non-accrual loans for the years ended December 31, 1998, 1997 and 1996, respectively. The Bank has no obligation to fund any additional monies on these loans.

The amount of interest income that would have been recorded if restructured loans had been performing in accordance with their original terms (prior to being restructured) was approximately $396,000, $197,000 and $305,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

In 1998, the Company sold $83.3 million of adjustable-rate mortgage (ARM) loans previously held in portfolio in two separate bulk sale transactions, which settled on December 30, 1998. The Company recognized a net gain of $670,000 as a result of these transactions. The Company sold $68.6 million of the ARM loans servicing released, while $14.7 million of the ARM loans were sold servicing retained. In connection with the latter transaction, the Company recognized a servicing asset of $168,000, which is included in other assets at December 31, 1998. The servicing asset will be amortized in proportion to and over the period of estimated net servicing income. The servicing asset will be periodically assessed for impairment based on its fair value.

In 1998, the Company securitized $105.7 million of residential mortgage loans with FNMA. The Company retained all of the securities in its available for sale portfolio, and is servicing the underlying loans for FNMA. In 1998, the Company also sold $14.0 million of cooperative apartment loans as part of its ongoing efforts to dispose of this portion of its portfolio. The Company recognized a $968,000 gain as a result of this transaction.

Loans held for sale, which consisted of, primarily fixed-rate, one- to four-family loans, were $54.2 million at December 31, 1998. The Bank originates most fixed-rate loans for immediate sale, primarily to private investors on a servicing released basis. Generally, the sale of such loans is arranged at the time of
application through best effort commitments. During 1998, the Company sold $515.8 million in residential mortgage loans to third party investors on a servicing released basis. The Company recognized $10.3 million in servicing released premiums, fees, and net gains, related to these sales.

The Bank services for investors first mortgage loans which are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of such loans were approximately $269.1 million and $174.9 million at December 31, 1998 and 1997, respectively.

The geographical location of the Bank's loan portfolio is primarily within the New York metropolitan area.

Accrued interest receivable on loans amounted to approximately $7,207,000 and $6,443,000 at December 31, 1998 and 1997, respectively.

7. ALLOWANCE FOR LOAN LOSSES

Impaired loans and related reserves have been identified and calculated in accordance with the provisions of SFAS No. 114. The total allowance for loan losses has been determined in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies." As such, the Company has provided amounts for anticipated losses that exceed the immediately identified losses associated with loans that have been deemed impaired. Provisions have been made and reserves established accordingly, based upon experience and expectations, for losses associated with the general population of loans, specific industry and loan types, including residential and consumer loans which are not subject to the provisions of SFAS No. 114.

The following table summarizes information regarding the Company's impaired loans at December 31:

	1998			1997		
	LOAN INVESTMENT	RELATED ALLOWANCE RECORDED FOR LOAN LOSSES	NET INVESTMENT	LOAN INVESTMENT	RELATED ALLOWANCE RECORDED FOR LOAN LOSSES	NET INVESTMENT
	(IN THOUSANDS)					
Residential loans:						
With a related allowance................	$ 982	51	931	--	--	--
Without a related allowance............	3,164	--	3,164	4,232	--	4,232
Total residential loans.................	4,146	51	4,095	4,232	--	4,232
Multi-family and non-residential loans:						
With a related allowance...............	1,128	247	881	970	207	763
Without a related allowance............	1,254	--	1,254	5,194	--	5,194
Total multi-family and non-residential loans................................	2,382	247	2,135	6,164	207	5,957
Total impaired loans...................	$ 6,528	298	6,230	10,396	207	10,189

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The Company's average recorded investment in impaired loans for the years ended December 31, 1998 and 1997 was $7.9 million and $10.3 million, respectively. Interest income recognized on impaired loans, which was not materially different from cash-basis interest income, amounted to approximately $117,000, $146,000 and $220,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Activity in the allowance for loan losses for the years ended December 31, is as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Balance at beginning of year	$ 12,528	10,704	8,573
Charge-offs:			
One- to four-family	(435)	(964)	(771)
Cooperative	(256)	(370)	(524)
Multi-family	(708)	--	(30)
Non-residential and other	(935)	(352)	(560)
Total charge-offs	(2,334)	(1,686)	(1,885)
Recoveries	1,119	760	891
Net charge-offs	(1,215)	(926)	(994)
Provision for loan losses	2,665	2,750	3,125
Balance at end of year	$ 13,978	12,528	10,704

8. PREMISES AND EQUIPMENT

Premises and equipment at December 31, are summarized as follows:

	1998	1997
	(IN THOUSANDS)	
Land	$ 1,720	720
Buildings and improvements	18,679	7,234
Leasehold improvements	17,136	19,921
Furniture, fixtures and		

equipment	13,128	7,554
Accumulated depreciation	(11,454)	(8,367)
Total	$ 39,209	27,062

In December 1997, the Company purchased an office building and land in Westbury, New York for its new administrative headquarters. The purchase was consummated under the terms of a lease agreement and Payment-in-lieu-of-Tax ("PILOT") agreement with the Town of Hempstead Industrial Development Agency ("IDA") (see note 16). The Company completed improvements to the building and began using the building as its corporate headquarters in July 1998. The cost of the land and building, including improvements was $12.8 million. The building and improvements are being depreciated on a straight-line basis over thirty-nine years.

In December 1998 the Bank entered into a contract of sale for its former administrative headquarters, located in Woodhaven, New York. The sale is expected to close in the first quarter of 1999. Concurrent with the sale of the property, which consists of land, buildings and building improvements, the Bank will lease back a portion of the building to continue its current use as a traditional retail banking branch office and certain administrative functions. Upon consummation, the transaction will be accounted for as a sale-leaseback, and the lease is expected to be accounted for as an operating lease. At December 31, 1998, the carrying amount of the land, buildings and building improvements was approximately $1.7 million.

In January 1999 the Bank also entered into a contract of sale for another administrative office, consisting of land, buildings, and building improvements, located in Woodhaven, New York. The sale is also expected to close in the first quarter of 1999. At December 31, 1998, the carrying amount of the land, buildings and building improvements was approximately $768,000.

Depreciation and amortization of premises and equipment, included in occupancy and equipment expense, was approximately $3.1 million, $1.6 million, and $878,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

9. OTHER ASSETS

Other assets at December 31, are summarized as follows:

	1998	1997
	(IN THOUSANDS)	
Remittances due from custodians	$ 10,037	2
Net deferred tax asset (note 12)	5,424	6,201
Excess of cost over the fair value of net assets acquired	6,193	321
Other	15,613	8,590
Total		

$ 37,267	15,114				

10. DEPOSITS

Deposits at December 31, are summarized as follows:

	AMOUNT	PERCENT	WEIGHTED AVERAGE RATES
	(IN THOUSANDS)		
1998			
Savings accounts	$ 547,264	31.8%	3.30%
Money market	58,984	3.4	3.21
NOW	130,288	7.6	1.28
Demand	84,425	4.9	--
	820,961	47.7	2.63
Certificates of deposit	901,749	52.3	5.60
Total	$ 1,722,710	100.0%	4.18%
1997			
Savings accounts	$ 378,745	27.7%	2.58%
Money market	51,128	3.7	3.44
NOW	98,108	7.2	1.40
Demand	55,448	4.1	--
	583,429	42.7	2.21
Certificates of deposit	781,583	57.3	6.05
Total	$ 1,365,012	100.0%	4.41%

The aggregate amount of certificates of deposit in denominations of $100,000 or more amounted to approximately $84,509,000 and $64,544,000 at December 31, 1998 and 1997, respectively.

Scheduled maturities of certificates of deposit at December 31, are summarized as follows:

	1998		1997	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Within six months	$ 553,835	61.4%	$ 345,302	44.2%
Six months to one year	214,041	23.7		

250,405 32.0 One to two
years.. 62,756 7.0
105,903 13.6 Over two
years.. 71,117
7.9 79,973 10.2 --------- ----- --------- -----
Total...
$ 901,749 100.0% $ 781,583 100.0% --------- ----- -------
-- ----- --------- ----- --------- -----

The deposits of the Bank are insured up to $100,000 per depositor (as defined by law and regulation) by the Savings Association Insurance Fund ("SAIF") which is administered by the Federal Deposit Insurance Corporation ("FDIC"). Deposits of certain other financial institutions are insured by the Bank Insurance Fund ("BIF"). On September 30, 1996, Congress passed and the President signed legislation that recapitalized the SAIF. The legislation required SAIF-insured institutions to pay a special one-time assessment to recapitalize the SAIF. The Bank's special one-time insurance assessment amounted to $6.8 million. Beginning January 1, 1997, the schedule of SAIF assessment rates became the same as the schedule of BIF assessment rates. The Act also required BIF-insured institutions to pay a portion of the interest due on Financial Corporation ("FICO") bonds beginning January 1, 1997. Beginning January 1, 2000, or the date at which no thrift institution continues to exist, BIF-insured institutions will be required to pay their full pro rata share of FICO payments.

11. BORROWED FUNDS

Borrowed funds at December 31, are summarized as follows:

1998 1997 ---------- --------- (DOLLARS IN THOUSANDS) Fixed-rate advances from the FHLB of
New York: 5.74% to 6.19% due in
1998.. $ -- 227,000 4.25% to
5.36% due in 1999.. 104,200
20,000 5.17% to 5.74% due in
2000.. 62,000 -- 5.29% due
in 2001.. 20,000 --
5.66% due in 2002...
20,000 -- 5.62% due in
2003.. 20,000 --
5.00% to 5.38% due in 2008..
99,000 -- ---------- --------- 325,200 247,000 ---------- --------- Securities sold under
agreements to repurchase: Fixed rate agreements: 5.72% to 6.250% due in
1998.. -- 176,628 5.25% to
5.45% due in 1999.. 72,290 -
- 6.27% due in
2002.. 16,400
16,400 ---------- --------- 88,690 193,028 ---------- --------- Holding Company Obligated

Mandatorily Redeemable Capital Securities of Haven Capital Trust I at 10.46% due 02/01/27	24,984	24,984
Debt of Employee Stock Ownership Plan (note 14)	1,472	1,782
Total	$ 440,346	466,794

At December 31, 1998 and 1997, pursuant to a physical pledge collateral agreement, advances from the FHLB of New York were collateralized by MBSs with an estimated fair value of approximately $467,626,000 and $231,131,000, respectively. At December 31, 1998 and 1997, advances from the FHLB of New York were also collateralized by U.S. Government and agency obligations with an estimated fair value of approximately $6,241,000 and $81,446,000, respectively. At December 31, 1998 the Bank has unused lines of credit totalling $106.8 million with the FHLB of New York.

At December 31, 1998, all securities sold under agreements to repurchase were delivered to primary dealers who arranged the transactions. The securities will remain registered in the name of the Bank and will be returned at maturity. During the years ended December 31, 1998 and 1997, securities sold under agreements to repurchase averaged $142,348,000 and $172,310,000, respectively. The maximum amounts outstanding at any month-end were $191,291,000 and $229,280,000, respectively. The average interest rate paid during the years ended December 31, 1998 and 1997 were 5.71% and 5.68%, respectively. MBSs with an estimated fair value of approximately $99,966,000 and $194,227,000 were pledged as collateral at December 31, 1998 and 1997, respectively.

On February 12, 1997, Haven Capital Trust I, a trust formed under the laws of the State of Delaware (the "Trust"), issued $25 million of 10.46% capital securities. The Holding Company is the owner of all the beneficial interests represented by common securities of the Trust. The Trust exists for the sole purpose of issuing the Trust securities (comprised of the capital securities and the common securities) and investing the proceeds thereof in the 10.46% junior subordinated deferrable interest debentures issued by the Holding Company on February 12, 1997, which are scheduled to mature on February 1, 2027. Interest on the capital securities is payable in semiannual installments, commencing on August 2, 1997. The Trust securities are subject to mandatory redemption (i) in whole, but not in part upon repayment in full, at the

stated maturity of the junior subordinated debentures at a redemption price equal to the principal amount of, plus accrued interest on, the junior subordinated debentures, (ii) in whole but not in part, at any time prior to February 1, 2007, contemporaneously with the occurrence and continuation of a special event, defined as a tax event or regulatory capital event, at a special event redemption price equal to the greater of 100% of the principal amount of the junior subordinated debentures or the sum of the present values of the

principal amount and premium payable with respect to an optional redemption of the junior subordinated debentures on the initial optional repayment date to and including the initial optional prepayment date, discounted to the prepayment date plus accrued and unpaid interest thereon, and (iii) in whole or in part, on or after February 1, 2007, contemporaneously with the optional prepayment by the Holding Company of the junior subordinated debentures at a redemption price equal to the optional prepayment price. Subject to prior required regulatory approval, the junior subordinated debentures are redeemable during the 12-month periods beginning on or after February 1, 2007, at 105.230% of the principal amounts outstanding, declining ratably each year thereafter to 100%, plus accrued and unpaid interest thereon to the date of redemption. Deferred issuance costs are being amortized over ten years.

12. FEDERAL, STATE AND LOCAL TAXES

FEDERAL INCOME TAXES

The Company and its subsidiaries file a consolidated Federal income tax return on a calendar-year basis. Under Section 593 of the Internal Revenue Code of 1986, as amended ("Code"), prior to January 1, 1997 thrift institutions such as the Bank which met certain definitional tests primarily relating to their assets and the nature of their business, were permitted to establish a tax reserve for bad debts. Such thrift institutions were also permitted to make annual additions to the reserve, to be deducted in arriving at their taxable income within specified limitations. The Bank's deduction was computed using an amount based on the Bank's actual loss experience ("experience method"), or a percentage equal to 8% of the Bank's taxable income ("PTI method"). Similar deductions for additions to the Bank's bad debt reserve were also permitted under the New York State Bank Franchise Tax and the New York City Banking Corporation Tax; however, for purposes of these taxes, the effective allowable percentage under the PTI method was 32% rather than 8%.

Under the Small Business Job Protection Act of 1996 ("1996 Act"), signed into law in August 1996, Section 593 of the Code was amended. The Bank will be unable to make additions to the tax bad debt reserves but will be permitted to deduct bad debts as they occur. Additionally, the 1996 Act required institutions to recapture (that is, include in taxable income) the excess of the balance of its bad debt reserves as of December 31, 1995 over the balance of such reserves as of December 31, 1987 ("base year"). The Bank's federal tax bad debt reserves at December 31, 1995 exceeded its base year reserves by $2.7 million which will be recaptured into taxable income ratably over a six year period. This recapture was frozen for 1996 and 1997, whereas, one-sixth of the excess reserves was recaptured into taxable income for 1998. The base year reserves will be subject to recapture, and the Bank could be required to recognize a tax liability, if (i) the Bank fails to qualify as a "bank" for Federal income tax purposes; (ii) certain distributions are made with respect to the stock of the Bank; (iii) the Bank uses the bad debt reserves for any purpose other than to absorb bad debt losses; and (iv) there is a change in Federal tax law. Management is not aware of the occurrence of any such event.

In response to the Federal legislation, the New York State and New York City tax law has been amended to prevent the recapture of existing tax bad debt reserves and to allow for the continued use of the PTI method to determine the bad debt deduction in computing New York State and City tax liability.

The components of the net deferred tax assets at December 31, are as follows:

(IN THOUSANDS)	1998	1997
Deferred tax assets:		
Difference between financial statement credit loss provision and tax bad-debt deduction........	$ 5,952	5,872
Non-accrual interest and non-performing loan expense..................................	762	1,268
Other..	2,128	1,211
Total deferred tax assets..	8,842	8,351
Deferred tax liabilities:		
Recapture of Tax Bad Debt Reserve..	(781)	(937)
Securities marked to market for financial statement purposes..................................	(580)	(942)
Basis difference of fixed assets..	(131)	(145)
Other..	(1,926)	(126)
Total deferred tax liabilities..	(3,418)	(2,150)
Net deferred tax assets..	$ 5,424	6,201

Income tax expense for the years ended December 31, are summarized as follows:

(IN THOUSANDS)	1998	1997	1996
Current:			
Federal..	$ 1,486	6,433	3,391
State and local..	301	1,245	2,813
	1,787	7,678	6,204
Deferred:			
Federal..	741	(760)	906
State and local..	398	(780)	(676)
	1,139	(1,540)	230
Total income tax expense..	$ 2,926	6,138	6,434

The following is a reconciliation of statutory Federal income tax expense to the combined effective tax expense for the years ended December 31:

(IN THOUSANDS)	1998	1997	1996
Statutory Federal			

income tax expense	$ 3,877	6,027	5,392
State and local income taxes, net of Federal income tax benefit	455	301	1,410
Change in deferred tax asset valuation allowance	--	--	(800)
Reversal of prior years taxes	(785)	--	--
Other, net	(621)	(190)	432
Total income tax expense	$ 2,926	6,138	6,434

The Company had an $800,000 valuation allowance for its deferred tax asset as of December 31, 1995, related to potential New York State and New York City deferred tax assets. Upon review of the Company's deferred tax assets as of December 31, 1996, the Company determined that the valuation allowance was no longer required. The Company will continue to review the recognition criteria as set forth in SFAS No. 109, "Accounting for Income Taxes" on a quarterly basis and determine the need for a valuation allowance accordingly.

STATE AND LOCAL TAXES

The Company and subsidiaries file combined New York State franchise tax and New York City financial corporation tax returns on a calendar-year basis. The Company's annual tax liability for each year is the greater of a tax on (i) allocated entire net income; (ii) located alternative entire net income; (iii) allocated assets to New York State and/or New York City; or (iv) a minimum tax. Operating losses cannot be carried back or carried forward for New York State or New York City tax purposes.

The Company expects to determine its 1998 New York State and New York City tax liability based on alternative entire net income. The Company has provided for New York State and New York City taxes based on entire net income for the years ended December 31, 1997 and 1996. The Company will also file a New Jersey and Connecticut tax return for 1998 due to the opening of in-store supermarket branches.

13. EMPLOYEE BENEFIT PLANS AND POST-RETIREMENT BENEFITS

RETIREMENT PLAN

The Company has a qualified, non-contributory defined benefit pension plan covering substantially all of its eligible employees. The Company's policy is to fund pension costs in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, and to provide the plan with sufficient assets with which to pay pension benefits to plan participants. Based on an evaluation of the Retirement Plan in 1996, the Bank concluded that future

benefit accruals under the Retirement Plan would cease or "freeze" effective July 1, 1996. The Bank recognized a curtailment gain of approximately $266,000 as of July 1, 1996. The Bank made a cash contribution of $352,000 to the plan in 1997. There were no contributions to the Plan in 1998.

The following are disclosures related to the Plan as determined by the Plan's actuary in accordance with SFAS No. 87 and SFAS No. 132.

The following is a reconciliation of the projected benefit obligation for the years ended December 31, 1998 and 1997, respectively:

	1998	1997
	(IN THOUSANDS)	
Projected benefit obligation, beginning of year	$ 8,519	7,649
Interest cost	569	557
Actuarial loss	202	761
Benefits paid	(532)	(448)
Projected benefit obligation, end of year	$ 8,758	8,519

The following is a reconciliation of the change in fair value of plan assets for the years ended December 31, 1998 and 1997, respectively:

	1998	1997
	(IN THOUSANDS)	
Fair value of plan assets, beginning of year	$ 8,819	8,169
Actual return on plan assets	1,228	747
Contributions	--	351
Benefits paid	(532)	(448)
Fair value of plan assets, end of year	$ 9,515	8,819

The following is a reconciliation of the funded status of the plan as of December 31, 1998 and 1997, respectively:

	1998	1997
	(IN THOUSANDS)	
Pension benefit obligation		
Accumulated benefit obligation	$ 8,758	8,519
Additional benefits based on estimated future salary levels	--	--
Projected benefit obligation	8,758	8,519

Fair value of plan assets	9,515	8,819
Funded status	757	300
Unrecognized net gain	(261)	(4)
Prepaid pension cost	$ 496	296

The following is a reconciliation of net periodic pension (benefit) cost for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	(IN THOUSANDS)		
Service cost	$ --	--	211
Interest cost	569	557	597
Expected return on plan assets	(768)	(746)	(714)
Net amortization and deferral	--	--	2
Net periodic pension (benefit) cost	$ (199)	(189)	96

Actuarial assumptions used to account for the plan include the following:

	1998	1997	1996
Discount rate	6.75%	6.75%	7.00%
Expected long-term rate of return	9.00%	9.00%	9.00%
Rate of increase in compensation levels	NA	NA	5.00%

THRIFT INCENTIVE SAVINGS PLAN

The Bank maintains a 401(k) thrift incentive savings plan which provides for employee contributions on a pre-tax basis up to a maximum of 16% of total compensation, with matching contributions to be made by the Bank equal to 25% of employee contributions, not to exceed employee contributions greater than 6% of total compensation. The Bank matched employee contributions which totaled $234,000 and $199,000 for the years ended December 31, 1998 and 1997, and $120,000 for the period July 1, 1996 (resumption of employer match) to December 31,1996.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

In 1996, the Bank implemented a non-qualified supplemental executive retirement plan ("SERP") for the President and Chief Executive Officer. This plan provides supplemental benefits for the President and Chief Executive Officer equal to the benefits he would have received under the Bank's Retirement Plan, 401(k) Plan and ESOP, had the federal income tax law limitations on the accrual of benefits under these plans not been applicable. The SERP is an unfunded plan. During 1998, 1997 and 1996, the Bank accrued $180,000, $50,000 and $132,000, respectively, for the SERP. At January 1, 1998 and 1997, the accumulated

benefit obligation was $332,000 and $245,000, respectively. At January 1, 1998 and 1997, the projected benefit obligation of the plan was $1,320,000 and $1,233,000, respectively.

The Bank also maintains a non-qualified defined benefit SERP for the former Chairman of the Board. The SERP is an unfunded plan. The SERP provides for an annual retirement benefit of $120,000 for 10 years after retirement which occurred in 1995. The SERP also provides for a lump sum benefit of $1.2 million payable to the estate of the former Chairman of the Board in the event of his death prior to retirement, or in the event of a hostile change in control after retirement but prior to the payment of the entire benefit; any unpaid benefit shall be paid in a lump sum. The Company had accrued the entire $1.2 million liability under the unfunded plan through December 31, 1995.

POST-RETIREMENT LIFE INSURANCE BENEFITS

The Company provides life insurance coverage to retirees under an unfunded plan. Life insurance coverage in the first year of retirement is equal to three times annual pay at retirement, reduced by 10% (the "reduction amount"). For the next four consecutive years, life insurance coverage will be reduced each year by the reduction amount. The maximum benefit will be $50,000 on the earlier of: a) the fifth anniversary of retirement; or b) attaining age 70.

The following are disclosures related to the Company's post-retirement plan as provided by the Plan's actuary in accordance with SFAS No.s 106 and 132.

The following is a reconciliation of the accumulated post-retirement benefit obligation ("APBO") for the years ended December 31, 1998 and 1997:

(IN THOUSANDS)	1998	1997
APBO, beginning of year	$ 1,268	852
Service cost	63	55
Interest cost	85	77
Actuarial loss		

	38	293
Benefits paid	(9)	(9)
APBO, end of year	$ 1,445	1,268

The following is a reconciliation of the funded status of the plan as of December 31, 1998 and 1997, respectively:

	1998	1997
	(IN THOUSANDS)	
APBO--Retirees and dependents	$ 632	598
APBO--Actives fully eligible to retire	278	251
APBO--Actives not yet fully eligible to retire	535	419
Projected benefit obligation	1,445	1,268
Fair value of plan assets	--	--
Funded status	(1,445)	(1,268)
Unrecognized transition liability	278	303
Unrecognized net loss	563	555
Unrecognized prior service cost	(78)	(88)
Accrued post-retirement benefit liability	$ (682)	(498)

The following is a reconciliation of net periodic post-retirement benefit cost for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	(IN THOUSANDS)		
Service cost	$ 63	55	29
Interest cost	85	77	59
Amortization of transition obligation	25	25	25
Amortization of unrecognized gain or loss	31	28	9
Amortization of unrecognized prior service liability	(10)	(4)	--
Net periodic post-retirement cost	$ 194	181	122

Actuarial assumptions used to account for the plan include the following:

	1998	1997	1996
Discount rate...	6.50%	6.75%	7.50%
Rate of increase in compensation levels..........................	4.50%	4.50%	5.00%

14. STOCK PLANS

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Bank established for eligible employees an Employee Stock Ownership Plan ("ESOP") in connection with the Conversion. The ESOP borrowed $3.5 million from an unrelated third party lender and purchased 694,312 common shares issued in the Conversion. The Bank is expected to make scheduled cash contributions to the ESOP sufficient to service the amount borrowed over a period not to exceed 10 years. The unpaid balance of the ESOP loan is included in borrowed funds and the unamortized balance of unearned compensation is shown as unallocated common stock held by the ESOP reflected as a reduction of stockholders' equity. As of December 31, 1998, total contributions to the ESOP which were used to fund principal and interest payments on the ESOP debt totaled approximately $2,967,000. At December 31, 1998, the loan had an outstanding balance of $1,472,000 and an interest rate of 7.06%. The loan, as amended on December 29, 1995, is payable in thirty-two equal quarterly installments beginning December 1995 and ending September 2003. The loan bears interest at a floating rate based on the federal funds rate plus 250 basis points. Dividends declared on common stock held by the ESOP which have been allocated to the account of a participant are allocated to the account of such participant. Dividends declared on common stock held by the ESOP and not allocated to the account of a participant are used to repay the ESOP loan. The Company recorded $922,000, $1,184,000 and $983,000 of ESOP expense for the years ended December 31, 1998, 1997 and 1996, respectively. For the years ended December 31, 1998, 1997 and 1996, ESOP expense was based on the fair market value of the shares allocated in accordance with the AICPA SOP 93-6. At December 31, 1998, there were 305,810 shares remaining for future allocation, of which 61,445 shares will be allocated for the 1998 year in the first quarter of 1999.

RECOGNITION AND RETENTION PLANS

The Bank has established several Recognition and Retention Plans ("RRPs") which purchased in the aggregate 297,562 shares of common stock in the Conversion. The Bank contributed $1.5 million to fund the purchase of the RRP shares. In 1995, the RRP for officers and other key employees was amended to increase the number of shares of common stock which may be granted by 19,836 shares and such shares were contributed to the RRP from treasury stock. During 1996, the remaining previously unallocated shares totaling 17,202 were awarded to directors and officers. In 1997, the RRP for directors was amended to increase the number of shares of common stock which may be granted by 9,916

shares and such shares were contributed to the RRP from treasury stock. The fair market value of these shares at the dates of the

awards will be amortized as compensation expense as participants become vested. Participants generally become vested over a three or five year period beginning on the date of the award. The unamortized cost, which is comparable to deferred compensation, is reflected as a reduction of stockholders' equity. For the years ended December 31, 1998, 1997 and 1996, respectively, $200,000, $168,000 and $409,000 of expense has been recognized.

STOCK OPTION AND INCENTIVE PLANS

In 1993, the Holding Company adopted stock option plans for the benefit of directors (the "1993 Directors Plan") and for officers and other key employees (the "1993 Stock Plan") of the Bank. The number of shares of common stock reserved for issuance under the stock option plans was equal to 10% of the total number of shares of common stock issued pursuant to the Bank's Conversion to the stock form of ownership. In 1995, the 1993 Stock Plan was amended to increase the number of shares for which stock options may be granted by 69,430 shares. All options awarded to employees vest over a three year period beginning one year from the date of grant. The option exercise price cannot be less than the fair market value of the underlying common stock as of the date of the option grant, and the maximum option term cannot exceed ten years. The stock options awarded to directors become exercisable one year from the date of grant. In 1996, the remaining 11,770 options were granted from the 1993 Stock Plan and the remaining 37,204 options were granted from the 1993 Directors Plan. In 1997, the 1993 Directors Plan was amended to increase the number of shares for which stock options may be granted by 29,754 shares. None of these shares have been granted as of December 31, 1998.

In 1996, the Holding Company adopted the 1996 Stock Incentive Plan which provided 420,000 shares for the grant of options and restricted stock awards. On April 24, 1996, an aggregate of 3,952 shares of restricted stock were granted to directors which vested six months from the date of grant and an aggregate of 55,978 shares were granted to officers and employees on May 23, 1996, which vest over a three year period beginning one year from the date of grant. In addition, an aggregate of 232 shares were granted to two new directors on October 1, 1996 which vested on December 31, 1996. In 1997, an aggregate of 3,648 shares of restricted stock were granted to directors which vested six months from the date of grant and an aggregate of 5,340 shares were granted to officers and employees which vest over a three year period beginning one year from the date of grant. In 1998, an aggregate of 14,384 shares were granted to officers and employees which vest over a three-year period beginning one year from the date of grant. Such shares were recorded as unearned compensation at their fair market value on the date of the award (which is reflected as a reduction of stockholders' equity), to be amortized to expense over the vesting period. During 1998, 1997 and 1996, an aggregate of 134,200, 34,100 and 321,600 options, respectively, were granted to directors and officers under the 1996 Stock Incentive Plan,

which vest over a three year period beginning one year from the date of grant. In 1997, effective upon shareholder approval, the 1996 Stock Incentive Plan was amended to increase the number of shares for which options and restricted stock awards may be granted by 41,998 shares.

The following table summarizes certain information regarding the stock option plans:

	Number of Shares of Incentive Stock Options	Number of Shares of Non-Statutory Stock Options	Number of Shares of Non-Qualified Stock Options to Directors	Weighted Average Exercise Price
Balance outstanding at December 31, 1995	252,236	448,332	260,358	5.42
Granted	182,470	38,900	149,204	12.92
Forfeited	--	--	--	--
Exercised	(18,812)	--	--	5.00
Balance outstanding at December 31, 1996	415,894	487,232	409,562	7.54
Granted	14,100	--	20,000	17.09
Forfeited	--	--	(12,000)	12.14
Exercised	(16,594)	--	(98,388)	6.61
Balance outstanding at December 31, 1997	413,400	487,232	319,174	7.90
Granted	134,200	--	--	22.91
Forfeited	--	--	--	--
Exercised	(23,414)	--	(37,194)	8.01
Balance outstanding at December 31, 1998	524,186	487,232	281,980	9.44
Shares exercisable at December 31, 1998	327,672	487,232	217,943	7.12

The fair value of each share grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yield of 2.14% in 1998, 1.45% in 1997 and 1.93% in 1996; expected volatility rates of 28.05% to 39.24% in 1998, 26.95% in 1997 and 16.85% in 1996; risk-free interest

rates of 4.59% in 1998, 5.68% to 5.81% in 1997 and 6.38% in 1996; and expected lives of 3 years for the 1993 Stock Plan, 8 years for the 1993 Directors Plan, 3 years for grants to officers and employees under the 1996 Stock Incentive Plan and 8 years for grants to directors under that plan.

Had compensation cost for the Company's three stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below for the years ended December 31:

	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income:			
As reported	$ 8,150	11,083	9,425
Pro forma	7,560	10,557	9,135
Net income per common share:			
Basic			
As reported	$ 0.95	1.32	1.13
Pro forma	0.88	1.25	1.10
Diluted			
As reported	$ 0.89	1.24	1.08
Pro forma	0.83	1.18	1.05

15. EARNINGS PER SHARE

The computation of basic and diluted EPS for the years ended December 31, are presented in the following table.

	1998	1997	1996
	(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)		
Numerator for basic and diluted earnings per share-net income	$ 8,150	$ 11,083	$ 9,425
Denominator for basic earnings per share-weighted- average shares	8,596,884	8,420,321	8,310,178
Effect of dilutive options	561,919	493,437	378,502
Denominator for diluted earnings per share-weighted-average number of common shares and dilutive potential common shares	9,158,803	8,913,758	8,688,680
Basic earnings per share	$ 0.95	$ 1.32	$ 1.13
Diluted earnings per			

share	$ 0.89	$ 1.24	$ 1.08

16. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

At December 31, 1998, the Company was obligated under several noncancelable operating leases on property used for office space and banking purposes. Several of the leases contain escalation clauses which provide for increased rentals, primarily based upon increases in real estate taxes. Rent expense under these leases was approximately $4,168,000 , $1,742,000 and $404,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The projected minimum rental payments under the terms of the noncancelable leases at December 31, 1998 are as follows:

YEARS ENDING DECEMBER 31,	(IN THOUSANDS)
1999	$ 5,018
2000	4,982
2001	4,308
2002	4,163
2003	2,404
Thereafter	1,062
	$ 21,937

In September 1996, the Bank entered into an agreement to open approximately 44 full-service bank branches in Pathmark supermarkets throughout New York City, Long Island, Westchester and Rockland counties by mid-1998. In September 1997, the Bank announced that it had entered into licensing agreements with ShopRite Stores under which it will have the right to open in-store branches in all new or renovated ShopRite supermarkets in New Jersey and Connecticut. Fifty-seven supermarket branches have opened through December 31, 1998, and the leases related thereto are reflected in the table above.

Under the IDA and PILOT agreements discussed in note 8, the Bank assigned the building and land at its Westbury headquarters to the IDA, is subleasing it for $1 per year for a 10 year period and will repurchase the building for $1 upon expiration of the lease term in exchange for IDA financial assistance.

LOAN COMMITMENTS

The Company had outstanding commitments totaling $164.6 million to originate loans at December 31, 1998, of which $61.3 million were fixed-rate loans and $103.3 million were variable rate loans. For fixed-rate loan commitments at December 31, 1998, the interest rates on mortgage loans ranged from 6.13% to 10.25%. The standard commitment term for these loans is 45 days. For other consumer fixed-rate loan commitments, interest rates ranged from 7.00% to 9.75% with the standard term of the commitment of 30 days. Loan commitments are made at current rates and no material difference exists between book and market values of such commitments.

For commitments to originate loans, the Company's maximum exposure to credit risk is represented by the contractual amount of those instruments. Those commitments represent ultimate exposure to credit risk only to the extent that they are subsequently drawn upon by customers. The Company uses the same credit policies and underwriting standards in making loan commitments as it does for on-balance-sheet instruments. For loan commitments, the Company would generally be exposed to interest rate risk from the time a commitment is issued with a defined contractual interest rate.

The Company delivers, primarily fixed-rate, one- to four-family mortgage loans to investors in the secondary market under "best efforts" commitments. Loans to be sold are generally committed at the time the borrower's mortgage interest rate is "locked-in". At December 31, 1998, the Company had $45.3 million of "locked-in" fixed rate one- to four-family mortgage loans. The best efforts commitment term is generally 70 days from the "lock-in" date.

In connection with the securitization and sale of $48.6 million of cooperative apartment loans in 1994, a letter of credit totaling $6.8 million was established with the FHLB. The letter of credit provides a level of protection of approximately 14% to the buyer against losses on the cooperative apartment loans sold behind a pool insurance policy the Bank purchased which provides a level of protection of approximately 20%. The letter of credit totalled $6.8 million at December 31, 1998.

INTEREST RATE CAPS

During the year ended December 31, 1995, the Company, in order to hedge a portion of the borrowings to fund a $75 million leverage transaction, purchased an interest rate cap on a $25.0 million notional principal amount on which it received a payment, based on the notional principal amount, equal to the three month LIBOR rate in excess of 8% on any reset date for a three year period, which ended on September 30, 1998. The premium paid for the cap, $133,000, was carried in other assets and was fully amortized to interest expense over the term of the contract. At December 31, 1997 and 1996, the three month LIBOR was 5.81% and 5.56%, respectively. Interest expense on borrowed funds was increased by approximately $34,000, $44,000 and $44,000 during the years ended December 31, 1998, 1997 and 1996, respectively, as a result of this agreement.

LITIGATION AND LOSS CONTINGENCY

In February, 1983, a burglary of the contents of safe deposit boxes occurred at a branch office of the Bank. At December 31, 1998, the Bank has a class action lawsuit related thereto pending, whereby the plaintiffs are seeking recovery of approximately $12,900,000 in actual damages and an additional $12,900,000 of unspecified damages. The Bank's ultimate liability, if any, which might arise from the disposition of these claims cannot presently be determined. Management believes it has meritorious defenses against these actions and has and will continue to defend its position. Accordingly, no provision for any liability that may result upon adjudication has been recognized in the accompanying consolidated financial statements.

The Company is involved in various legal actions arising in the ordinary course of business, which in the aggregate, are believed by management to be immaterial to the financial position of the Company.

17. STOCKHOLDERS' EQUITY

At the time of its conversion to a stock savings bank, the Bank established a liquidation account in an amount equal to its total retained earnings as of June 30, 1993. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank, after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held. The balance of the liquidation account was approximately $15.0 million at December 31, 1998.

Subsequent to the conversion, the Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock, if the effect would cause stockholders' equity to be reduced below the amount required for the liquidation account, applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements. Office of Thrift Supervision ("OTS") regulations provide that an institution that exceeds all fully phased-in capital requirements, before and after a proposed capital distribution could, after prior notice but without prior approval of the OTS, make capital distributions during the calendar year up to 100% of net income to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year period. Any additional capital distributions would require prior regulatory approval. Unlike the Bank, the Company is not subject to these regulatory restrictions on the payment of dividends to its stockholders. However, the source of future dividends may depend upon dividends from the Bank.

STOCK SPLIT

The Company declared a 2-for-1 common stock split which was distributed on November 28, 1997 in the form of a stock dividend to holders of record as of October 23, 1997.

REGULATORY CAPITAL

As required by regulation of the OTS, savings institutions are required to maintain regulatory capital in the form of a "tangible capital requirement," a "core capital requirement," and a "risk- based capital requirement."

The Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 1998, the Bank has been categorized as "well capitalized" by the OTS under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. The following table sets forth the required ratios and amounts, and the Bank's actual capital amounts, and ratios at December 31:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO(3)	AMOUNT	RATIO
	(DOLLARS IN THOUSANDS)					
1998						
Tangible Capital.........................	$ 130,597	5.43%	$ 48,087	2.00%	N/A	N/A
Core Capital (1).........................	130,597	5.43	96,173	4.00	$ 120,216	5.00%
Risk-based Capital (2)...................	144,104	11.96	96,404	8.00	120,505	10.00
1997						
Tangible Capital.........................	$ 125,573	6.42%	$ 29,333	1.50%	N/A	N/A
Core Capital (1).........................						

125,573 6.42 58,667 3.00 $ 97,778
5.00% Risk-based Capital
(2)................... 136,860
14.04 77,964 8.00 97,455 10.00

- ------------------------

(1) Under the OTS's prompt corrective action regulations, the core capital requirement was effectively increased to 4.00% since OTS regulations stipulate that as of that date an institution with less than 4.00% core capital will be deemed to be classified as "undercapitalized."

(2) The OTS adopted a final regulation which incorporates an interest rate risk component into its existing risk-based capital standard. The regulation requires certain institutions with more than a "normal level" of interest rate risk to maintain capital in addition to the 8.0% risk-based capital requirement. The Bank does not anticipate that its risk-based capital requirement will be materially affected as a result of the new regulation.

(3) For tangible and core capital, the ratio is to adjusted total assets. For risk-based capital, the ratio is to total risk-weighted assets.

STOCKHOLDER RIGHTS PLAN

On January 26, 1996, the Board of Directors of the Holding Company adopted a Stockholder Rights Plan (the "Rights Plan"). Under the Rights Plan, which expires in February, 2006, the Board declared a dividend of one right on each outstanding share of the Holding Company's common stock, which was paid on February 5, 1996 to stockholders of record on that date (the "Rights"). Until it is announced that a person or group has acquired 10% or more of the outstanding common stock of the Holding Company (an "Acquiring Person") or has commenced a tender offer that could result in their owning 10% or more of such common stock, the Rights are initially redeemable for $.01 each, are evidenced solely by the Holding Company's common stock certificates, automatically trade with the Holding Company's common stock and are not exercisable. Following any such announcement, separate Rights would be distributed, with each Right entitling its owner to purchase participating preferred stock of the Holding Company having economic and voting terms similar to those of one share of the Holding Company's common stock for an exercise price of $45.

Upon announcement that any person or group has become an Acquiring Person and unless the Board acts to redeem the Rights, then twenty business days thereafter (the "Flip-in Date"), each Right (other than Rights beneficially owned by any Acquiring Person or transferee thereof, which become void) will entitle the holder to purchase, for the $45 exercise price, a number of shares of the Holding Company's common stock having a market value of $90. In addition, if after an Acquiring Person gains control of the

Board, the Holding Company is involved in a merger or sells more than 50% of its assets or assets generating more than 50% of its operating income or cash flow, or has entered into an agreement to do any of the foregoing (or an Acquiring Person is to receive different treatment than all other stockholders), each Right will entitle its holder to purchase, for the $45 exercise price, a number of shares of common stock of the Acquiring Person having a market value of $90. If any person or group acquires more than 50% of the outstanding common stock of the Holding Company, the Board may, at its option, exchange one share of such common stock for each Right. The Rights may also be redeemed by the Board for $0.01 per Right prior to the Flip-in Date.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" requires the Company to disclose estimated fair values for substantially all of its financial instruments. The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are determined for on and off-balance sheet financial instruments, without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The following table summarizes the carrying values and estimated fair values of the Company's on-balance-sheet financial instruments at December 31:

	1998		1997	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Financial Assets:				
Cash and cash equivalents	$ 44,808	44,808	40,306	40,306
Securities available for sale	889,251	889,251	499,380	499,380
Loans held for				

sale...................................... 54,188 54,188
-- -- Debt securities held to
maturity........................ -- -- 66,404 66,372
FHLB-NY stock..
21,990 21,990 12,885 12,885 Mortgage-backed securities
held to maturity............. -- -- 163,057 163,326
Loans receivable, net..................................
1,296,702 1,313,057 1,138,253 1,152,100 Accrued interest
receivable.............................. 12,108 12,108
12,429 12,429 Financial Liabilities:
Deposits...
1,722,710 1,727,676 1,365,012 1,368,782 Borrowed
funds... 440,346
446,813 466,794 467,565 Due to
broker.. 97,458
97,458 10,000 10,000 Accrued interest
payable............................... 1,670 1,670
1,645 1,645

The methods and significant assumptions used to estimate fair values for different categories of financial instruments are as follows:

CASH AND CASH EQUIVALENTS--The estimated fair values of cash and cash equivalents are assumed to equal the carrying values as these financial instruments are either due on demand or mature within 90 days.

SECURITIES AVAILABLE FOR SALE, DEBT SECURITIES AND MORTGAGE-BACKED SECURITIES HELD TO MATURITY--Estimated fair value for substantially all of the Company's bonds, notes and equity securities, both available for sale and held to maturity are based on market quotes as provided by an independent pricing service. For MBSs, the Company obtains bids from broker dealers to estimate fair value. For those occasional securities for which a market price cannot be obtained, market prices of comparable securities are used.

LOANS HELD FOR SALE--The estimated fair value is based on current prices established in the secondary market.

FHLB-NY STOCK--The estimated fair value of the Company's investment in FHLB-NY stock is deemed to be equal to its carrying value which represents the price at which it may be redeemed.

RESIDENTIAL LOANS--Residential loans include one- to four-family mortgages and individual cooperative apartment loans. Estimated fair value is based on discounted cash flow analysis. The residential loan portfolio is segmented by loan type (fixed conventional, adjustable products, etc.) with weighted average coupon rate, remaining term, and other pertinent information for each segment. A discount rate is determined based on the U.S. Treasury yield curve plus a pricing spread. The discount rate for fixed rate products is based on the FNMA yield curve plus a pricing spread. Expected principal prepayments, consistent

with empirical evidence and management's future expectations, are used to modify the future cash flows. For potential problem loans, the present value result is separately adjusted downward consistent with management's assumptions in evaluating the adequacy of the allowance for loan losses.

COMMERCIAL REAL ESTATE AND OTHER LOANS--Estimated fair value is based on discounted cash flow analysis which take into account the contractual coupon rate and maturity date of each loan. A discount rate is determined based on the U.S. Treasury yield curve, the prime rate or LIBOR plus a pricing spread,

depending on the index to which the product is tied. For potential problem loans, the present value result is separately adjusted downward consistent with management's assumptions regarding the value of any collateral underlying the loans.

DEPOSITS--Certificates of deposit are valued by performing a discounted cash flow analysis of the remaining contractual maturities of outstanding certificates. The discount rates used are wholesale secondary market rates as of the valuation date. For all other deposits, fair value is deemed to be equivalent to the amount payable on demand as of the valuation date.

BORROWED FUNDS--Borrowings are fair valued based on rates available to the Company in either public or private markets for debt with similar terms and remaining maturities.

ACCRUED INTEREST RECEIVABLE, ACCRUED INTEREST PAYABLE, AND DUE TO BROKER--The fair values are estimated to equal the carrying values of short-term receivables and payables, including accrued interest, mortgage escrow funds and due to broker.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS--The fair value of the interest rate cap was obtained from dealer quotes and represents the cost of terminating the agreement. The estimated fair value of open off-balance sheet financial instruments results in an unrealized loss of $31,000 at December 31, 1997.

The estimated fair value of commitments to extend credit is estimated using the fees charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. Generally, for fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed interest rates. The estimated fair value of these off-balance sheet financial instruments resulted in no unrealized gain or loss at December 31, 1998 and 1997.

19. PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

The condensed financial statements of the Holding Company (parent company only) are as follows:

PARENT COMPANY CONDENSED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31,	1998	1997
	(IN THOUSANDS)	
Assets:		
Cash	$ 10	656
Money market investments	1,720	4,561
Securities available for sale	2,569	4,123
Accrued interest receivable	71	42
Accrued income taxes receivable	3,755	3,781
Investment in net assets of Bank	137,217	128,522
Investment in net assets of other subsidiaries	2,073	790
Total assets	147,415	142,475
Liabilities:		
Junior subordinated debt issued to Haven Capital Trust I	25,774	25,774
Other liabilities, net	1,774	3,836
Total liabilities	27,548	29,610
Stockholders' equity:		
Common stock	100	100
Additional paid-in capital	51,383	50,065
Retained earnings, substantially restricted	79,085	73,567
Accumulated other comprehensive income: Unrealized gain on securities available for sale, net of tax effect	945	1,671
Treasury stock, at cost	(9,800)	(10,246)
Unallocated common stock held by ESOP	(1,222)	(1,529)
Unearned common stock held by RRPs	(263)	(364)
Unearned compensation	(361)	(399)
Total stockholders' equity	119,867	112,865
Total liabilities and stockholders' equity	$ 147,415	142,475

PARENT COMPANY ONLY CONDENSED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,	1998	1997	1996
	(IN THOUSANDS)		
Dividend from Bank	$ 2,500	--	2,000
Dividend from Trust	81	72	--

Interest income.. 345 514 178 Interest expense.. (2,697) (2,389) -- Other operating expenses, net... (1,148) (935) (961) --------- ---------- --------- (Loss) income before income tax benefit and equity in undistributed net income of Bank.. (919) (2,738) 1,217 Income tax benefit.. (1,403) (1,277) (360) --------- ---------- --------- Net income (loss) before equity in undistributed net income of Bank............. 484 (1,461) 1,577 Equity in undistributed net income of Bank...................................... 7,666 12,544 7,848 --------- ---------- --------- Net income.. $ 8,150 11,083 9,425 --------- ---------- --------- --------- ---------- ---------

PARENT COMPANY ONLY CONDENSED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, ------------------------------- 1998 1997 1996 --------- ---------- --------- (IN THOUSANDS) Operating activities: Net income.. $ 8,150 11,083 9,425 Adjustments to reconcile net income to net cash (used in) provided by operating activities: Equity in undistributed net income of the Bank................................ (7,666) (12,544) (7,848) Gain on sale of interest earning assets....................................... (109) -- -- (Increase) decrease in accrued interest receivable............................ (29) (40) 23 Decrease (increase) in accrued income tax receivable.......................... 26 (3,422) (175) (Decrease) increase in other liabilities.. (1,878) 3,189 219 --------- ---------- --------- Net cash (used in) provided by operating activities............................ (1,506) (1,734) 1,644 --------- ---------- --------- Investing activities: Purchases of securities available for sale..................................... (2,135) (4,095) -- Proceeds from sales of securities available for sale............................ 3,704 -- -- Additional investment in the Bank.. -- (14,007) -- Investment in net assets of other subsidiaries................................ (1,283) -- -- --------- ---------- --------- Net cash provided by (used in) investing activities............................ 286 (18,102) -- --------- ---------- --------- Financing activities: Proceeds from issuance of debt... -- 24,984 -- Purchase of treasury stock... -- -- (5,516) Payment of common stock dividends.. (2,627) (2,598) (2,475) Exercise of stock

options.. 360 760 95 --
    ------- ---------- --------- Net cash (used in) provided by financing
activities............................. (2,267) 23,146 (7,896) --------- ---
            ------- --------- Net (decrease) increase in
cash.. (3,487) 3,310 (6,252)
                        Cash at beginning of
year.. 5,217 1,907
8,159 --------- ---------- --------- Cash at end of
year... $ 1,730
5,217 1,907 --------- ---------- --------- --------- ---------- ---------

20. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table is a summary of financial data by quarter for the years ended December 31, 1998 and 1997:

1998 1997 --------------

---- -------------------

1ST 2ND 3RD 4TH 1ST 2ND
3RD 4TH QUARTER QUARTER
QUARTER QUARTER QUARTER
QUARTER QUARTER QUARTER
--------- --------- ----
----- --------- --------
- --------- --------- --
------- (DOLLARS IN
THOUSANDS, EXCEPT FOR
SHARE DATA AND PER SHARE
DATA) Interest
income........... $
34,963 36,732 39,979
40,011 28,797 31,616
32,575 33,318 Interest
expense.......... 21,469
22,582 25,041 24,684
16,372 18,234 19,345
20,449 --------- -------
-- --------- --------- -
-------- --------- -----
---- --------- Net
interest income before
provision for loan
losses..................
13,494 14,150 14,938
15,327 12,425 13,382
13,230 12,869 Provision

for loan
losses..................
670 650 670 675 700 750
700 600 --------- ------
--- --------- ---------
--------- --------- ----
----- --------- Net
interest income after
provision for loan
losses..................
12,824 13,500 14,268
14,652 11,725 12,632
12,530 12,269 Non-
interest income.......
4,459 5,583 11,015
12,089 2,327 2,827 3,211
5,547 Non-interest
expense...... 14,067
17,381 22,641 23,225
9,069 11,538 12,014
13,226 --------- -------
-- --------- --------- -
-------- --------- -----
---- --------- Income
before income tax
expense.................
3,216 1,702 2,642 3,516
4,983 3,921 3,727 4,590
Income tax
expense........ 1,067
471 402 986 1,678 1,621
1,276 1,563 --------- --
------- --------- ------
--- --------- ---------
--------- --------- Net
income................ $
2,149 1,231 2,240 2,530
3,305 2,300 2,451 3,027
--------- --------- ----
----- --------- --------
- --------- --------- --
------- --------- ------
--- --------- ---------
--------- --------- ----
----- --------- Net
income per common share:
Basic...................
$ 0.25 0.14 0.26 0.29
0.40 0.28 0.29 0.36
Diluted.................

$ 0.24 0.13 0.24 0.28 0.38 0.26 0.27 0.34

Weighted average number of shares outstanding:

Basic.................. 8,526,864 8,567,111 8,590,777 8,611,172 8,301,766 8,357,213 8,445,829 8,382,509

Diluted................ 9,129,745 9,247,139 9,207,719 9,014,489 8,770,901 8,816,488 8,960,366 8,973,295

APPENDIX A

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

COMMISSION FILE NO.: 0-21628

HAVEN BANCORP, INC.

(exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

11-3153802
(I.R.S. Employer I.D. No.)

615 MERRICK AVENUE, WESTBURY, NEW YORK 11590
(Address of principal executive offices)

(516) 683-4100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK PAR VALUE $0.01 PER SHARE
(Title of class)

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

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

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EXHIBIT INDEX

The following exhibits are physically filed with this report:

Exhibit 10.2(F)	Change in Control Agreement between Haven Bancorp, Inc. and Mark A. Ricca
Exhibit 10.2(G)	Change in Control Agreement between CFS Bank and Mark A. Ricca
Exhibit 11.0	Computation of earnings per share
Exhibit 13.0	Portions of the 1998 Annual Report to Stockholders
Exhibit 23.0	Consent of Independent Auditors
Exhibit 27.0	Financial Data Schedule
Exhibit 99	Proxy Statement for 1999 Annual Meeting

Additional exhibits are incorporated herein by reference from prior filings of Haven Bancorp, Inc. set forth in Item 14.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended December 31, 1998, are incorporated by reference into Parts I and II of this Form 10-K.

Portions of the Proxy Statement for the 1999 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS

Haven Bancorp, Inc. ("Haven Bancorp" or the "Company") was incorporated under Delaware law on March 25, 1993 as the holding company for CFS Bank ("CFS" or the "Bank") in connection with the Bank's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank. The Company is a savings and loan holding company and is subject to regulation by the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). The Company is headquartered in Westbury, New York and its principal business currently consists of the operation of its wholly owned subsidiary, the Bank. At December 31, 1998, the Company had consolidated total assets of $2.4 billion and stockholders' equity of $119.9 million.

Currently, the Company does not transact any material business other than through its subsidiary, the Bank.

The Bank was established in 1889 as a New York-chartered building and loan association and converted to a New York-chartered savings and loan association in 1940. The Bank converted to a federally chartered mutual savings bank in 1983. As the Bank expanded its presence in the New York tri-state area it changed its name to CFS Bank in 1997. The Bank is a member of the Federal Home Loan Bank ("FHLB") System, and its deposit accounts are insured to the maximum allowable amount by the FDIC. At December 31, 1998, the Bank had total assets of $2.4 billion and stockholders' equity of $137.2 million.

The Bank's principal business has been and continues to be attracting retail deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family, owner-occupied residential mortgage loans. Since 1994, the Bank has gradually increased its activity in multi-family and commercial real estate

lending. In addition, the Bank will invest in debt, equity and mortgage-backed securities to supplement its lending portfolio. Although the Bank has discontinued offering certain consumer loans, during 1998 the Bank also invested in home equity loans, home equity lines of credit and other marketable securities.

On May 1, 1998, the Bank completed the purchase of the loan production franchise of Intercounty Mortgage, Inc. The business operates as a division of the Bank under the name CFS Intercounty Mortgage ("IMI") originating and purchasing residential loans for the Bank's portfolio and for sale in the secondary market, primarily through six loan origination offices located in New York, New Jersey and Pennsylvania. Loan sales in the secondary market are primarily on a servicing-released basis, for which the Bank earns servicing-released premiums.

On November 2, 1998, the Company purchased 100% of the outstanding common stock of Century Insurance Agency, Inc. The insurance agency operates as a wholly owned subsidiary of the Company under the name CFS Insurance Agency, Inc. ("CIA"), providing automobile, homeowners and casualty insurance to individuals, and various lines of commercial insurance to individuals.

The Bank's results of operations are dependent primarily on its net interest income, which is the difference between the interest income earned on its loan and securities portfolios and its cost of funds, which consists of the interest paid on its deposits and borrowed funds. The Bank's net income is also affected by its non-interest income, including, beginning May 1, 1998, the results of the acquisition of the loan production franchise of CFS Intercounty Mortgage, its provision for loan losses and its operating expenses consisting primarily of compensation and benefits, occupancy and equipment, real estate operations, net, federal deposit insurance premiums and other general and administrative expenses. The earnings of the Bank are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, and to a lesser extent by government policies and actions of regulatory authorities.

MARKET AREA AND COMPETITION

The Bank has been, and continues to be, a community oriented savings institution offering a variety of traditional financial services to meet the needs of the communities in which it operates. Management considers the Bank's reputation and customer service as its major competitive advantage in attracting and retaining customers in its market area.

The Bank's primary market area is concentrated in the neighborhoods surrounding its eight full service banking and fifty-nine supermarket banking facilities located in the New York City boroughs of Queens, Brooklyn, Manhattan and Staten Island, the New York counties of Nassau, Suffolk, Rockland and Westchester and in New Jersey and Connecticut. During 1998, the Bank opened

twenty-five supermarket branches. Management believes that supermarket branching is a cost effective way to extend the Bank's franchise and put its sales force in touch with more prospective customers than possible through conventional bank branches. Management believes that all of its branch offices are located in communities that can generally be characterized as stable, residential neighborhoods of predominantly one- to four-family residences and middle income families.

During the past five years, the Bank's expanded loan work-out and resolution efforts have successfully contributed toward reducing non-performing assets to manageable levels. Although there are encouraging signs in the local economy and the Bank's real estate markets, it is unclear how these factors will affect the Bank's asset quality in the future. See "Delinquencies and Classified Assets."

The New York City metropolitan area has a large number of financial institutions, many of which are significantly larger and have greater financial resources than the Bank, and all of which are competitors of the Bank to varying degrees. The Bank's competition for loans and deposits comes principally from savings and loan associations, savings banks, commercial banks, mortgage banking companies, insurance companies and credit unions. In addition, the Bank faces increasing competition for deposits from non-bank institutions such as brokerage firms and insurance companies in such areas as short-term money market funds, corporate and government securities funds, mutual funds and annuities and insurance. Competition may also increase as a result of the lifting of restrictions on the interstate operations of financial institutions.

LENDING ACTIVITIES

LOAN PORTFOLIO COMPOSITION. The Bank's loan portfolio consists primarily of conventional first mortgage loans secured by owner occupied one- to four-family residences, and, to a lesser extent, multi-family residences, commercial real estate and construction and land loans. Also, the Bank's loan portfolio includes cooperative loans, which the Bank has not originated since 1990 except to facilitate the sale of real estate owned ("REO") or to restructure a problem asset. During 1998, loan originations and purchases totaled $1.22 billion (comprised of $1.04 billion of residential one- to four-family mortgage loans, $156.8 million of commercial and multi-family real estate loans, $2.8 million of construction loans and $16.4 million of consumer loans). One- to four-family mortgage loan originations included $570.0 million of loans originated and purchased for sale in the secondary market. During 1998, the Bank sold $515.8 million of one- to four-family mortgage loans in the secondary market on a servicing-released basis.

At December 31, 1998, the Bank had total mortgage loans outstanding of $1.27 billion, of which $888.6 million were one- to four-family residential mortgage loans, or 67.9% of the Bank's total loans. At that same date, multi-family residential mortgage loans totaled $215.5 million, or 16.5% of total loans. The remainder of the Bank's mortgage loans, included $163.9 million of commercial real estate loans, or 12.5% of total loans, $4.0 million of cooperative apartment loans, or 0.3% of total loans and $2.7 million of construction and

land loans, or 0.2% of total loans. Other loans in the Bank's portfolio principally consisted of home equity lines of credit and consumer loans totaling $34.9 million, or 2.7% of total loans at December 31, 1998.

The following table sets forth the composition of the Bank's loan portfolio, excluding loans held for sale, in dollar amounts and in percentages of the respective portfolios at the dates indicated.

	AT DECEMBER 31,								
	1998		1997		1996		1995		1994
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT
	(DOLLARS IN THOUSANDS)								
Mortgage loans:									
One- to four-family...	$ 888,610	67.85%	$ 805,690	69.93%	$ 556,818	65.63%	$ 325,050	57.03%	$ 258,698
Multi-family.........	215,542	16.46	143,559	12.46	105,341	12.42	79,008	13.86	94,259
Commercial...........	163,935	12.52	148,745	12.91	127,956	15.08	111,038	19.48	102,415
Cooperative..........	3,970	0.30	19,596	1.70	19,936	2.35	10,187	1.79	24,369

Construction and land................
2,731 0.20 2,263 0.20
4,227 0.50 5,737 1.01
3,491 --------- ------
----- --------- ------
----- --------- ------
----- --------- ------
----- --------- Total
mortgage loans....
1,274,788 97.33
1,119,853 97.20
814,278 95.98 531,020
93.17 483,232 Other
loans: Home equity
lines of
credit..............
15,173 1.16 15,449
1.34 15,677 1.85
16,454 2.89 17,802
Property improvement
loans...............
2,634 0.20 4,392 0.38
6,957 0.82 10,248 1.80
11,814 Loans on
deposit
accounts............
957 0.07 895 0.08 809
0.10 821 0.14 940
Commercial loans......
445 0.03 453 0.04 351
0.04 479 0.08 605
Guaranteed student
loans...............
774 0.06 882 0.08 985
0.12 1,181 0.21 1,761
Unsecured consumer
loans...............
2,029 0.16 450 0.04
809 0.10 1,950 0.34
2,366 Other
loans...........
12,914 0.99 9,770 0.84
8,506 0.99 7,834 1.37
5,737 --------- ------
----- --------- ------
----- --------- ------
----- --------- ------
----- --------- Total
other loans.......

34,926 2.67 32,291
2.80 34,094 4.02
38,967 6.83 41,025 ---
------ ----------- ---
------ ----------- ---
------ ----------- ---
------ ----------- ---
------ Total
loans.............
1,309,714 100.00%
1,152,144 100.00%
848,372 100.00%
569,987 100.00%
524,257 ----------- --
--------- -----------
----------- ----------
- ----------- --------
--- ----------- Less:
Unearned discounts,
premiums and deferred
loan fees,
net.................
966 (1,363) (786)
(1,029) (1,375)
Allowance for loan
losses..............
(13,978) (12,528)
(10,704) (8,573)
(10,847) --------- ---
------ --------- -----
---- --------- Loans,
net..............
$1,296,702 $1,138,253
$ 836,882 $ 560,385 $
512,035 --------- ----
----- --------- ------
--- --------- --------
- --------- ---------
--------- ---------
PERCENT OF TOTAL -----
------ Mortgage loans:
One- to four-family...
49.34% Multi-
family.......... 17.98
Commercial...........
19.54
Cooperative..........
4.65 Construction and
land................
0.67 ----------- Total

mortgage loans....
92.17 Other loans:
Home equity lines of
credit..............
3.39 Property
improvement
loans...............
2.26 Loans on deposit
accounts............
0.18 Commercial
loans...... 0.12
Guaranteed student
loans...............
0.34 Unsecured
consumer
loans...............
0.45 Other
loans........... 1.09
----------- Total
other loans.......
7.83 ----------- Total
loans.............
100.00% ----------- --
--------- Less:
Unearned discounts,
premiums and deferred
loan fees,
net.................
Allowance for loan
losses..............
Loans,
net..............

The following table shows the estimated contractual maturity of the Bank's loan portfolio at December 31, 1998, assuming no prepayments.

AT DECEMBER 31, 1998 ----------------------------
--------- MORTGAGE OTHER TOTAL LOANS LOANS LOANS
------------ --------- ------------ (IN
THOUSANDS) Amounts due: Within one
year.................................... $
42,933 $ 4,517 $ 47,450 ------------ --------- --
---------- After one year: One to three
years................................. 67,251
3,847 71,098 Three to five
years............................... 20,807
3,048 23,855 Five to ten

years	283,909	12,167	296,076
Ten to twenty years	359,518	11,347	370,865
Over twenty years	500,370	-	500,370
Total due after one year	1,231,855	30,409	1,262,264
Total	$ 1,274,788	$ 34,926	$ 1,309,714

The following table sets forth at December 31, 1998, the dollar amount of all loans due after December 31, 1999, and whether such loans have fixed interest rates or adjustable interest rates.

	DUE AFTER DECEMBER 31, 1999		
	FIXED	ADJUSTABLE	TOTAL
	(IN THOUSANDS)		
Mortgage loans:			
One-to four-family	$ 474,056	$ 388,921	$ 862,977
Multi-family	34,708	167,195	201,903
Commercial real estate	62,230	101,653	163,883
Cooperative	804	2,288	3,092
Other loans	9,643	20,766	30,409
Total	$ 581,441	$ 680,823	$ 1,262,264

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The following table sets forth the Bank's loan originations, loan purchases, sales and principal repayments for the periods indicated:

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS)				
Mortgage loans (gross):					
At beginning of year	$				

1,119,853 $ 814,278 $ 531,020 $
483,232 $ 648,321 Mortgage loans
originated: One- to four-
family........................
177,544 121,498 98,783 64,139 77,499
Multi-
family................................
88,504 64,181 46,310 11,726 --
Commercial real
estate..................... 68,319
69,495 35,886 26,047 4,688 Cooperative
(1)............................ 34 --
-- 63 499 Construction and land
loans................. 2,806 3,773
1,562 4,367 1,000 ------------ -------
----- ---------- ---------- ----------
- Total mortgage loans
originated........... 337,207 258,947
182,541 106,342 83,686 Mortgage loans
purchased.....................
297,906 200,900 172,300 26,241 --
Transfer of mortgage loans to
REO............. (623) (1,695) (3,470)
(4,638) (10,998) Transfer of mortgage
loans from/(to) loans held for
sale................................ --
-- 10,594 (12,038) -- Principal
repayments..........................
(269,164) (151,215) (78,209) (67,274)
(64,686) Sales of mortgage loans
(2)................... (104,700)
(1,362) (498) (845) (173,091) Transfer
of loans to MBSs (3).................
(105,691) -- -- -- -- ------------ ---
--------- ---------- ---------- ------
----- At end of
year..................................
$ 1,274,788 $ 1,119,853 $ 814,278 $
531,020 $ 483,232 ------------ -------
----- ---------- ---------- ----------
- ------------ ------------ ----------
---------- ---------- Other loans
(gross): At beginning of
year........................... $
32,291 $ 34,094 $ 38,967 $ 41,025 $
33,898 Other loans
originated.......................
16,413 11,491 8,735 10,746 21,533
Principal
repayments..........................

(13,778) (13,294) (13,608) (12,804)
(14,406) ------------ ------------ ---
------- ---------- ----------- At end
of
year..................................
$ 34,926 $ 32,291 $ 34,094 $ 38,967 $
41,025 ------------ ------------ -----
----- ---------- ----------- ---------
--- ------------ ---------- ----------

- ------------------------

(1) Cooperative loans originated in the five years ended December 31, 1998 were done solely to facilitate the restructuring and the sale of delinquent cooperative loans and cooperative units held by the Bank as REO.

(2) During 1998, the Bank sold $83.3 million of adjustable-rate mortgage loans in several bulk sales transactions. Also during 1998, the Bank sold $14.0 million of cooperative apartment loans. As part of a major bulk sales program in 1994, the Bank sold $170.5 million of loans.

(3) During 1998, the Bank securitized $105.7 million in loans with Fannie Mae ("FNMA"). The resulting securities were retained and transferred to the Bank's securities available for sale portfolio.

ONE- TO FOUR-FAMILY MORTGAGE LENDING. The Bank offers both fixed-rate and adjustable-rate mortgage ("ARM") loans secured by one- to four-family residences located primarily in Long Island (in the New York counties of Nassau and Suffolk Counties), the New York City boroughs of Queens, Manhattan, Brooklyn and Staten Island, the New York counties of Rockland and Westchester Counties, as well as in Albany and Rochester, New York, New Jersey, Pennsylvania and Connecticut.

Loan originations are generally obtained from existing or past customers, members of the local communities, local real estate brokers and attorney referrals. The substantial majority of the Bank's loans are originated through efforts of Bank-employed sales representatives who solicit loans from the communities served by the Bank by calling on real estate attorneys, brokers and individuals who have expressed an interest in obtaining a mortgage loan. The Bank also originates loans from its customer base in its branch

offices. In 1995, the Bank also began purchasing loans on a flow basis from correspondent mortgage bankers in New York, New Jersey and Connecticut to supplement its one- to four-family loan originations.

The Bank generally originates one- to four-family residential mortgage loans in amounts up to 95% of the lower of the appraised value or selling price of the

property securing the loan. Properties securing such loans are primarily owner-occupied principal residences. One- to four-family mortgage loans may be originated with loan-to-value ratios of up to 97% of the appraised value of the property under the FNMA Community Home Buyers Program, which targets low to low/moderate income borrowers. Residential condominium loans are originated in amounts up to a maximum of 95% of the appraised value of the condominium unit. Private Mortgage Insurance ("PMI") is required whenever loan-to-value ratios exceed 80% of the price or appraised value of the property securing the loan. Loan amounts generally conform to Freddie Mac ("FHLMC") limits. Mortgage loans originated by the Bank generally include due-on-sale clauses that provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent. Due-on-sale clauses are an important means of enabling the Bank to redeploy funds at current rates thereby causing the Bank's loan portfolio to be more interest rate sensitive. The Bank has generally exercised its rights under these clauses.

The Bank currently offers fixed-rate loans up to $1,000,000 on one- to four-family residences with terms up to 30 years. During 1996, the Bank introduced 30 year and 15 year fixed-rate bi-weekly loans. Interest rates charged on fixed-rate mortgage loans are competitively priced based on market conditions and the Bank's cost of funds. Origination fees on fixed-rate loans typically range from 0% to 3% of the principal amount of the loan. Generally, the Bank's standard underwriting guidelines conform to the FNMA/FHLMC guidelines.

The Bank currently offers ARM loans up to $1,000,000 which adjust either annually, or in 3, 5, 7, 10 or 15 years with maximum loan terms of 30 years. The Bank's ARM loans typically carry an initial interest rate below the fully-indexed rate for the loan. For one year ARMs, the Bank qualifies borrowers based upon a rate of 2% over the initial rate. The initial discounted rate is determined by the Bank in accordance with market and competitive factors and, as of December 31, 1998, the discount offered by the Bank on the one year ARM loan ranged from 126 basis points (with 0% origination fees) to 176 basis points (with 2% origination fees) below the fully-indexed rate, which was 7.38% as of such date. The discount offered by the Bank on the three year ARM loan ranged from 88 basis points (with 0% origination fees) to 130 basis points (with 2% origination fees) below the fully-indexed rate, which was 7.38% as of December 31, 1998. The discount offered by the Bank on the five year ARM loan ranged from 100 basis points (with 0% origination fees) to 150 basis points (with 2% origination fees) below the fully-indexed rate, which was 7.38% as of December 31, 1998. As of December 31, 1998, the discount offered by the Bank on the seven year ARM loan ranged from 88 basis points (with 0% origination fees) to 138 basis points (with 2% origination fees) below the fully-indexed rate, which was 7.38% as of such date. As of December 31, 1998, the discount offered by the Bank on the ten year ARM loan ranged from 63 basis points (with 0% origination fees) to 113 basis points (with 2% origination fees) below the fully indexed rate, which was 7.38% as of such date. Finally, as of December 31, 1998, the discount offered by the Bank on the fifteen year ARM loan ranged from 13 basis points (with 0% origination fees) to 63 basis points (with 2% origination fees) below

the fully-indexed rate which was 7.38%. As of December 31, 1998, the Bank's ARM loans, with the exception of the seven, ten and fifteen year ARM loans, adjust by a maximum of 2.0% each adjustment period, with a life-time cap of 6% over the initial note rate. The maximum periodic rate adjustment on the seven year, ten year and fifteen year ARM loans for the first adjustment period are 5% which defaults to 2% for all adjustment periods thereafter. The Bank currently charges origination fees ranging from 0% to 2.0% for its one- to four-family ARM loans. ARM loans generally pose a risk that as interest rates rise, the amount of a borrower's monthly loan payment also rises, thereby increasing the potential for delinquencies and loan losses. This potential risk is mitigated by the Bank's policy of originating ARM loans with annual and lifetime interest rate caps that limit the amount that a borrower's

monthly payment may increase. During 1998, the Bank originated or purchased $363.3 million of one- to four-family ARM loans for portfolio.

The Bank originates 30 year and 15 year fixed-rate loans for immediate sale, primarily to private investors while generally retaining ARM loans, 10, and 20 year fixed-rate loans, and 15 and 30 year bi-weekly fixed-rate loans for portfolio. The Bank arranges for the sale of such loans at the acceptance of the commitment by the applicant to the investor through "best efforts" commitments. The Bank sells loans on a servicing-released basis. For the year ended December 31, 1998, the Bank originated and purchased approximately $570.0 million of primarily fixed-rate, one- to four-family loans for sale in the secondary market, $515.8 million of which were sold in 1998.

COOPERATIVE APARTMENT LOANS. Until 1990, the Bank originated loans secured by cooperative units. Since 1990, the Bank has not originated any loans secured by cooperative units with the exception of loans to facilitate the restructuring of a classified asset or sale of REO. In 1994, the Bank was approved as a seller/servicer in a FNMA pilot program, enabling it to originate cooperative apartment loans for immediate sale to FNMA.

MULTI-FAMILY LENDING. The Bank originates multi-family loans with contractual terms of up to 15 years where the interest rate generally reprices during the term of the loan and is tied to matching U.S. Treasury Notes plus a margin. These loans are generally secured by apartment and mixed-use (commercial and residential, with the majority of income coming from the residential units) properties, located in the Bank's primary market area and are made in amounts of up to 75% of the appraised value of the property. In making such loans, the Bank bases its underwriting decision primarily on the net operating income generated by the real estate to support the debt service, the financial resources credit history and ownership/management experience of the principals/guarantors, and the marketability of the property. The Bank generally requires a debt service coverage ratio of at least 1.20x and sometimes requires personal guarantees from borrowers. As of December 31, 1998, $215.5 million, or 16.4% of the Bank's total loan portfolio, consisted of multi-family residential loans.

Multi-family, commercial real estate and construction and land lending are generally believed to involve a higher degree of credit risk than one- to four-family lending because such loans typically involve higher principal amounts and the repayment of such loans generally is dependent on income produced by the property to cover operating expenses and debt service. Economic events that are outside the control of the borrower or lender could adversely impact the value of the security for the loan or the future cash flows from the borrower's property. In recognition of these risks, the Bank applies stringent underwriting criteria for all of its loans. The Bank originates multi-family, commercial real estate and construction and land loans on a conservative basis. See "Commercial Real Estate Lending" and "Construction and Land Lending".

COMMERCIAL REAL ESTATE LENDING. The Bank originates commercial real estate loans that are generally secured by properties used exclusively for business purposes such as retail stores, mixed-use properties (residential and retail or professional offices combined where the majority of the income from the property comes from the commercial business), light industrial and small office buildings located in the Bank's primary market area. The Bank's commercial real estate loans are generally made in amounts up to the lesser of 70% of the appraised value of the property or 65% for owner occupied properties. Commercial real estate loans are made on a negotiated basis for terms of up to 15 years where the interest rate generally reprices during the term of the loan and is tied to the prime rate or the U.S. Treasury Note rate matched to the repricing frequency of the loan. The Bank's underwriting standards and procedures are similar to those applicable to its multi-family loans, whereby the Bank considers the net operating income of the property and the borrower's expertise, credit history and profitability. The Bank generally requires that the properties securing commercial real estate loans have debt service coverage ratios of not less than 1.30x and also generally requires personal guarantees from the borrowers or the principals of the

borrowing entity. At December 31, 1998, the Bank's commercial real estate loan portfolio totaled $163.9 million, or 12.5% of the Bank's total loan portfolio.

CONSTRUCTION AND LAND LENDING. The Bank's construction loans primarily have been made to finance the construction of one- to four-family residential properties, multi-family residential properties and retail properties. The Bank's policies provide that construction and land development loans may generally be made in amounts up to 70% of the value when completed for commercial properties and 75% for multi-family. The Bank generally requires personal guarantees and evidence that the borrower has invested an amount equal to and not less than 20% of the estimated cost of the land and improvements. Construction loans generally are made on a floating rate basis (subject to daily adjustment) and a maximum term of 18 months, subject to renewal. Construction loans are generally made based on pre-sales or pre-leasing. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. As of December 31, 1998, the Bank had $2.7 million, or 0.2% of its total loan portfolio invested in construction and land loans.

OTHER LOANS. During 1998, the Bank also offered home equity loans, equity lines of credit, business lines of credit and Government-guaranteed student loans. As of December 31, 1998, other loans totaled $34.9 million, or 2.7% of the Bank's total loan portfolio. Effective January 1, 1999, the Bank indefinitely discontinued offering consumer loan products, including home equity loans and home equity lines of credit due to shrinking volume and spreads coupled with high origination costs.

LOAN APPROVAL PROCEDURES AND AUTHORITY. For one- to four-family real estate loans each loan is reviewed and approved by an underwriter and another departmental officer with credit authority appropriate for the loan amount and type in accordance with the policies approved by the Board of Directors. Multi-family, commercial and construction loans are approved by designated lending officers respective of the amounts within their lending authorities which are approved by the Board of Directors. Commercial loans up to $3,000,000 must be approved by the Officers Loan Committee, whereas, loans between $3,000,000 and $5,000,000 must be approved by the Loan Committee of the Board of Directors. Loans exceeding $5,000,000 must be approved by the Board. Loans not secured by real estate as well as unsecured loans, depending on the amount of the loan and the loan-to-value ratio, where applicable, require the approval of at least one lending officer and/or underwriter designated by the Board.

For all loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower, a credit report is ordered and certain other information is verified by the Bank's loan underwriters and, if necessary, additional financial information is required. An appraisal of the real estate intended to secure the proposed loan is performed, as required by OTS regulations and prepared by an independent appraiser designated and approved by the Bank. The Board annually approves the independent appraisers used by the Bank and approves the Bank's appraisal policy. It is the Bank's policy to obtain title insurance on all real estate first mortgage loans. Borrowers must also obtain hazard insurance prior to closing and flood insurance and PMI where required. Borrowers generally are required to advance funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which the Bank makes disbursements for items such as real estate taxes, and in some cases, hazard insurance premiums.

LOAN CONCENTRATIONS. As a result of OTS regulations, the Bank may not extend credit to a single borrower or related group of borrowers in an amount greater than 15% of the Bank's unimpaired capital and surplus. An additional amount of credit may be extended, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which does not include real estate.

At December 31, 1998, the Bank's loans-to-one borrower limit was $22.7 million. None of the Bank's borrowers exceeded this limit in accordance with applicable regulatory requirements.

DELINQUENCIES AND CLASSIFIED ASSETS

DELINQUENT LOANS. The Bank entered into a sub-servicing agreement with Norwest Mortgage, Inc. ("Norwest"), commencing on November 16, 1998, under which Norwest performs all residential mortgage loan servicing functions on behalf of the Bank for the Bank's portfolio loans, as well as for loans serviced for third party investors. Norwest's collection procedures for mortgage loans include sending a notice after the loan is 16 days past due. In the event that payment is not received after the late notice, phone calls are made to the borrower by Norwest's collection department. When contact is made with the borrower at any time prior to foreclosure, the collection department attempts to obtain full payment or the loss mitigation department attempts to work out a repayment schedule with the borrower to avoid foreclosure. Generally, foreclosure procedures are initiated when a loan is over 95 days delinquent. Loss mitigation efforts continue throughout the foreclosure process.

CLASSIFIED ASSETS. Federal regulations and the Bank's Classification of Assets Policy provide for the classification of loans and other assets considered by the Bank to be of lesser quality as "substandard", "doubtful" or "loss" assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor and/or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Pursuant to OTS guidelines, the Bank is no longer required to classify assets as "special mention" if such assets possess weaknesses but do not expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories. However, the Bank continues to classify assets as "special mention" for internal monitoring purposes.

Non-performing loans (consisting of non-accrual loans and restructured loans) decreased from $28.3 million at December 31, 1994 to $16.9 million at December 31, 1995, $13.9 million at December 31, 1996, $12.5 million at December 31, 1997 and $8.4 million at December 31, 1998. The continued decline in the balance of non-performing loans during the five year period was due to the Bank's ongoing efforts to reduce non-performing assets, as well as to an improved economy. REO decreased each year during the five years ended December 31, 1998 from $7.8 million at December 31, 1994 (net of an allowance for REO of $717,000) to a balance at December 31, 1998 of $200,000 (net of an allowance for REO of $25,000). The Bank intends to continue its efforts to reduce non-performing assets in the normal course of business, but it may continue to seek opportunities to dispose of its non-performing assets through sales to investors or otherwise. The Bank also has restructured loans, which has enabled

the Bank to avoid the costs involved with foreclosing on the properties securing such loans while continuing to collect payments on the loans under their modified terms. Troubled debt restructurings ("TDRs") are loans for which certain concessions, such as the reduction of interest rates or the deferral of interest or principal payments, have been granted due to the borrower's financial condition.

At December 31, 1998, the Bank had 13 restructured loans with aggregate principal balances of $1.9 million. Of this amount, 34.7% were residential loans (including cooperative apartment loans) and 65.3% were multi-family loans. Management is able to avoid the costs of foreclosing on loans that it has restructured. However, restructured loans have a higher probability of becoming delinquent than loans that have no previous history of delinquency. To the extent that the Bank is unable to return these loans to performing status, the Bank will have to foreclose on such loans, which will increase the Bank's REO.

The Bank's policy is to recognize income on a cash basis for restructured loans for a period of six months, after which such loans are returned to an accrual basis if they are performing in accordance with their modified terms. At December 31, 1998, the Bank had 11 restructured loans with principal balances of $1.9 million that were on accrual status. For restructured loans that are 90 days or more past due, the loan is returned to non-accrual status and previously accrued but uncollected interest is reversed.

At December 31, 1998, the Bank's classified assets consisted of $6.6 million of loans and REO of which $55,000 was classified as doubtful. The Bank's assets classified as substandard at December 31, 1998 consisted of $5.7 million of loans and $202,000 of gross REO. Classified assets in total declined $4.6 million, or 41.1% since December 31, 1997. At December 31, 1998, the Bank also had $5.6 million of commercial real estate loans that it had designated special mention. The loans were performing in accordance with their terms at December 31, 1998 but were deemed to warrant close monitoring by management due to one or more factors, such as the absence of current financial information relating to the borrower and/or the collateral, financial difficulties of the borrower or inadequate cash flow from the security property.

At December 31, 1998, 1997 and 1996, delinquencies in the Bank's loan portfolio were as follows:

AT DECEMBER 31, 1998 AT
DECEMBER 31, 1997 ------------

-------- ---------------------
-------------------- 90 DAYS
OR 60-89 DAYS 90 DAYS OR MORE
60-89 DAYS MORE --------------
---------- -------------------
----- ------------------------
-- ------------- NUMBER

PRINCIPAL NUMBER PRINCIPAL
NUMBER PRINCIPAL NUMBER OF
BALANCE OF BALANCE OF BALANCE
OF LOANS OF LOANS LOANS OF
LOANS LOANS OF LOANS LOANS ---
-------- ----------- ---------
-- ----------- ------------- -
---------- -------------
(DOLLARS IN THOUSANDS) One- to
four-family........... 50 $
5,201 40 $ 3,843 8 $ 1,339 42
Multi-family..................
2 591 -- -- -- -- 9
Commercial....................
2 306 7 2,175 1 33 9
Cooperative...................
-- -- 26 303 3 128 8
Construction and land
loans....................... -
- -- -- -- -- -- 1 Other
loans................... 94
1,177 47 207 26 452 19 -- -- -
-- ----------- --- -----------
----------- Total
loans............... 148 $
7,275 120 $ 6,528 38 $ 1,952
88 -- -- -- -- --- -----------
--- ----------- ----------- --
- ------------ --- -----------
----------- Delinquent loans
to total loans
(1)................ 0.56% 0.50%
0.17% ----------- -----------
----------- ----------- ------
----- ----------- AT DECEMBER
31, 1996 ---------------------

--- 60-89 DAYS 90 DAYS OR MORE
-------------------------- ---

PRINCIPAL NUMBER PRINCIPAL
NUMBER PRINCIPAL BALANCE OF
BALANCE OF BALANCE OF LOANS
LOANS OF LOANS LOANS OF LOANS
----------- ------------- ----
------- ------------- --------
--- One- to four-
family........... $ 3,534 9 $
950 47 $ 4,083 Multi-
family.................. 2,362

-- -- 6 1,463
Commercial....................
3,305 -- -- 11 4,321
Cooperative...................
699 5 281 9 431 Construction
and land
loans.......................
100 -- -- 1 60 Other
loans.................. 396
26 171 21 375 -- -- ----------
- ----------- -----------
Total loans.............. $
10,396 40 $ 1,402 95 $ 10,733
-- -- -- -- ----------- ------
----- ----------- -----------
----------- -----------
Delinquent loans to total
loans (1)............... 0.90%
0.17% 1.27% ----------- ------
----- ----------- -----------
----------- -----------

- ------------------------

(1) Restructured loans that have become seasoned for the required six month period and are currently performing in accordance with their restructured terms are not included in delinquent loans. There was 1 residential restructured loan for $183,000 that was included in loans delinquent 90 days or more at December 31, 1998. At December 31, 1996, there was 1 restructured loan for $77,000 that was included in loans delinquent 90 days or more because it had not yet performed in accordance with its modified terms for the required six-month seasoning period.

NON-PERFORMING ASSETS. The Bank does not accrue interest on loans 90 days past due and restructured loans that have not yet performed in accordance with their modified terms for at least six months. If non-accrual loans had been performing in accordance with their original terms, the Bank would have recorded interest income from such loans of approximately $425,000, $736,000 and $688,000 for the years ended December 31, 1998, 1997 and 1996, respectively, compared to $117,000, $146,000 and $220,000, which was recognized on non-accrual loans for such periods, respectively. If all restructured loans, as of December 31, 1998, 1997 and 1996, had been performing in accordance with their original loan terms (prior to being restructured), the Bank would have recognized interest income from such loans of approximately $396,000, $197,000 and $305,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The following table sets forth information regarding all non-accrual loans (which consist of

loans 90 days or more past due and restructured loans that have not yet performed in accordance with their modified terms for the required six-month seasoning period), restructured loans and REO.

AT DECEMBER 31,	1998	1997	1996	1995	1994
(DOLLARS IN THOUSANDS)					
Non-accrual mortgage loans	$ 6,321	$ 10,000	$ 10,358	$ 9,116	$ 18,474
Restructured mortgage loans	1,857	2,136	3,160	7,072	9,550
Non-accrual other loans	207	396	375	689	275
Total non-performing loans	8,385	12,532	13,893	16,877	28,299
Real estate owned, net of related reserves	200	455	1,038	2,033	7,844
Total non-performing assets	$ 8,585	$ 12,987	$ 14,931	$ 18,910	$ 36,143
Non-performing loans to total loans	0.64%	1.09%	1.64%	2.97%	5.41%
Non-performing assets to total assets	0.36	0.66	0.94	1.28	2.85
Non-performing loans to total assets	0.35	0.63	0.88	1.15	2.23

ALLOWANCES FOR LOAN AND REO LOSSES

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Impaired loans and related reserves have been identified and calculated in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan", and the amendment thereof, SFAS No. 118, "Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures". The total allowance for loan losses has been determined in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies". The Bank's allowance for loan losses is intended to be maintained at a level

sufficient to absorb all estimable and probable losses inherent in the loan portfolio. The Bank reviews the adequacy of the allowance for loan losses on a monthly basis taking into account past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current and prospective economic conditions and current regulatory guidance.

During the five years ended December 31, 1998, the allowance for loan losses as a percentage of non-performing loans increased steadily to 166.7% at December 31, 1998. The increase is a direct result of the steady decline in non-performing loans during that five year period. Non-performing loans as a percentage of total loans declined steadily from 5.41% at December 31, 1994 to 0.64% at December 31, 1998. The decline is due to the decrease in non-performing loans, as well as an increase in total loans.

The Bank's provisions for loan losses has remained relatively stable over the last three years. Specifically, the Bank made provisions for loan losses of $13.4 million, $2.8 million, $3.1 million, $2.8 million and $2.7 million for the five years ended December 31, 1998, respectively.

The Bank will continue to monitor and modify its allowances for loan and REO losses as conditions dictate. Although the Bank maintains its allowances at levels that it considers adequate to provide for potential losses, there can be no assurance that such losses will not exceed the estimated amounts.

The following table sets forth the changes in the Bank's allowance for loan losses at the dates indicated.

AT OR FOR THE YEARS ENDED DECEMBER 31,	1998	1997	1996	1995	1994
(DOLLARS IN THOUSANDS)					
Balance at beginning of year	$ 12,528	$ 10,704	$ 8,573	$ 10,847	$ 21,606
Charge-offs:					
One- to four-family	(435)	(964)	(771)	(472)	(264)
Cooperative	(256)	(370)	(524)	(2,142)	(8,747)
Multi-family	(708)	--	(30)	(1,299)	(7,932)
Non-residential and other	(935)	(352)	(560)	(1,541)	(7,798)
Total charge-offs (1)	(2,334)	(1,686)	(1,885)	(5,454)	(24,741)
Recoveries	1,119	760	891	405	582
Net charge-					

offs... (1,215)
(926) (994) (5,049) (24,159) Provision for loan
losses................................. 2,665 2,750 3,125
2,775 13,400 --------- --------- --------- --------- ------
--- Balance at end of
year.................................. $ 13,978 $ 12,528
$ 10,704 $ 8,573 $ 10,847 --------- --------- --------- ---
------ --------- --------- --------- --------- --------- --
------- Ratio of net charge-offs during the year to average
loans outstanding during the
year............................ 0.09% 0.09% 0.15% 0.93%
3.83% Ratio of allowance for loan losses to total loans at
the end of year
(2)....................................... 1.07 1.09
1.26 1.51 2.07 Ratio of allowance for loan losses to non-
performing loans at the end of the year
(3)............................. 166.70 99.97 77.05 50.80
38.33

- ------------------------

(1) Total charge-offs for the year ended 1994 were attributable to bulk sale transactions.

(2) The steady decline in the ratio of allowance for loan losses to total loans is attributable to a decline in non-performing loans as previously mentioned coupled with growth in the Bank's total loans outstanding.

(3) The ratio of allowance for loan losses to non-performing loans has increased significantly over the last five years as non-performing loans have declined.

The following table sets forth the Bank's allocation of its allowance for loan losses to the total amount of loans in each of the categories listed.

AT DECEMBER 31, ------

-------- 1998 1997
1996 1995 ------------
------------ ---------
--------------- ------
------------------ ---

% OF % OF % OF % OF
LOANS IN LOANS IN
LOANS IN LOANS IN
CATEGORY CATEGORY

CATEGORY CATEGORY TO
TOTAL TO TOTAL TO
TOTAL TO TOTAL AMOUNT
LOANS AMOUNT LOANS
AMOUNT LOANS AMOUNT
LOANS ----------- ----
------- ----------- --
--------- -----------
----------- ----------
- ----------- (DOLLARS
IN THOUSANDS) Mortgage
loans: Residential
(1)....... $ 10,139
84.62% $ 7,039 84.09%
$ 5,929 80.40% $ 3,838
72.67%
Commercial............
3,579 12.51 5,201
12.91 4,340 15.08
4,175 19.48
Construction..........
-- 0.21 -- 0.20 --
0.50 69 1.00 Other
loans............. 260
2.66 288 2.80 435 4.02
491 6.85 ----------- -
---------- -----------
----------- ----------
- ----------- --------
--- ----------- Total
allowance for loan
losses (2)............
$ 13,978 100.00% $
12,528 100.00% $
10,704 100.00% $ 8,573
100.00% ----------- --
--------- -----------
----------- ----------
- ----------- --------
--- ----------- ------
----- ----------- ----
------- ----------- --
--------- -----------
----------- ----------
- 1994 ---------------
--------- % OF LOANS
IN CATEGORY TO TOTAL
AMOUNT LOANS ---------
-- -----------
Mortgage loans:

Residential (1).......	$ 5,685	71.97%
Commercial...........	4,308	19.53
Construction..........	248	0.66
Other loans.............	606	7.84
Total allowance for loan losses (2)...........	$ 10,847	100.00%

- ------------------------

(1) Includes one- to four-family, multi-family and cooperative loans.

(2) In order to comply with certain regulatory reporting requirements, management has prepared the above allocation of the Bank's allowance for loan losses among various categories of the loan portfolio for each of the years in the five-year period ended December 31, 1998. In management's opinion, such allocation has, at best, a limited utility. It is based on management's assessment as of a given point in time of the risk characteristics of each of the component parts of the total loan portfolio and is subject to changes as and when the risk factors of each such component changes. Such allocation is not indicative of either the specific amounts or the loan categories in which future charge-offs may be taken, nor should it be taken as an indicator of future loss trends. In addition, by presenting such allocation, management does not mean to imply that the allocation is exact or that the allowance has been precisely determined from such allocation.

INVESTMENT ACTIVITIES

The investment policy of the Bank, which is established by the Board of Directors and implemented by the Bank's Asset/Liability Committee, is designed primarily to provide and maintain liquidity, to generate a favorable return on investments without incurring undue interest rate and credit risks, and to complement the Bank's lending activities. Federally chartered savings institutions have the authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in commercial paper, investment grade corporate debt

securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. Additionally, the Bank must maintain minimum levels of investments that qualify as liquid assets under OTS regulations. See "Regulation and Supervision--Federal Savings Institution Regulation--Liquidity." Historically, the Bank has maintained liquid assets above the minimum OTS requirements and at a level believed to be adequate to meet its normal daily activities. At December 31, 1998, the Bank had money market investments and debt and equity securities available for sale in the aggregate amount of $1.7 million and $109.6 million, respectively, with fair values of $1.7 million and $109.0 million, respectively.

On June 30, 1998, the Company transferred the then remaining $138.2 million of MBSs and $45.4 million of debt securities held to maturity to securities available for sale ("AFS"). The transfer was done to enhance liquidity and take advantage of market opportunities. At December 31, 1998, the securities AFS portfolio totaled $889.3 million of which $266.3 million were adjustable-rate securities and $623.0 million were fixed-rate securities.

The following table sets forth certain information regarding the carrying and market values of the Company's money market investments, debt and equity securities and FHLB-NY stock at the dates indicated:

	AT DECEMBER 31,					
	1998		1997		1996	
	CARRYING VALUE	MARKET VALUE	CARRYING VALUE	MARKET VALUE	CARRYING VALUE	MARKET VALUE
	(IN THOUSANDS)					
Debt and Equity Securities:						
U.S. Government and agency obligations.....	$ 77,705	$ 77,705	$ 135,672	$ 135,715	$ 170,709	$ 169,849
Corporate debt securities.................	19,684	19,684	45,390	45,315	45,350	45,227
Preferred stock..........................	11,590	11,590	4,123	4,123	27,329	27,329
Subtotal.................................	108,979	108,979	185,185	185,153	243,388	242,405
Federal Funds sold.......................	--	--	--	--	5,000	5,000
FHLB-NY stock............................	21,990	21,990	12,885	12,885	9,890	9,890

Money market
investments.................. 1,720
1,720 4,561 4,561 1,869 1,869 ----------
---------- ---------- ---------- --------
-- ----------
Total..................................
$ 132,689(1) $ 132,689(1) $ 202,631(1) $
202,599(1) $ 260,147(1) $ 259,164(1) ----
------ ---------- ---------- ---------- -
--------- ---------- ---------- ---------
- ---------- ---------- ---------- ------

- ------------------------

(1) Includes debt and equity securities AFS totaling $109.0 million, $118.8 million and $146.1 million at December 31, 1998, 1997 and 1996, respectively, carried at fair value.

The table below sets forth certain information regarding the carrying value, weighted average yields and maturities of the Company's money market investments and debt and equity securities at December 31, 1998.

AT DECEMBER 31, 1998 ---

------------------ MORE
THAN MORE THAN FIVE DUE
AFTER ONE YEAR OR LESS
ONE TO FIVE YEARS TO TEN
YEARS 10 YEARS ---------
--------------- --------
------------------ -----
--------------------- --
--------- WEIGHTED
WEIGHTED WEIGHTED
CARRYING AVERAGE
CARRYING AVERAGE
CARRYING AVERAGE
CARRYING VALUE YIELD
VALUE YIELD VALUE YIELD
VALUE ----------- ------
----- ----------- ------
------- ----------- ----
--------- -----------
(DOLLARS IN THOUSANDS)
U.S. Government

securities and agency
obligations........... $
5,030 6.5% $ 9,944 5.4%
$ -- --% $ 62,731
Corporate debt
securities............
18,670 5.3 -- -- -- --
1,014 Money market
investments...........
1,720 4.4 -- -- -- -- --
----------- -----------
----- -----------
Total...................
$ 25,420 5.5% $ 9,944
5.4% $ -- --% $ 63,745 -
---------- ----------- -
---- ----------- -------
---- ----------- ----- -
---------- Preferred
Stock......... FHLB-NY
stock........... TOTAL
MONEY MARKET INVESTMENTS
AND DEBT AND EQUITY
SECURITIES -------------

AVERAGE WEIGHTED
REMAINING ESTIMATED
WEIGHTED AVERAGE YEARS
TO CARRYING FAIR AVERAGE
YIELD MATURITY VALUE
VALUE YIELD ------------
- ------------- --------
--- ----------- --------
----- U.S. Government
securities and agency
obligations...........
7.0% 17.1 $ 77,705 $
77,705 6.7% Corporate
debt
securities............
8.7 1.9 19,684 19,684
5.5 Money market
investments........... -
- -- 1,720 1,720 4.4 ---
-------- -----------
Total...................
7.0% 13.8 $ 99,109 $
99,109 6.4% -----------
----------- -----------

Preferred Stock	$ 11,590	$ 11,590	5.0%
FHLB-NY stock	$ 21,990	$ 21,990	7.0%

MORTGAGE-BACKED SECURITIES

The Bank also invests in mortgage-backed securities ("MBSs"). At December 31, 1998, total MBSs, net, aggregated $780.3 million, or 32.6% of total assets. At December 31, 1998, 43.3% of the MBS portfolio, including Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs"), were insured or guaranteed by either FNMA, FHLMC or the Ginnie Mae ("GNMA"). At December 31, 1998, $242.6 million, or 31.1% of total MBSs were adjustable-rate and $537.7 million, or 68.9% of total MBSs were fixed-rate.

The following table sets forth the carrying amount of the Company's MBS portfolio in dollar amounts and in percentages at the dates indicated.

	AT DECEMBER 31,					
	1998		1997		1996	
	CARRYING VALUE	PERCENT OF TOTAL	CARRYING VALUE	PERCENT OF TOTAL	CARRYING VALUE	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)					
MBSs(1):						
CMOs and REMICS-- Agency-backed(2)	$ 106,552	13.66%	$ 174,707	32.14%	$ 117,969	27.96%
CMOs and REMICS-- Non-agency(2)	442,352	56.69	169,480	31.17	94,877	22.48
FHLMC	52,167	6.69	91,110	16.76	97,953	23.21
FNMA	178,767	22.91	107,377	19.75	110,182	26.12
GNMA	434	0.05	982	0.18	983	0.23
Net MBSs	$ 780,272	100.00%	$ 543,656	100.00%	$ 421,964	100.00%

(1) Includes MBSs AFS of $780.3 million, $380.6 million and $224.0 million at December 31, 1998, 1997 and 1996, respectively.

(2) Included in total MBSs are CMOs and REMICs, which, at December 31, 1998, had a gross carrying value of $548.9 million. A CMO is a special type of pass-through debt in which the stream of principal and interest payments on the underlying mortgages or MBSs is used to create classes with different maturities and, in some cases, amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. The Bank has in recent periods increased its investment in REMICs and CMOs because these securities generally exhibit a more predictable cash flow than mortgage pass-through securities. The Bank's policy is to limit its purchases of REMICs to non high-risk securities as defined by the OTS.

The following tables set forth certain information regarding the carrying and market values and percentage of total carrying values of the Bank's mortgage-backed and related securities portfolio.

	AT DECEMBER 31,								
	1998			1997			1996		
	CARRYING VALUE	% OF TOTAL	MARKET VALUE	CARRYING VALUE	% OF TOTAL	MARKET VALUE	CARRYING VALUE	% OF TOTAL	MARKET VALUE
	(DOLLARS IN THOUSANDS)								
Held to maturity: MBSs:									
FHLMC	$ --	--%	$ --	$ 27,472	5.05%	$ 27,769	$ 39,889	9.45%	
FNMA	--	--	--	61,492	11.31	61,093	71,460	16.94	
Total MBSs	--	--	--	88,964	16.36	88,862			

111,349 26.39 ----------- -----
---- --------- ----------- ----
----- --------- ----------- ---
------ Mortgage-related
securities: CMOs and REMICS--
Agency backed................ -
- -- -- 21,217 3.90 21,101
24,449 5.79 CMOs and REMICS--
Non-agency................... -
- -- -- 52,876 9.73 53,363
62,142 14.73 ----------- ------
--- --------- ----------- -----
---- --------- ----------- ----
----- Total mortgage-related
securities....................
-- -- -- 74,093 13.63 74,464
86,591 20.52 ----------- ------
--- --------- ----------- -----
---- --------- ----------- ----
----- Total mortgage-backed and
related securities held to
maturity.... -- -- -- 163,057
29.99 163,326 197,940 46.91 ---
-------- --------- --------- --
--------- --------- --------- -
---------- --------- Available
for sale: MBSs:
GNMA..........................
434 0.05 434 982 0.18 982 983
0.23
FHLMC.........................
52,167 6.69 52,167 63,638 11.71
63,638 58,064 13.76
FNMA..........................
178,767 22.91 178,767 45,885
8.44 45,885 38,722 9.18 -------
---- --------- --------- ------
----- --------- --------- -----
------ --------- Total
MBSs......................
231,368 29.65 231,368 110,505
20.33 110,505 97,769 23.17 ----
------- --------- --------- ---
-------- --------- --------- --
--------- --------- Mortgage-
related securities: CMOs and
REMICs-- Agency
backed................ 106,552
13.66 106,552 153,490 28.23
153,490 93,520 22.16 CMOs and

REMICs-- Non-
agency...................
442,352 56.69 442,352 116,604
21.45 116,604 32,735 7.76 -----
------ --------- --------- ----
------- --------- --------- ---
-------- --------- Total
mortgage-related
securities.....................
548,904 70.35 548,904 270,094
49.68 270,094 126,255 29.92 ---
--------- --------- --------- --
--------- --------- --------- -
---------- --------- Total
mortgage-backed and mortgage-
related securities available
for sale............. 780,272
100.00 780,272 380,599 70.01
380,599 224,024 53.09 ---------
-- --------- --------- --------
--- --------- --------- -------
---- --------- Total mortgage-
backed and related
securities.....................
$ 780,272 100.00% $ 780,272 $
543,656 100.00% $ 543,925 $
421,964 100.00% ----------- ---
------ --------- ----------- --
------- --------- ----------- -
-------- ----------- ---------
--------- ----------- ---------
--------- ----------- ---------
MARKET VALUE --------- Held to
maturity: MBSs:
FHLMC.........................
$ 39,594
FNMA..........................
69,914 --------- Total
MBSs......................
109,508 --------- Mortgage-
related securities: CMOs and
REMICS-- Agency
backed............... 24,142
CMOs and REMICS-- Non-
agency...................
62,032 --------- Total
mortgage-related
securities.....................
86,174 --------- Total
mortgage-backed and related

securities held to maturity....
195,682 --------- Available for
sale: MBSs:
GNMA...........................
983
FHLMC..........................
58,064
FNMA...........................
38,722 --------- Total
MBSs......................
97,769 --------- Mortgage-
related securities: CMOs and
REMICs-- Agency
backed................ 93,520
CMOs and REMICs-- Non-
agency...................
32,735 --------- Total
mortgage-related
securities.....................
126,255 --------- Total
mortgage-backed and mortgage-
related securities available
for sale............. 224,024 -
-------- Total mortgage-backed
and related
securities.....................
$ 419,706 --------- ---------

The table below sets forth certain information regarding the carrying value, weighted average yields and maturities of the Company's mortgage-backed and related securities at December 31, 1998.

AT DECEMBER 31, 1998 ----

---------------- OVER ONE
TO OVER FIVE TO OVER TEN
ONE YEAR OR LESS FIVE
YEARS TEN YEARS YEARS ---
------------------------ -

- ----------- WEIGHTED
WEIGHTED WEIGHTED
CARRYING AVERAGE CARRYING
AVERAGE CARRYING AVERAGE
CARRYING VALUE YIELD

VALUE YIELD VALUE YIELD
VALUE ----------- -------
------ ----------- ------
------- ----------- -----
-------- -----------
(DOLLARS IN THOUSANDS)
Available for sale:
FNMA.....................
$ 797 7.50% $ -- --% $
10,417 5.80% $ 167,553
FHLMC....................
203 6.38 1,170 6.02 6,137
6.44 44,657
GNMA.....................
-- -- -- -- -- -- 434
CMOs and REMICs..........
-- -- 3,534 5.84 -- --
545,370 ----------- --- -
---------- --- ----------
- --- ----------- Total
mortgage-backed and
related securities.......
$ 1,000 7.27 $ 4,704
5.89% $ 16,554 6.03% $
758,014 ----------- --- -
---------- --- ----------
- --- ----------- -------
---- --- ----------- ---
----------- --- ---------
-- MORTGAGE-BACKED AND
RELATED SECURITIES TOTALS

---- AVERAGE WEIGHTED
REMAINING ESTIMATED
WEIGHTED AVERAGE YEARS TO
CARRYING MARKET AVERAGE
YIELD MATURITY VALUE
VALUE YIELD -------------
------------- -----------
----------- -------------
Available for sale:
FNMA.....................
6.50% 18.1 $ 178,767 $
178,767 6.46%
FHLMC....................
6.63 22.0 52,167 52,167
6.60
GNMA.....................
6.33 25.3 434 434 6.33

CMOs and REMICs..........	6.50	27.1	548,904	548,904	6.50
Total mortgage-backed and related securities.......	6.51%	24.7	$ 780,272	$ 780,272	6.50%

At December 31, 1998, the weighted average contractual maturity of the Bank's mortgage-backed and related securities portfolio was 24.7 years.

The following table shows the carrying value, maturity or period to repricing of the Company's mortgage-backed and related securities portfolio at December 31, 1998.

AT DECEMBER 31, 1998	ARM MBSS	FIXED-RATE MBSS	FIXED-RATE CMOS & REMICS	ARM CMOS & REMICS	TOTAL MORTGAGE-BACKED AND RELATED SECURITIES
	(IN THOUSANDS)				
Amounts due or repricing:					
Within one year..................................	$ 990	$ 39,559	$ --	$ 181,314	$ 221,863
After one year:					
One to three years..............................	6	20,671	3,521	--	24,198
Three to five years..............................	4,973	--	--	--	4,973
Five to 10 years..................................	12,563	--	--	--	12,563
10 to 20 years....................................	99,266	--	14,365	--	113,631
Over 20 years.....................................	50,173	--	350,766	--	400,939
Total due or repricing after one year...............	166,981	20,671	368,652	--	556,304
Total..	167,971	60,230	368,652	181,314	778,167
Adjusted for:					
Unamortized yield adjustment......................	753	561	(1,752)	430	(8)
Unrealized gain(loss)............................	1,492	361	566	(306)	2,113
Total mortgage-backed and related					

securities......... $ 170,216 $ 61,152 $ 367,466 $ 181,438 $ 780,272

The following table sets forth the carrying value and the activity in the Company's mortgage-backed and related securities portfolio during the periods indicated.

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Mortgage-backed and related securities:			
At beginning of period	$ 543,656	$ 421,964	$ 629,889
Loans securitized	105,691	--	--
MBSs purchased	--	56,941	41,647
MBSs sold	(6,618)	(18,932)	(101,604)
CMOs and REMICs purchased	687,923	365,002	158,654
CMOs and REMICs sold	(349,464)	(206,901)	(205,760)
Amortization and repayments	(199,636)	(76,771)	(97,969)
Change in unrealized gain (loss)	(1,280)	2,353	(2,893)
Balance of mortgage-backed and related securities at end of period (1)	$ 780,272	$ 543,656	$ 421,964

- ------------------------

(1) Includes $780.3 million, $380.6 million and $224.0 million of mortgage-backed and related securities AFS at December 31, 1998, 1997 and 1996, respectively, carried at fair value.

The Asset/Liability Committee determines when to make substantial changes in the MBS portfolio. In 1998, the Company purchased $687.9 million of CMOs and REMICs, of which $106.3 million were adjustable-rate and $581.6 million were fixed-rate securities. During 1998, the Bank continued to emphasize MBSs reflecting management's strategy to improve duration and yield of the AFS portfolio. Adjustable-rate securities as a percentage of total MBSs was 31%, 48% and 42% at December 31, 1998, 1997 and 1996, respectively. At December 31, 1998, $337.9 million, or 43.3% of the Bank's MBS portfolio, was directly insured or

guaranteed by the FNMA, FHLMC or GNMA. FNMA and FHLMC provide the certificate holder a guarantee of timely payments of interest and scheduled principal payments, whether or not they have been collected. The GNMA MBSs provide a guarantee to the holder of timely payments of principal and interest and is backed by the full faith and credit of the U.S. Government. The privately-issued CMOs and REMICs contained in the Bank's AFS portfolio at December 31, 1998 totaling $442.4 million, or 56.7% of MBSs have generally been underwritten by large investment banking firms with the timely payment of principal and interest on these securities supported (credit enhanced) in varying degrees by either insurance issued by a financial guarantee insurer, letters of credit or subordination techniques. Substantially all such securities are rated AAA by one or more of the nationally recognized securities rating agencies.

MBSs generally yield less than the loans that underlie such securities, because of the cost of payment guarantees or credit enhancements that result in nominal credit risk. The MBS portfolio had a weighted average yield of 6.50% for the year ended December 31, 1998. In addition, MBSs are more liquid than individual mortgage loans and may be used to collateralize obligations of the Bank. In general, MBSs issued or guaranteed by FNMA and FHLMC and certain AA-rated mortgage-backed pass-through securities are weighted at no more than 20% for risk-based capital purposes, and MBSs issued or guaranteed by GNMA are weighted at 0% for risk-based capital purposes, compared to an assigned risk weighting of 50% to 100% for whole residential mortgage loans. These types of securities thus allow the Bank to optimize regulatory capital to a greater extent than non-securitized whole loans.

SOURCES OF FUNDS

GENERAL. Deposits, loans, mortgage-backed and debt securities repayments, retained earnings and, to a lesser extent, FHLB advances are the primary source of the Company's and the Bank's funds for use in lending, investing and for other general purposes.

DEPOSITS. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank's deposits consist of savings, NOW, checking, money market and certificate accounts. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition.

During 1996, the Bank implemented its supermarket banking program. During September of 1996, the Bank and Pathmark Stores, Inc. entered into an agreement to open approximately 44 full-service bank branches in Pathmark supermarkets throughout New York City, Long Island, Westchester and Rockland counties by early 1999. By the end of 1996, the Bank had opened four supermarket branches with deposits totaling $12.1 million. During 1997, the Bank opened twenty-eight supermarket branches resulting in a total of thirty-two locations at December 31, 1997 with deposits totaling $157.2 million. During 1998, the Bank opened an additional twenty-five supermarket branches resulting in a total of fifty-seven

locations at December 31, 1998 with deposits totaling $504.0 million. The supermarket branches are located in the New York City boroughs of Queens, Brooklyn, Manhattan and Staten Island, the New York counties of Nassau, Suffolk, Rockland and Westchester and in New Jersey and Connecticut. At December 31, 1998, the Bank had 35 branches in Pathmark Stores, Inc., 14 in ShopRite Supermarket, Inc., 4 in Edward Super Food Stores, 2 in Big Y Food Stores, 1 in Shaws and 1 mini-branch in The Grand Union Co. Core deposits equaled 54.0% of total in-store branch deposits, compared to 45.5% in traditional branches. Overall core deposits represented 47.7% of total deposits at December 31, 1998 compared to 42.7% at December 31, 1997. The Bank believes that supermarket branching is a cost-effective way to extend its franchise and put its sales force in touch with a significant number of prospective customers. The branches are open seven days a week and provide a broad range of traditional banking services, as well as the full package of financial services offered by CFS Investments, Inc. ("CFSI"). In 1999, the Bank has opened two additional supermarket branches and is scheduled to open one more. The Bank has established a relationship with ShopRite Stores under which the Bank has the right to open in-store branches in all new or renovated ShopRite Stores in New Jersey and Connecticut.

The Bank's deposits are obtained primarily from the areas in which its branch offices are located. The Bank relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits. Certificate accounts in excess of $100,000 are not actively solicited by the Bank nor does the Bank use brokers to obtain deposits. During 1998, the Bank continued to offer competitive rates without jeopardizing the value of existing core deposits. During 1997, the Bank experienced a shift in deposits from certificate of deposit accounts into savings and checking accounts which continued in 1998. Certificates of deposit decreased from 57.3% of deposits at December 31, 1997 to 52.3% of deposits at December 31, 1998. During 1998, the Bank introduced a "Liquid Asset" savings account in all supermarket branches which pays the account holder a fixed-rate of interest in the first year on account balances of $2,500 or more. The Liquid Asset account currently pays 4.25% for the first year. The Company has been able to maintain a substantial level of core deposits which the Company believes helps to limit interest rate risk by providing a relatively stable, low cost long-term funding base. The Company expects to attract a higher percentage of core deposits from its supermarket branch locations as these locations continue to grow and mature.

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

YEARS ENDED DECEMBER 31, (IN THOUSANDS)	1998	1997	1996
Deposits	$ 5,753,644	$ 3,208,355	$ 2,441,295
Withdrawals	5,458,274	3,031,457	2,428,315

--- ------------ Net
deposits.......................................
295,370 176,898 12,980 Interest credited on
deposits...................... 62,328 50,326 41,362
------------ ------------ ------------ Total
increase in deposits......................... $
357,698 $ 227,224 $ 54,342 ------------ ------------
------------ ------------ ------------ ------------

Time deposits by maturity at December 31, 1998 over $100,000 are as follows:

MATURITY PERIOD	AMOUNT
	(IN THOUSANDS)
Three months or less	$ 24,244
Over three through six months	27,618
Over six through 12 months	18,605
Over 12 months	14,042
Total	$ 84,509

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

YEARS ENDED
DECEMBER 31, -----

----- 1998 1997
1996 -------------

------ -----------

-------- ---------

PERCENT WEIGHTED
PERCENT WEIGHTED
PERCENT OF AVERAGE
OF AVERAGE OF
AVERAGE TOTAL
NOMINAL AVERAGE
TOTAL NOMINAL
AVERAGE TOTAL

BALANCE DEPOSITS
RATE BALANCE
DEPOSITS RATE
BALANCE DEPOSITS -
-------- ---------
-- ------------- -
-------- ---------
-- ------------- -
-------- ---------
-- (DOLLARS IN
THOUSANDS) Savings
accounts.... $
441,759 28.22%
2.81% $ 371,872
30.01% 2.51% $
373,337 33.46%
Checking
accounts...
187,297 11.96 0.73
134,546 10.86 1.31
111,425 9.99 -----
---- ----------- -
-- --------- -----
------ --- -------
-- -----------
Total savings and
checking
accounts..........
629,056 40.18 2.19
506,418 40.87 2.07
484,762 43.45 ----
----- -----------
--- --------- ----
------- --- ------
--- -----------
Money market
accounts..........
57,597 3.68 3.54
54,107 4.37 3.37
58,108 5.21 ------
--- ----------- --
- --------- ------
----- --- --------
- -----------
Certificate
accounts: 91
days...........
5,620 0.36 3.87
5,799 0.47 3.83
7,783 0.70 6

months..........
164,647 10.52 5.33
85,558 6.90 5.37
85,768 7.69 7
months..........
4,519 0.29 3.93
13,116 1.06 5.26
2,228 0.20 One
year..........
382,497 24.43 5.62
265,891 21.45 5.69
203,259 18.22 13
months.........
27,514 1.76 5.53
21,314 1.72 5.79
11,036 0.99 18
months.........
33,985 2.17 5.77
34,321 2.77 5.79
23,407 2.10 2 to 4
years......
160,667 10.26 5.99
145,081 11.71 6.04
131,931 11.82 Five
years........
93,898 5.99 6.23
101,972 8.23 6.23
101,690 9.11 7 to
10 years.....
5,644 0.36 6.31
5,547 0.45 6.31
5,666 0.51 -------
-- ----------- ---
--------- --------
--- --- ---------
----------- Total
certificate
accounts..........
878,991 56.14 5.68
678,599 54.76 5.79
572,768 51.34 ----
----- -----------
--- --------- ----
------- --- ------
--- -----------
Total
deposits......
$1,565,644 100.00%
4.20% $1,239,124
100.00% 4.16%

$1,115,638 100.00%
--------- --------
--- --- ---------
----------- --- --
-------- ----------
- --------- ------
----- --- --------
- ----------- ---
--------- --------
--- WEIGHTED AVERAGE NOMINAL RATE -------------
Savings accounts.... 2.49%
Checking accounts... 1.01 --- Total savings and checking accounts.......... 2.13 --- Money market accounts.......... 3.32 --- Certificate accounts: 91 days........... 3.92 6 months.......... 5.12 7 months.......... 2.99 One year.......... 5.51 13 months......... 5.12 18 months......... 5.98 2 to 4 years...... 5.87 Five years........ 6.30 7 to 10 years..... 6.28 --- Total certificate accounts.......... 5.66 --- Total deposits...... 4.00% --- ---

The following table presents, by various rate categories, the amount of certificate accounts outstanding at December 31, 1998, 1997 and 1996 and the periods to maturity of the certificate accounts outstanding at December 31, 1998.

(IN THOUSANDS)	AT DECEMBER 31, 1998	1997	1996	PERIOD OF MATURITY FROM DECEMBER 31, 1998: WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	OVER THREE YEARS
Certificate accounts:							
3.99% or less	$ 31,712	$ 6,682	$ 10,396	$ 26,493	$ 3,592	$ 77	$ 1,550
4.00% to 4.99%	131,330	6,942	18,545	121,015	7,774	1,467	1,074
5.00% to 5.99%	610,219	548,849	456,789	557,808	27,230	9,528	15,658
6.00% to 6.99%	123,436	211,302	104,732	62,068	19,600	41	41,727
7.00% to 7.99%	5,052	7,808	10,637	492	4,560	--	--
Total	$ 901,749	$ 781,583	$ 601,099	$ 767,876	$ 62,756	$ 11,108	$ 60,009

	TOTAL
Certificate accounts:	
3.99% or less	$ 31,712
4.00% to 4.99%	131,330
5.00% to 5.99%	610,219
6.00% to 6.99%	123,436
7.00% to 7.99%	5,052
Total	$ 901,749

BORROWINGS

Although deposits are the Bank's primary source of funds, the Bank has from time to time utilized borrowings as an alternative or less costly source of funds. The Bank's primary source of borrowing is advances from the FHLB-NY. These advances are collateralized by the capital stock of the FHLB-NY held by the Bank and certain of the Bank's MBSs. See "Regulation and Supervision--Federal Home Loan Bank System." Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB-NY will advance to member institutions, including the Bank, for purposes other than meeting withdrawals, fluctuates from time to time in accordance with the policies of the OTS and the FHLB-NY. At December 31, 1998, the Bank had $325.2 million of advances outstanding from the FHLB-NY.

In addition, the Bank may, from time to time, enter into sales of securities under agreements, generally for up to 30 days, to repurchase ("reverse repurchase agreements") with nationally recognized investment banking firms. Reverse repurchase agreements are accounted for as borrowings by the Bank and are secured by designated securities. The proceeds of these transactions are used to meet cash flow or asset/liability needs of the Bank. At December 31, 1998, the Bank had $88.7 million of reverse repurchase agreements outstanding.

On February 12, 1997, Haven Capital Trust I, a trust formed under the laws of the State of Delaware, issued $25 million of 10.46% capital securities. The Company is the owner of all the beneficial interests represented by common securities of the Trust. The Trust used the proceeds from the sale of the capital securities to purchase the Company's 10.46% junior subordinated deferrable interest debentures due 2027. See Note 11 of Notes to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Stockholders on page 37 which is incorporated herein by reference.

The Bank has an ESOP loan from an unrelated third party lender with an outstanding balance of $1.5 million and an interest rate of 7.06% at December 31, 1998. See Note 14 of Notes to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Stockholders on page 42 which is incorporated herein by reference. The loan, as amended on December 29, 1995, is payable in thirty-two equal quarterly installments beginning December 1995 through September 2003. The loan bears interest at a floating rate based on the federal funds rate plus 250 basis points.

The following table sets forth certain information regarding borrowed funds for the dates indicated:

AT OR FOR THE YEARS ENDED DECEMBER 31, --------------------
-------------- 1998 1997 1996 ---------- ---------- -------

(DOLLARS IN THOUSANDS)			
FHLB-NY Advances:			
Average balance outstanding	$ 301,557	$ 191,550	$ 152,005
Maximum amount outstanding at any month-end during the period	431,000	247,000	195,000
Balance outstanding at end of period	325,200	247,000	178,450
Weighted average interest rate during the period	5.19%	5.69%	5.54%
Weighted average interest rate at end of period	5.13%	5.86%	4.72%
Securities Sold under Agreements to Repurchase:			
Average balance outstanding	$ 142,348	$ 172,310	$ 128,677
Maximum amount outstanding at any month-end during the period	191,291	229,280	142,906
Balance outstanding at end of period	88,690	193,028	142,906
Weighted average interest rate during the period	5.71%	5.68%	5.65%
Weighted average interest rate at end of period	5.50%	5.94%	5.09%
Other Borrowings (1):			
Average balance outstanding	$ 26,626	$ 25,231	$ 7,667
Maximum amount outstanding at any month-end during the period	26,766	30,120	10,725
Balance outstanding at end of period	26,456	26,766	5,077
Weighted average interest rate during the period	10.32%	8.15%	6.38%
Weighted average interest rate at end of period	10.20%	10.29%	9.63%
Total Borrowings:			
Average balance outstanding	$ 470,531	$ 389,091	$ 285,951
Maximum amount outstanding at any month-end during the period	649,057	466,794	348,631
Balance outstanding at end of period	440,346	466,794	326,433
Weighted average interest rate during the period	5.95%	5.86%	5.84%
Weighted average interest rate at end of period	5.51%	6.15%	5.11%

- ------------------------

(1) Includes the CMO, ESOP loan and Holding Company Obligated Mandatorily Redeemable Capital Securities.

SUBSIDIARY ACTIVITIES

COLUMBIA RESOURCES CORP. ("COLUMBIA RESOURCES"). Columbia Resources is a wholly owned subsidiary of the Bank and was formed in 1984 for the sole purpose of acting as a conduit for a partnership to acquire and develop a parcel of property in New York City. Columbia Resources acquired the property, but never developed it. The property was later sold. During 1996, two REO commercial properties totaling $524,000 were transferred from the Bank to Columbia Resources to limit exposure to the Bank from unknown creditors. By December 31, 1996 the properties were written down to a combined value of $440,000. The properties were subsequently sold during 1997.

CFS INVESTMENTS, INC. ("CFSI"). CFSI is a wholly owned subsidiary of the Bank organized in 1989 that is engaged in the sale of tax deferred annuities, securities brokerage activities and insurance. CFSI participates with FISERV Investor Services, Inc., which is registered as a broker-dealer with the SEC, NASD, and state securities regulatory authorities. All employees of CFSI engaged in securities brokerage activities are dual employees of FISERV. Products offered through FISERV include debt and equity securities, mutual funds, unit investment trusts and variable annuities. Fixed annuities, life and health insurance, and long term nursing care products are offered through CFSI; a licensed general agent with the New York State Department of Insurance.

HAVEN CAPITAL TRUST I. On February 12, 1997, Haven Capital Trust I, a statutory business trust formed under the laws of the State of Delaware issued $25 million of 10.46% capital securities. See Note 11 of Notes to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Stockholders on page 37 which is incorporated herein by reference.

COLUMBIA PREFERRED CAPITAL CORPORATION ("CPCC"). On June 9, 1997, the Bank established a real estate investment trust ("REIT") subsidiary, CPCC. At December 31, 1998, the REIT held $334.0 million of the Bank's residential loan portfolio. The establishment of the REIT enables the Bank to achieve certain business goals including providing the Bank with a contingency funding mechanism without disrupting its investment policies and enhancing the Bank's ability to track and manage the mortgage portfolio transferred to CPCC since the transferred portion of its mortgage loan portfolio is segregated into a separate legal entity.

CFS TRAVEL SERVICES, INC. The Company, through its wholly owned subsidiary, CFS Travel Services, Inc. ("CFS Travel"), established February 28, 1998 offered customers and their families and friends, organized, escorted day long excursions and overnight trips. This subsidiary was subsequently dissolved on March 31, 1999.

CFS INSURANCE AGENCY, INC. On November 2, 1998, the Company completed the purchase of 100% of the oustanding common stock of CIA. CIA, headquartered in Centereach, New York, provides automobile, homeowners and casualty insurance to individuals and various lines of commercial insurance to businesses. CIA

operates as a wholly-owned subsidiary of the Company.

PERSONNEL

As of December 31, 1998, the Bank had 941 full-time employees and 65 part-time employees. Even though the employees are not represented by a collective bargaining unit, the Bank considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

GENERAL

The Bank is subject to regulation, examination and supervision by the OTS, as its chartering agency, and the FDIC, as the deposit insurer. The Bank is a member of the FHLB System and its deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") managed by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. Periodic examinations by the OTS and the FDIC monitor the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors.

FEDERAL SAVINGS INSTITUTION REGULATION

BUSINESS ACTIVITIES. The activities of federal savings institutions are governed by the Home Owners' Loan Act, as amended (the "HOLA") and, in certain respects, the Federal Deposit Insurance Act ("FDI Act") and the regulations issued by the agencies to implement these statutes. These laws and regulations delineate the nature and extent of the activities in which federal associations may engage. In particular, many types of lending authority for federal associations, (e.g., commercial, non-residential real property loans, consumer loans), are limited to a specified percentage of the institutions's capital or assets.

LOANS TO ONE BORROWER. Under the HOLA, savings institutions are generally subject to the national bank limit on loans to one borrower. Generally, this limit is 15% of the Bank's unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus if such loan is secured by readily-marketable collateral, which is defined to include certain financial instruments and bullion. At December 31, 1998, the Bank's unimpaired capital and surplus was $151.1 million and its limit on loans to one borrower was $22.7 million. At December 31, 1998, the Bank's largest aggregate amount of loans to one borrower had an aggregate balance of $13.0 million.

QTL TEST. The HOLA requires savings institutions to meet a Qualified Thrift Lender ("QTL") test. Under the QTL test, a savings association is required to maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least 9 months out of each 12 month period. A savings association that fails the QTL test must either convert to a bank charter or operate under certain restrictions. As of December 31, 1998, the Bank maintained 72.06% of its portfolio assets in qualified thrift investments and had more than 65% of its portfolio assets in qualified thrift investments in each of the prior 12 months. Therefore, the Bank met the QTL test.

LIMITATION ON CAPITAL DISTRIBUTIONS. OTS regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. Effective April 1, 1999, the OTS amended its capital distribution regulations to reduce regulatory burdens on savings associations. The regulations being replaced, which were effective throughout 1998, established three tiers of institutions, which are based primarily on an institution's capital level. An institution that exceeded all fully phased-in regulatory capital requirements before and after a proposed capital distribution ("Tier 1 Bank") and had not been advised by the OTS that it was in need of more than normal supervision, could, after prior notice to, but without the approval of the OTS, make capital distributions during a calendar year equal to the greater of: (i) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year; or (ii) 75% of its net earnings for the previous four quarters. Any additional capital distributions would have required prior OTS approval. In the event the Bank's capital fell below its capital requirements or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice. Under the amendments adopted by the OTS, certain savings associations will be permitted to pay capital distributions during a calendar year that do not exceed the association's net income for that year plus its retained net income for the prior two years, without notice to, or the approval of, the OTS.

If adopted as proposed, certain savings associations will be permitted to pay capital distributions within the amounts described above for Tier 1 institutions without notice to, or the approval of, the OTS. However, a savings association subsidiary of a savings and loan holding company, such as the Bank, will continue to have to file a notice unless the specific capital distribution requires an application.

LIQUIDITY. The Bank is required to maintain an average daily balance of specified liquid assets equal to a monthly average of not less than a specified percentage (currently 4%) of its net withdrawable deposit accounts plus short-term borrowings. Monetary penalties may be imposed for failure to meet the liquidity requirements. The Bank's average liquidity ratio for December 31, 1998 was 4.24% which exceeded the then applicable requirement. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirements.

ASSESSMENTS. Savings institutions are required by regulation to pay assessments to the OTS to fund the agency's operations. The general assessment, paid on a semi-annual basis, is computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly Thrift Financial Report. The assessments paid by the Bank for the years ended December 31, 1998 and 1997, totaled $322,000 and $285,000, respectively. The OTS has adopted amendments to its regulations, effective January 1, 1999, that are intended to assess savings associations on a more equitable basis. The new regulations will base the assessment for an individual savings association on three components: the size of the association, on which the basic assessment would be based; the association's supervisory condition, which would result in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which would result in an additional assessment based on a percentage of the basic assessment for any savings association that managed over $1 billion in trust assets, serviced for others loans aggregating more than $1 billion, or had certain off-balance sheet assets aggregating more than $1 billion. In order to avoid a disproportionate impact on the smaller savings institutions, which are those whose total assets never exceeded $100 million, the new regulations provide that the portion of the assessment based on assets size will be the lesser of the assessment under the amended regulations or the regulations before the amendment. Management believes that any change in its rate of OTS assessments under the amended regulations will not be material.

BRANCHING. OTS regulations permit federally chartered savings associations to branch nationwide under certain conditions. Generally, federal savings associations may establish interstate networks and geographically diversify their loan portfolios and lines of business. The OTS authority preempts any state law purporting to regulate branching by federal savings associations.

TRANSACTIONS WITH RELATED PARTIES. The Bank's authority to engage in transactions with related parties or "affiliates" (i.e., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by Sections 23A and 23B of the Federal Reserve Act ("FRA"). Section 23A limits the aggregate amount of covered transactions with any individual affiliate to 10% of the capital and surplus of the savings institution and also limits the aggregate amount of transactions with all affiliates to 20% of the savings institution's capital and

surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B generally requires that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit underwriting standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. Notwithstanding Sections 23A and 23B, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act ("BHC Act"). Further, no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to its executive officers, directors and 10% shareholders, as well as to entities controlled by such persons, is currently governed by Sections 22(g) and 22(h) of the FRA, and Regulation O thereunder. Among other things, these regulations require that such loans to be made on terms and conditions, including credit underwriting standards, substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. Regulation O also places individual and aggregate limits on the amount of loans the Bank may make to such persons based, in part, on the Bank's capital position, and requires that certain board approval procedures be followed. HOLA and the OTS regulations, with certain minor variances, apply Regulation O to savings institutions.

ENFORCEMENT. Under the FDI Act, the OTS has primary enforcement responsibility over savings institutions and has the authority to bring action against all "institution-affiliated parties," including

controlling stockholders, and any stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in any violation of applicable law or regulation or breach of fiduciary duty or certain other wrongful actions that causes or is likely to cause a more than a minimal loss or other significant adverse effect on an insured savings association. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $5,000 per day for less serious violations, and up to $1 million per day in more egregious cases. Under the FDI Act, the FDIC has the authority to recommend to the Director of the OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director of the OTS, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

STANDARDS FOR SAFETY AND SOUNDNESS. The FDI Act requires each federal banking agency to prescribe for all insured depository institutions standards

relating to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, and compensation, fees and benefits and such other operational and managerial standards as the agency deems appropriate. The OTS and the federal banking agencies have adopted a final rule and Interagency Guidelines Prescribing Standards for Safety and Soundness ("Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset growth; asset quality; earnings and compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the FDI Act. The final rule establishes deadlines for the submission and review of such safety and soundness compliance plans, when such plans are required.

CAPITAL REQUIREMENTS. The OTS capital regulations require savings institutions to meet three minimum capital standards: a tangible capital ratio requirement of 1.5% of total assets as adjusted under the OTS regulations, a core capital ratio requirement of 3.0% of core capital to such adjusted total assets, which ratio requirement will, effective April 1, 1999, be 3% only for those savings institutions who been assigned a composite rating of 1 under the Uniform Financial Institutions Rating System, and will be 4% for all other savings institutions, and a risk-based capital ratio requirement of 8.0% of core and supplementary capital to total risk-based assets. Tangible capital is defined, generally, as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related earnings, minority interests in equity accounts of fully consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and investments in and loans to subsidiaries engaged in activities not permissible for a national bank. Core capital (also called "Tier 1" capital) is defined similarly to tangible capital, but core capital also includes certain qualifying supervisory goodwill and certain purchased credit card relationships. In addition, the OTS prompt corrective action regulation provides that a savings institution that has a core capital ratio of less than 4% (3% for institutions receiving the highest rating under the Uniform Financial Institutions Rating System, will be deemed to be "undercapitalized" and may be subject to certain restrictions). See "--Prompt Corrective Regulatory Action."

The risk-based capital standard for savings institutions requires the maintenance of total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 8%. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, as assigned by the OTS capital regulation based on the risks OTS believes are inherent in the type of asset. The components of core capital are equivalent to those discussed earlier under the 3% leverage standard. The components of supplementary capital currently

include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible debt

securities, subordinated debt and intermediate preferred stock and, within specified limits, the allowance for loan and lease losses. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS has incorporated an interest rate risk component into its regulatory capital rule. The final interest rate risk rule also adjusts the risk-weighting for certain mortgage derivative securities. Under the rule, savings associations with "above normal" interest rate risk exposure would be subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (i.e., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) that would result from a hypothetical 200-basis point increase or decrease in market interest rates divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. A savings association whose measured interest rate risk exposure exceeds 2% must deduct an interest rate component in calculating its total capital under the risk-based capital rule. The interest rate risk component is an amount equal to one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Under the rule, there is a two quarter lag between the reporting date of an institution's financial data and the effective date for the new capital requirement based on that data. A savings association with assets of less than $300 million and risk-based capital ratios in excess of 12% is not subject to the interest rate risk component, unless the OTS determines otherwise. The rule also provides that the Director of the OTS may waive or defer an association's interest rate risk component on a case-by-case basis. The OTS has indefinitely deferred the implementation of the interest rate risk component in the computation of an institution's risk-based capital requirement. The OTS continues to monitor the interest rate risk of individual institutions and retains the right to impose additional capital on individual institutions. If the Bank had been subject to an interest rate risk capital component as of December 31, 1998, there would have been no material effect on the Bank's risk-weighted capital.

At December 31, 1998, the Bank met each of its capital requirements, in each case on a fully phased-in basis. A chart which sets forth the Bank's compliance with its capital requirements appears in Note 17 to Notes to Consolidated Financial Statements in the Registrant's 1998 Annual Report to Stockholders on page 46, and is incorporated herein by reference.

PROMPT CORRECTIVE REGULATORY ACTION

Under the OTS prompt corrective action regulations, the OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of capitalization. Generally, a savings institution that has a total risk-based capital of less than 8.0% or either a leverage ratio or a Tier 1 risk-based capital ratio that is less than 4.0% is considered to be undercapitalized. A savings institution that has a total risk-based capital less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." Subject to a narrow exception, the banking regulator is required to appoint a receiver or conservator for an institution that is critically undercapitalized. The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date an association receives notice that it is "under-capitalized", "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to the institution depending upon its category, including, but not limited to, increased monitoring by regulators, restrictions on growth, and capital distributions and limitations on expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

INSURANCE OF DEPOSIT ACCOUNTS

The FDIC has adopted a risk-based insurance assessment system. The FDIC assigns an institution to one of three capital categories based on the institution's financial information, as of the reporting period ending seven months before the assessment period, consisting of (1) well capitalized, (2) adequately capitalized or (3) undercapitalized, and one of three supervisory subcategories within each capital group. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the FDIC by the institution's primary federal regulator and information which the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory category to which it is assigned.

Assessment rates currently range from 0.0% of deposits for an institution in the highest category (i.e., well-capitalized and financially sound, with no more than a few minor weaknesses) to 0.27% of deposits for an institution in the lowest category (i.e., undercapitalized and substantial supervisory concern). The FDIC is authorized to raise the assessment rates as necessary to maintain the required reserve ratio of 1.25%. As a result of the Deposit Insurance Funds Act of 1996 (the "Funds Act"), both the BIF and the SAIF currently satisfy the reserve ratio requirement. If the FDIC determines that assessment rates should

be increased, institutions in all risk categories could be affected. The FDIC has exercised this authority several times in the past and could raise insurance assessment rates in the future. If such action is taken by the FDIC, it could have an adverse effect on the earnings of the Bank.

The Funds Act also amended the FDI Act to expand the assessment base for the payments on the Financing Corporation ("FICO") obligations. Beginning January 1, 1997, the assessment base included the deposits of both BIF- and SAIF-insured institutions. Until December 31, 1999, or any earlier date on which the last savings association ceases to exist, the rate of assessment for BIF-assessable deposits shall be one-fifth of the rate imposed on SAIF-assessable deposits. The annual rate of assessments for the payments on the FICO obligations for the quarterly semi-annual period beginning on January 1, 1998 was 0.0156% for BIF-assessable deposits and 0.0628% for SAIF-assessable deposits. For the quarterly period beginning on July 1, 1998, the rates of assessment for the FICO obligations are 0.0122% for BIF-assessable deposits and 0.0610% for SAIF-assessable deposits. Accordingly, as a result of the Funds Act, the Bank has seen a decrease in the deposit assessments paid to the FDIC.

FEDERAL HOME LOAN BANK SYSTEM

The Bank is a member of the FHLB System, which consists of 12 regional FHLBs. The FHLB provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of New York, is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLB, whichever is greater. The Bank was in compliance with this requirement with an investment in FHLB stock at December 31, 1998 of $22.0 million. FHLB advances must be secured by specified types of collateral, and all long-term advances may only be obtained for the purpose of providing funds for residential housing finance.

The FHLBs are required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the FHLBs pay to their members and could also result in the FHLBs imposing a higher rate of interest on advances to their members. For the years ended December 31, 1998, 1997 and 1996, dividends from the FHLB to the Bank amounted to $1.2 million, $710,000 and $571,000, respectively. If dividends were reduced or interest on future FHLB advances increased, the Bank's net interest income would likely also be reduced. Further, there can be no assurance that the impact of recent legislation on the FHLBs will not also cause a decrease in the value of the FHLB stock held by the Bank.

FEDERAL RESERVE SYSTEM

The Federal Reserve Board regulations require depository institutions,

including savings institutions, to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The current Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating $46.5 million or less (subject to adjustment by the Federal Reserve Board) the reserve requirement is 3%; and for accounts greater than $46.5 million, the reserve requirement is $1,395,000 plus 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of $46.5 million. The first $4.9 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The Bank is in compliance with the foregoing requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. FHLB System members are also authorized to borrow from the Federal Reserve "discount window," but Federal Reserve Board regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

HOLDING COMPANY REGULATION

The Company is a non-diversified unitary savings and loan holding company within the meaning of the HOLA. As such, the Company is required to be registered with the OTS and is subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over the Company and its non-savings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. The Bank must notify the OTS 30 days before declaring any dividend to the Company.

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

The HOLA prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of the voting stock of another savings institution or holding company thereof, without prior written approval of the OTS; and from acquiring or retaining, with

certain exceptions, more than 5% of a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by the HOLA; or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

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

LEGISLATIVE DEVELOPMENTS

Congress continues to work toward passage of legislation to modernize the financial services industries. Proposed legislation being considered by committees of the House of Representatives and of the Senate would permit affiliations between banking, insurance and securities companies and, thereby, expand significantly the financial services that could be offered by bank holding companies. Such expanded financial activities would be permissible for financial holding companies that controlled subsidiary depository institutions that qualified as well capitalized and well managed and that had satisfactory CRA ratings. The proposed legislation would grandfather unitary savings and loan holding companies in activities currently permitted such holding companies. The outcome of such proposed legislation is uncertain. Therefore, the Company is unable to determine the extent to which such legislation, if enacted, would affect the Company's business.

FEDERAL SECURITIES LAWS

The Company's Common Stock is registered with the Securities and Exchange Commission under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

The registration, under the Securities Act of 1933, as amended (the "Securities Act") of shares of the Common Stock issued in the Conversion does not cover the resale of such shares. Shares of the Common Stock purchased by persons who are not affiliates of the Company may be resold without registration. Shares purchased by an affiliate of the Company will be subject to the resale restrictions of Rule 144 under the Securities Act. If the Company

meets the current public information requirements of Rule 144 under the Securities Act, each affiliate of the Company who complies with the other conditions of Rule 144 (including those that require the affiliate's sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of the Company or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks. Shares acquired through the Company's option plans have been registered under the Securities Act and, therefore, are not subject to resale restrictions. Provision may be made in the future by the Company to permit affiliates to have their shares registered for sale under the Securities Act under certain circumstances.

THE YEAR 2000 PROBLEM

The information related to the Year 2000 problem is incorporated herein by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations--Computer Issues for the Year 2000" in the Registrant's 1998 Annual Report to Stockholders on page 21.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION

GENERAL. The Company and the Bank report their income on a calendar year basis using the accrual method of accounting and will be subject to federal income taxation in the same manner as other corporations with some exceptions. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company. The Company and its subsidiaries file a consolidated Federal income tax return on a calendar-year basis. The Bank and the Company have not been audited by the Internal Revenue Service during the last five fiscal years.

Under the Small Business Job Protection Act of 1996 ("1996 Act"), signed into law in August 1996, the special rules for bad debt reserves of thrift institutions no longer apply and, therefore, the Bank cannot make additions to the tax bad debt reserves but is permitted to deduct bad debts as they occur. Additionally, under the 1996 Act, the Bank is required to recapture (that is, include in taxable income) the excess of the balance of its bad debt reserves as of December 31, 1995 over the balance of such reserves as of December 31, 1987 ("base year"). The Bank's federal tax bad debt reserves at December 31, 1995 exceeded its base year reserves by $2.7 million which will be recaptured into taxable income ratably over a six year period. This recapture was suspended for 1996 and 1997, whereas, one-sixth of the excess reserves was recaptured into taxable income for 1998. The base year reserves will be subject to recapture, and the Bank could be required to recognize a tax liability, if (i) the Bank fails to qualify as a "bank" for Federal income tax purposes; (ii) certain

distributions are made with respect to the stock of the Bank (see "Distributions"); (iii) the Bank uses the bad debt reserves for any purpose other than to absorb bad debt losses; or (iv) there is a change in Federal tax law. Management is not aware of the occurrence of any such event.

DISTRIBUTIONS. To the extent that the Bank makes "non-dividend distributions" to stockholders, such distributions will be considered as made from the Bank's base year reserve to the extent thereof, and then from the supplemental reserve for losses on loans and an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserves.

CORPORATE ALTERNATIVE MINIMUM TAX. The Internal Revenue Code of 1986, as amended, imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. AMTI is increased by an amount equal to 75% of the amount by which a corporation's adjusted current earnings exceeds its AMTI (determined without regard to this adjustment and prior to reduction for net operating losses).

DIVIDENDS RECEIVED DEDUCTION AND OTHER MATTERS. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank owns more than 20% of the stock of a corporation distributing a dividend, 80% of any dividends received may be deducted.

STATE AND LOCAL TAXATION

NEW YORK STATE AND NEW YORK CITY TAXATION. The Bank and the Company are subject to New York State and City franchise taxes on net income or one of several alternative bases, whichever results in the highest tax. "Net income" means Federal taxable income with adjustments. The Company's annual tax liability for each year is the greatest of a tax on allocated entire net income; allocated alternative entire net income; allocated assets to New York State and/or New York City; or a minimum tax. Operating losses cannot be carried back or carried forward for New York State or New York City tax purposes. The Bank is also subject to the 17% Metropolitan Commuter District Surcharge on its New York State tax after the deduction of credits. The Company is also subject to taxes in New Jersey and Connecticut due to the establishment of in-store branches.

In response to the 1996 Act, the New York State and New York City tax laws have been amended to prevent the recapture of existing tax bad debt reserves and to allow for the continued use of the PTI method to determine the bad debt deduction in computing New York City and New York State tax liability.

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

ITEM 2. PROPERTIES

The Bank conducts its business through eight full-service banking and fifty-nine supermarket banking facilities (two of which were opened during the first quarter of 1999) located in the New York City boroughs of Queens, Brooklyn, Manhattan and Staten Island, the New York counties of Nassau, Suffolk, Rockland and Westchester and in New Jersey and Connecticut. The Bank provides residential mortgage banking services through its CFS Intercounty Mortgage division operating from six loan origination offices in New York, New Jersey and Pennsylvania. The Company provides casualty insurance through its subsidiary, CIA, from three offices located in Long Island, New York. In December 1997, the Company purchased an office building and land in Westbury, New York for its new administrative headquarters. The purchase was consummated under the terms of a lease agreement and Payment-in-lieu-of-Tax ("PILOT") agreement with the Town of Hempstead Industrial Development Agency ("IDA"). The Company completed improvements to the building and began using the building as its corporate headquarters in July 1998. The cost of the land and building, including improvements was $12.8 million. The total net book value of the Company's and the Bank's premises and equipment was $39.2 million at December 31, 1998, which included fifty-seven supermarket branches. The Company believes that the Bank's current facilities are adequate to meet the present and immediately foreseeable needs of the Bank and the Company.

NET BOOK VALUE OF
PROPERTY OR LEASEHOLD
DATE IMPROVEMENTS
LEASED OR LEASED OR
DATE OF LEASE AT
DECEMBER 31, LOCATION
OWNED ACQUIRED
EXPIRATION(1) 1998 - --

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(IN THOUSANDS) Main
Office Complex(2): 93-
22/93-30 & 94-09/94-13
Jamaica Avenue & 87-
14/86-35 94th St.
Woodhaven, NY

11421............ Owned
1957 -- $ 2,208
Traditional Branches:
80-35 Jamaica Avenue,
Woodhaven, NY
11421...............
Owned 1979 -- 251 82-10
153rd Avenue, Howard
Beach, NY
11414..............
Owned 1971 -- 561 98-16
101st Avenue, Ozone
Park, NY
11416................
Owned 1976 -- 451 244-
19 Braddock Avenue,
Bellerose, NY
11426(3)..........
Leased 1973 2003 117
106-17 Continental Ave,
Forest Hills, NY
11375.......... Leased
1959 1999 13 343
Merrick Road,
Amityville, NY
11701..................
Leased 1977 2001 416
104-08 Rockaway Beach
Blvd., Rockaway Beach,
NY 11693... Leased 1996
1999 34 Supermarket
Branches: 700-60
Patchogue Rd., Medford,
NY
11763.................
Leased 1996 2001 173
1121 Jerusalem Avenue,
Uniondale, NY
11553.............
Leased 1996 2001 192
533 Montauk Highway,
Bayshore, NY
11708.................
Leased 1996 2001 223
625 Atlantic Avenue,
Brooklyn, NY
11217.................
Leased 1996 2001 198
575 Montauk Highway, W.
Babylon, NY

11704...............
Leased 1997 2002 203
2335 New Hyde Park Rd,
New Hyde Park, NY
11040.......... Leased
1997 2002 223 1251 Deer
Park Ave., N. Babylon,
NY 11703...............
Leased 1997 2002 212
101 Wicks Road,
Brentwood, New York
11717...............
Leased 1997 2002 222
3635 Hempstead
Turnpike, Levittown, NY
11756............
Leased 1997 2002 228
6070 Jericho Turnpike,
Commack, NY
11726................
Leased 1997 2002 226

NET BOOK VALUE OF PROPERTY OR
LEASEHOLD DATE IMPROVEMENTS
LEASED OR LEASED OR DATE OF LEASE
AT DECEMBER 31, LOCATION OWNED
ACQUIRED EXPIRATION(1) 1998 - ---

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- ------------- --------------- -
-------------- (IN THOUSANDS)
2150 Middle Country Rd.,
Centereach, NY 11720...........
Leased 1997 2002 227 1897 Front
Street, East Meadow, NY
11554............... Leased 1997
2002 235 8101 Jericho Turnpike,
Woodbury, NY 11796..............
Leased 1997 2002 227 92-10
Atlantic Avenue, Ozone Park, NY
11416............ Leased 1997
2002 230 395 Route 112,
Patchogue, NY
11772.....................
Leased 1997 2002 219 1764 Grand
Avenue, Baldwin, NY
11510................... Leased

1997 2002 226 5145 Nesconset
Hwy., Port Jefferson, NY
11776........... Leased 1997 2002
248 31-06 Farrington Street,
Whitestone, NY 11357...........
Leased 1997 2002 226 5801 Sunrise
Highway, Sayville, NY
11741................ Leased 1997
2002 220 531 Montauk Highway, W.
Babylon, NY 11776...............
Leased 1997 2002 229 155 Islip
Avenue, Islip, NY
11751.......................
Leased 1997 2002 232 800 Montauk
Highway, Shirley, NY
11967.................. Leased
1997 2002 237 253-01 Rockaway
Turnpike, Woodmere, NY
11422............ Leased 1997
2002 227 227 Cherry Street, New
York, NY 10002...................
Leased 1997 2002 227 45 Route 59
Monsey, NY
10952.............................
Leased 1997 2002 233 195 Rockland
Center, Rte. 59, Nanuet, NY
10954.......... Leased 1997 2002
244 1905 Sunrise Highway,
Bayshore, NY
11708................ Leased 1997
2002 243 941 Carmens Road,
Massapequa, NY
11758.................. Leased
1997 2002 84 500 South River
Street, Hackensack, NJ
07470............ Leased 1997
2002 180 1 Pathmark Plaza, Mount
Vernon, NY......................
Leased 1997 2002 268 2875
Richmond Avenue, Staten Island,
NY 10306........... Leased 1997
2002 257 111-10 Flatlands Avenue,
Brooklyn, NY 11230............
Leased 1997 2002 236 1245 61st
Street, Boro Park, NY
11219................... Leased
1998 2003 257 2650 Sunrise
Highway, East Islip, NY
11730.............. Leased 1998
2003 172 492 E. Atlantic Avenue,

E. Rockaway, NY 11554...........
Leased 1998 2003 245 1-37 12th
Street, Brooklyn, NY
11205.................... Leased
1998 2003 243 130 Wheatley Plaza,
Greenvale, NY
11548................. Leased
1998 2003 258 335 Nesconset
Highway, Hauppauge, NY
11788.............. Leased 1998
2003 162 360 No. Broadway,
Jericho, NY
11753..................... Leased
1998 2003 244 42-02 Northern
Blvd., L.I.C., NY
11100.................. Leased
1998 2003 237 2540 Central Park
Ave, No. Yonkers, NY
10710............ Leased 1998
2003 222 130 Midland Avenue,
Portchester, NY
10573............... Leased 1998
2003 285 1351 Forest Avenue,
Staten Island, NY
10302............. Leased 1998
2003 247 2424 Hylan Blvd., Staten
Island, NY 10306...............
Leased 1998 2003 24 1757 Central
Park Ave, Yonkers, NY
10710................ Leased 1998
2003 293 Route 28 and Union Ave,
Bound Brook, NJ 08805...........
Leased 1998 2003 201 Rte 70 &
Chambers Bridge Rd, Bricktown, NJ
08723........ Leased 1998 2003
213 367 Highway 22 West,
Hillside, NJ
07205................. Leased
1998 2003 327 201 Roosevelt
Place, Palisades Park, NJ
07650........... Leased 1998 2003
211 625 Hamburg Turnpike, Wayne,
NJ 07470...................
Leased 1998 2003 189 145 Highway
36 West, Long Branch, NJ
07764.............. Leased 1998
2003 202 23 Marshall Hill Road,
West Milford, NJ 07480...........
Leased 1998 2003 210 404 Main
Street, Ansonia, CT

06401......................
Leased 1998 2003 173 500 Sylvan
Avenue, Bridgeport, CT
06610................. Leased
1998 2003 238

NET BOOK VALUE OF PROPERTY
OR LEASEHOLD DATE
IMPROVEMENTS LEASED OR
LEASED OR DATE OF LEASE AT
DECEMBER 31, LOCATION OWNED
ACQUIRED EXPIRATION(1) 1998
- --------------------------

---- ----------- -----------
-- --------------- ---------
------ (IN THOUSANDS) 533
South Broad Street, Meridan,
CT 06450...............
Leased 1998 2003 254 157
Cherry Street, Milford, CT
06460....................
Leased 1998 2003 177 6 Queen
Street, Newtown, CT
06460.......................
Leased 1998 2003 201 650
Wolcott Street, Waterbury,
CT 06705.................
Leased 1998 2003 260 131
Campbell Avenue, West Haven,
CT 06516...............
Leased 1998 2003 176
Corporate Headquarters: 615
Merrick Avenue, Westbury,
NY........................
Owned 1997 -- 11,419

- -------------------------

(1) Rent expense for the year ended December 31, 1998 was $1.7 million.

(2) On March 25, 1999, the Bank sold the properties, consisting of land, buildings and building improvements located at 93-22 and 93-30 Jamaica Avenue, Woodhaven, New York. As of December 31, 1998, the Bank entered into a contract of sale for its properties located at 94-09 and 94-13 Jamaica Avenue and 87-14 and 86-35 94th Street, Woodhaven, New York. These

properties are expected to be sold in the second quarter of 1999.

(3) Includes land that is adjacent to the branch office that was acquired by the Bank in 1973.

ITEM 3. LEGAL PROCEEDINGS

In February, 1983, a burglary of the contents of safe deposit boxes occurred at a branch office of the Bank. At December 31, 1998 and currently, the Bank has a class action lawsuit related thereto pending, whereby the plaintiffs are seeking recovery of approximately $12,900,000 in actual damages and an additional $12,900,000 in unspecified damages. The Bank's ultimate liability, if any, which might arise from the disposition of these claims cannot presently be determined. Management believes it has meritorious defenses against this action and has and will continue to defend its position. Accordingly, no provision for any liability that may result upon adjudication of this action has been recognized in the accompanying consolidated financial statements.

The Company is involved in various legal actions arising in the ordinary course of business, which in the aggregate, are believed by management to be immaterial to the financial position of the Company.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information relating to the market for Registrant's common equity and related stockholder matters appears under "Common Stock Information" in the Registrant's 1998 Annual Report to Stockholders on page 53, and is incorporated herein by reference.

Information relating to the payment of dividends by the Registrant appears in Note 17 to Notes to Consolidated Financial Statements in the Registrant's Annual Report on page 45 and is incorporated herein by reference.

The Company initiated a quarterly cash dividend of $0.05 per share in the third quarter of 1995 paid on October 20, 1995. The following schedule summarizes the cash dividends paid for 1996, 1997 and 1998:

DIVIDEND PAID DIVIDEND PAYMENT DATE PER
SHARE (1) RECORD DATE - ----------------
---------------------------- ----------
------- ---------------------- January
19, 1996.............................

.05 January 2, 1996 April 29,
1996............................... .05
April 8, 1996 July 12,
1996................................
.075 June 27, 1996 October 28,
1996............................. .075
October 7, 1996 January 17,
1997............................. .075
December 30, 1996 April 24,
1997............................... .075
April 4, 1997 July 18,
1997................................
.075 June 30, 1997 October 17,
1997............................. .075
September 29, 1997 January
1998.................................
.075 December 1998 April
1998...................................
.075 March 1998 July
1998....................................
.075 June 1998 October
1998.................................
.075 September 1998

- ------------------------

(1) As adjusted to reflect the 2-for-1 stock split effective November 1997 ("stock split").

The following schedule summarizes the dividend payout ratio (dividends declared per share divided by net income per share):

YEAR	DIVIDENDS PAID PER SHARE	NET INCOME PER SHARE	PAYOUT RATIO
1996......................................	$ 0.25	$ 1.13	.221%
1997......................................	0.30	1.32	.227
1998......................................	0.30	0.95	.316

ITEM 6. SELECTED FINANCIAL DATA

The above-captioned information appears in the Registrant's 1998 Annual Report to Stockholders on pages 6 and 7 and is incorporated herein by reference.

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

The above-captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1998 Annual Report to Stockholders on pages 8 through 22 and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The above-captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Asset/Liability Management" and "--Interest Rate Sensitivity Analysis" in the Registrant's 1998 Annual Report to Stockholders on pages 9 through 11 and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Haven Bancorp, Inc. and its subsidiaries, and the notes related thereto together with the report thereon by KPMG LLP appears in the Registrant's 1998 Annual Report to Stockholders on pages 23 through 51 and are incorporated herein by reference.

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information relating to Directors and Executive Officers of the Registrant is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 21, 1999, on pages 5 through 8.

ITEM 11. EXECUTIVE COMPENSATION

The information relating to executive compensation is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 21, 1999, on pages 9 through 22 (excluding the Report of the Compensation Committee on pages 12 through 14 and the Stock Performance Graph on page 15).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information relating to security ownership of certain beneficial owners

and management is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 21, 1999, on pages 3 through 4 and pages 6 through 8.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 21, 1999, on pages 22 and 23.

PART IV

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

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

(1) Consolidated Financial Statements of the Company are incorporated by reference to the following indicated pages of the 1998 Annual Report to Stockholders.

	PAGES
Consolidated Statements of Financial Condition as of December 31, 1998 and 1997	23
Consolidated Statements of Income for the Years Ended December 31, 1998, 1997 and 1996	24
Consolidated Statements of Changes In Stockholders' Equity for the Three Years Ended December 31, 1998	25
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996	26
Notes to Consolidated Financial Statements	27-50
Independent Auditors' Report	51

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

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

(3) Exhibits (filed herewith unless otherwise noted)

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

3.1	Amended Certificate of Incorporation of Haven Bancorp, Inc.(1)
3.2	Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock(2)
3.3	Bylaws of Haven Bancorp, Inc.(3)
4.0	Rights Agreement between Haven Bancorp, Inc. and Chase Manhattan Bank (formerly Chemical Bank)(2)
10.1(A)	Employment Agreement between Haven Bancorp, Inc. and Philip S. Messina(4)
10.1(B)	Amendatory Agreement to the Employment Agreement between Haven Bancorp, Inc. and Philip S. Messina(5)
10.1(C)	Employment Agreement between CFS Bank and Philip S. Messina(5)
10.2(A)	Form of Change in Control Agreement between Columbia Federal Savings Bank and certain executive officers, as amended(4)
10.2(B)	Form of Amendment to Change in Control Agreement between CFS Bank and certain executive officers(5)
10.2(C)	Form of Change in Control Agreement between Haven Bancorp, Inc. and certain executive officers, as amended(4)
10.2(D)	Form of Amendment to Change in Control Agreement between Haven Bancorp, Inc. and certain executive officers(5)
10.2(E)	Employment Agreement between Columbia Federal Savings Bank and Andrew L. Kaplan(5)

10.2(F)	Change in Control Agreement between Haven Bancorp, Inc. and Mark A. Ricca dated as of April 10, 1998 (filed herewith)
10.2(G)	Change in Control Agreement between CFS Bank and Mark A. Ricca dated as of April 10, 1998 (filed herewith)
10.4	(a) Amended and Restated Columbia Federal Savings Bank Recognition and Retention Plans and Trusts for Officers and Employees(6)
10.4	(b) Amended and Restated Recognition and Retention Plan and Trusts for Outside Directors(6)
10.5	Haven Bancorp, Inc. 1993 Incentive Stock Option Plan(6)
10.6	Haven Bancorp, Inc. 1993 Stock Option Plan for Outside Directors(6)

10.7	Columbia Federal Savings Bank Employee Severance Compensation Plan, as amended(4)
10.8	Columbia Federal Savings Bank Consultation and Retirement Plan for Non-Employee Directors(6)
10.9	Form of Supplemental Executive Retirement Plan(3)
10.10	Haven Bancorp, Inc. 1996 Stock Incentive Plan(4)
10.11	Purchase and Assumption Agreement, dated as of March 11, 1998, by and among Intercounty Mortgage, Inc., CFS Bank and Resource Bancshares Mortgage Group, Inc.(7)
11.0	Computation of earnings per share (filed herewith)
13.0	1998 Annual Report to Stockholders (filed herewith)
21.0	Subsidiary information is incorporated herein by reference to "Part I--Subsidiaries"
23.0	Consent of Independent Auditors (filed herewith)
27.0	Financial Data Schedule (filed herewith)
99	Proxy Statement for 1999 Annual Meeting (filed herewith)

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(1) Incorporated by reference into this document from the Exhibits to Form 10-Q for the quarter ended September 30, 1998, filed on November 16, 1998.

(2) Incorporated by reference into this document from the Exhibits to Form 8-K, Current Report, filed on January 30, 1996.

(3) Incorporated by reference into this document from the Exhibits to Form S-1, Registration Statement and any amendments thereto, filed on April 14, 1993, Registration No. 33-61048.

(4) Incorporated by reference into this document from the Exhibits to Form 10-K for the year ended December 31, 1995, filed on March 29, 1996.

(5) Incorporated by reference into this document from the Exhibits to Form 10-K for the year ended December 31, 1997, filed on March 31, 1998.

(6) Incorporated by reference into this document from the Exhibits to Form 10-K for the year ended December 31, 1994, filed on March 30, 1995.

(7) Incorporated by reference into this document from the Exhibits to Form 8-K,

Current Report, filed on July 2, 1998.

(b) Reports on Form 8-K.

A report on Form 8-K was filed by the Company dated October 9, 1998 relating to the Company's execution of a definitive purchase agreement in connection with the purchase of Century Insurance Agency, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HAVEN BANCORP, INC.

By: /s/ PHILIP S. MESSINA
Philip S. Messina
Chairman of the Board

Dated: March 30, 1999

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

NAME	TITLE	DATE
/s/ PHILIP S. MESSINA Philip S. Messina	Chairman of the Board, President and Chief Executive Officer	March 30, 1999
/s/ GEORGE S. WORGUL George S. Worgul	Director	March 30, 1999
/s/ ROBERT M. SPROTTE Robert M. Sprotte	Director	March 30, 1999
/s/ MICHAEL J. FITZPATRICK Michael J. Fitzpatrick	Director	March 30, 1999
/s/ WILLIAM J. JENNINGS II	Director	March 30, 1999

William J. Jennings II

/s/ MICHAEL J. LEVINE Michael J. Levine	Director	March 30, 1999
/s/ MSGR. THOMAS J. HARTMAN Msgr. Thomas J. Hartman	Director	March 30, 1999
/s/ CATHERINE CALIFANO Catherine Califano	Senior Vice President and Chief Financial Officer	March 30, 1999

APPENDIX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FROM HAVEN BANCORP, INC.'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998

GENERAL

Haven Bancorp, Inc. ("Haven Bancorp" or the "Company") was formed on March 25, 1993 as the Holding Company for CFS Bank ("CFS" or the "Bank") in connection with the Bank's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank. The Company is headquartered in Westbury, New York and its principal business currently consists of the operation of its wholly owned subsidiary, CFS Bank.

The Bank's principal business has been and continues to be attracting retail deposits from the general public and investing those deposits, together with funds generated from operations primarily in one- to four-family, owner occupied residential mortgage loans. In addition, the Bank will invest in debt, equity and mortgage-backed securities to supplement its lending portfolio. The Bank also invests, to a lesser extent, in multi-family residential mortgage loans, commercial real estate loans and other marketable securities.

The Bank's results of operations are dependent primarily on its net interest income, which is the difference between the interest income earned on its loan and securities portfolios and its cost of funds, which consist of the interest paid on its deposits and borrowed funds. The Bank's net income also is affected by its non-interest income, including, beginning May 1, 1998, the results of the acquisition of the loan production franchise of Intercounty Mortgage, Inc., its provision for loan losses and its operating expenses consisting primarily of compensation and benefits, occupancy and equipment, real estate operations, net, federal deposit insurance premiums and other general and administrative expenses. The earnings of the Bank are significantly affected by general

economic and competitive conditions, particularly changes in market interest rates, and to a lesser extent by government policies and actions of regulatory authorities.

FINANCIAL CONDITION

The Company had total assets of $2.40 billion at December 31, 1998 compared to $1.97 billion at December 31, 1997, an increase of $420.6 million, or 21.3%.

The Company's portfolio of debt and equity securities and mortgage-backed securities ("MBSs") available for sale ("AFS") totaled $889.3 million, an increase of $389.9 million, or 78.1% at December 31, 1998 compared to $499.4 million at December 31, 1997. At December 31, 1998, $266.3 million of the AFS securities portfolio were adjustable-rate securities and $623.0 million were fixed-rate securities. At June 30, 1998, the Company transferred its remaining debt and MBSs held to maturity portfolios totaling $183.6 million to securities AFS. The transfer was done to enhance liquidity and take advantage of market opportunities. In the third quarter of 1998, the Bank completed the securitization of $105.7 million of residential mortgages with the Fannie Mae ("FNMA") and the underlying securities were transferred to securities available for sale. This provided the Bank with additional collateral for borrowings, and the ability to sell the securitized loans. The remaining growth in the AFS portfolio in 1998 was primarily due to securities purchased with the investment of deposit flows during the year not utilized for portfolio loan originations. During 1998, the Company purchased $749.0 million of debt and equity securities and MBSs for its AFS portfolio, of which $106.3 million were adjustable-rate and $642.7 million were fixed-rate. Principal repayments, calls and proceeds from sales of AFS securities totaled $650.1 million.

Net loans increased by $158.4 million, or 13.9% during 1998 to $1.30 billion at December 31, 1998 from $1.14 billion at December 31, 1997. Loan originations and purchases during 1998 totaled $1.22 billion

(comprised of $1.04 billion of residential one- to four-family mortgage loans, $156.8 million of commercial and multi-family real estate loans, $2.8 million of construction loans and $16.4 million of consumer loans). One- to four-family mortgage loan originations included $570.0 million of loans originated and purchased for sale in the secondary market during 1998. During 1998, the Bank sold $515.8 million of one- to four-family mortgage loans in the secondary market on a servicing released basis. At December 31, 1998, loans held for sale were $54.2 million. Commercial and multi-family real estate loan originations increased by $23.2 million to $156.8 million in 1998 from $133.6 million in 1997, or 17.4% comprised of $88.5 million of multi-family loans and $68.3 million of commercial real estate loans. Total loans increased substantially while the Company continued towards its objective to invest in adjustable-rate loans. At December 31, 1998, total loans were comprised of $708.7 million adjustable-rate loans and $602.0 million fixed-rate loans. During 1998, principal repayments and satisfactions totaled $279.4 million and $0.6 million

was transferred to real estate owned ("REO"). In the third quarter of 1998, the Company securitized $105.7 million in one- to four-family mortgage loans with the FNMA. The resulting securities were retained and are included in the Company's securities AFS portfolio. Notwithstanding the Company's objective of investing in adjustable-rate loans, the Company, during the fourth quarter of 1998, sold $83.3 million of adjustable-rate mortgage loans previously held in portfolio in several bulk-sale transactions. These loans had become less desireable in the current market due to their high level of prepayments.

In 1998, the Company also sold $14.0 million of cooperative apartment loans as part of its ongoing efforts to dispose of this portion of its portfolio.

Deposits totaled $1.72 billion at December 31, 1998, an increase of $357.7 million, or 26.2% from $1.37 billion at December 31, 1997. Interest credited totaled $65.2 million in addition to deposit growth of $292.5 million. As of December 31, 1998, the Bank had fifty-seven supermarket branches with total deposits of $504.0 million compared to thirty-two locations with deposits totaling $157.2 million at December 31, 1997. The supermarket branches are located in the New York City boroughs of Queens, Brooklyn, Manhattan, Staten Island, the New York counties of Nassau, Suffolk, Rockland and Westchester and in Connecticut and New Jersey. Core deposits equaled 54.0% of total in-store branch deposits, compared to 45.5% in traditional branches. Overall, core deposits represented 47.7% of total deposits at December 31, 1998 compared to 42.7% at December 31, 1997.

Borrowed funds decreased 5.7% to $440.3 million at December 31, 1998 from $466.8 million at December 31, 1997. The decrease in borrowings resulted from the pay-down of short-term borrowings as a result of deposit growth during 1998. In addition, at December 31, 1998 and 1997, the Company had $97.5 million and $10.0 million, respectively, in securities purchased, net of securities sold, against commitments to brokers. At December 31, 1998 and 1997, these respective amounts were reflected as due to broker in the statements of financial condition, with the related securities included in securities AFS. These transactions settled in January 1999 and 1998, respectively, and the Company utilized borrowed funds to repay the obligations to brokers. Including the effect of these transactions, borrowed funds and due to broker increased by $61.0 million, or 12.8%, from December 31, 1997 to December 31, 1998.

Stockholders' equity totaled $119.9 million, or 5.0% of total assets at December 31, 1998, an increase of $7.0 million, or 6.2% from $112.9 million, or 5.7% of total assets at December 31, 1997. The increase reflects net income of $8.2 million, an increase of $1.7 million related to the allocation of ESOP stock, amortization of awards of shares of common stock by the Bank's Recognition and Retention Plans and Trusts ("RRPs") and amortization of deferred compensation plan and $0.5 million related to stock options exercised, and related tax effect. These were partially offset by dividends declared of $2.6 million and a decrease in unrealized gains on securities AFS, net of tax effect, of $0.7 million.

ASSET/LIABILITY MANAGEMENT

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a

large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets, other than those which possess a short term to maturity. Since virtually all of the Company's interest-bearing liabilities and interest-earning assets are at the Bank, virtually all of the Company's interest-rate risk exposure lies at the Bank level. As a result, all significant interest rate risk management procedures are performed at the Bank level. Based upon the Bank's nature of operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank's real estate loan portfolio, concentrated primarily within the New York metropolitan area, is subject to risks associated with the local economy. The Bank does not own any trading assets. The Bank's interest rate management strategy is designed to stabilize net interest income and preserve capital over a broad range of interest rate movements.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap". An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within the same period. A gap is considered positive when the amount of interest-earning assets maturing or repricing exceeds the amount of interest-bearing liabilities maturing or repricing within the same period. A gap is considered negative when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within the same period.

Accordingly, in a rising interest rate environment, an institution with a positive gap would be in a better position to invest in higher yielding assets which would result in the yield on its assets increasing at a pace closer to the cost of its interest-bearing liabilities, than would be the case if it had a negative gap. During a period of falling interest rates, an institution with a positive gap would tend to have its assets repricing at a faster rate than one with a negative gap, which would tend to restrain the growth of its net interest income.

The Company closely monitors its interest rate risk as such risk relates to its operational strategies. The Company's Board of Directors has established an Asset/Liability Committee, responsible for reviewing its asset/liability policies and interest rate risk position, which generally meets weekly and reports to the Board on interest rate risk and trends on a quarterly basis.

The following table ("gap table") sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 1998 which are anticipated by the Company, based upon certain assumptions described below, to reprice or mature in each of the future time periods shown. Adjustable-rate assets and liabilities are included in the table in the period in which their interest rates can next be adjusted. For purposes of this table, prepayment assumptions for fixed interest-rate assets are based upon industry standards as well as the Company's historical experience and estimates. The Company has assumed an annual prepayment rate of approximately 24% for its fixed-rate MBS portfolio. The computation of the estimated one-year gap assumes that the interest rate on savings account deposits is variable and, therefore, interest sensitive. During the falling interest rate environment throughout 1998, these funds were maintained at an average rate of 2.81%. The Company has assumed that its savings, NOW and money market accounts, which totaled $736.5 million at December 31, 1998, are withdrawn at the annual percentages of approximately 9%, 5% and 15%, respectively.

MORE THAN MORE THAN
MORE THAN MORE THAN
THREE ONE YEAR THREE
FIVE YEARS TEN YEARS
MONTHS THREE TO TO
YEARS TO TO TO MORE
THAN OR LESS TWELVE
MONTHS THREE YEARS
FIVE YEARS TEN YEARS
TWENTY YEARS TWENTY
YEARS TOTAL ---------
-------------- ------
----- ----------- ---
--------- ------------
- ------------- -----
---- (DOLLARS IN
THOUSANDS) INTEREST-
EARNING ASSETS:
Mortgage loans
(1)..... $ 164,423
185,609 465,865
450,661 1,273 636 --
1,268,467 Other loans
(1)........ 12,434
9,042 1,885 2,438
4,138 4,782 -- 34,719
Loans held for
sale.... 54,188 -- --
-- -- -- -- 54,188
Securities available
for sale.............

889,251 -- -- -- -- -
- -- 889,251 Money
market
investments..........
1,720 -- -- -- -- --
-- 1,720 --------- --
------------ --------
--- ----------- -----
------ -------------
------------- -------
-- Total interest-
earning
assets...............
1,122,016 194,651
467,750 453,099 5,411
5,418 -- 2,248,345
Premiums, net of
unearned discount and
deferred fees (2)....
852 148 355 344 4 5 -
- 1,708 --------- ---
----------- ---------
-- ----------- ------
----- ------------- -
------------ --------
- Net interest-
earning
assets...............
1,122,868 194,799
468,105 453,443 5,415
5,423 -- 2,250,053 --
------- -------------
- ----------- -------
---- ----------- ----
--------- -----------
-- ---------
INTEREST-BEARING
LIABILITIES: Savings
accounts.......
12,040 36,557 155,204
101,244 128,498
88,821 24,900 547,264
NOW
accounts...........
1,511 4,521 66,786
17,862 23,817 13,315
2,476 130,288 Money
market
accounts.............
2,177 6,524 26,348

12,387 9,691 1,757
100 58,984
Certificate
accounts... 296,671
471,205 74,786 57,598
1,489 -- -- 901,749
Borrowed
funds.........
151,567 25,233 82,620
56,942 99,000 --
24,984 440,346 Due to
broker..........
97,458 -- -- -- -- --
-- 97,458 --------- -
------------- -------
---- ----------- ----
------- -------------
------------- -------
-- Total interest-
bearing
liabilities..........
$ 561,424 544,040
405,744 246,033
262,495 103,893
52,460 2,176,089 ----
----- --------------
----------- ---------
-- ----------- ------
------- -------------
--------- Interest
sensitivity
gap..................
$ 561,444 (349,241)
62,361 207,410
(257,080) (98,470)
(52,460) 73,964 -----
---- -------------- -
---------- ----------
- ----------- -------
------ -------------
--------- Cumulative
interest sensitivity
gap...... $ 561,444
212,203 274,564
481,974 224,894
126,424 73,964 ------
--- -------------- --
--------- -----------
----------- ---------
---- -------------

Cumulative interest sensitivity gap as a percentage of total assets............... 23.44% 8.86% 11.46% 20.12% 9.39% 5.28% 3.09% Cumulative net interest-earning assets as a percentage of interest-sensitive liabilities.......... 200.00% 119.20% 118.17% 127.43% 111.13% 105.95% 103.40%

- ------------------------------

(1) For purposes of the gap analysis, mortgage and other loans are reduced for non-accural loans but are not reduced for the allowance for loan losses.

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

At December 31, 1998, the Company's total interest-earning assets maturing or repricing within one year exceeded its total interest-bearing liabilities maturing or repricing within the same time period by $212.2 million, representing a one year cumulative gap ratio of 8.86%.

In order to reduce its sensitivity to interest rate risk, the Company's current strategy includes emphasizing the origination or purchase for portfolio of adjustable-rate loans, debt securities and MBSs and maintaining an AFS securities portfolio. During 1998, the Company purchased $106.3 million of adjustable-rate MBSs which are expected to help protect net interest margins during periods of rising interest rates. In 1998, the Company originated or purchased $363.3 million of adjustable-rate mortgage loans for portfolio. Historically, the Company has been able to maintain a substantial level of core deposits which the Company believes helps to limit interest rate risk by providing a relatively stable, low cost long-term funding base. At December 31, 1998, core deposits represented 47.7% of deposits compared to 42.7% of deposits at December 31, 1997. Core deposits included $158.8 million of "liquid asset" account balances at December 31, 1998. This account was introduced in the second quarter of 1998 and currently pays an initial rate of 4.25% for balances over $2,500. The Company expects to attract a higher percentage of core deposits from its supermarket branch locations as these locations continue to grow and mature.

The Company's interest rate sensitivity is also monitored by management through the use of a model which internally generates estimates of the change in net portfolio value ("NPV") over a range of interest rate change scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The Office of Thrift Supervision ("OTS") also produces a similar analysis using its own model, based upon data submitted on the Bank's quarterly Thrift Financial Reports, the results of which may vary from the Company's internal model primarily due to differences in assumptions utilized between the Company's internal model and the OTS model, including estimated loan prepayment rates, reinvestment rates and deposit decay rates. For purposes of the NPV table, prepayment speeds similar to those used in the Gap table were used. The following table sets forth the Company's NPV as of December 31, 1998.

CHANGES IN RATES IN BASIS POINTS	NET PORTFOLIO VALUE			NET PORTFOLIO VALUE AS A % OF ASSETS	
	AMOUNT	DOLLAR CHANGE	PERCENTAGE CHANGE	NPV RATIO	PERCENTAGE CHANGE(1)
	(DOLLARS IN THOUSANDS)				
200	$ 96,950	$ (71,307)	(42.38)%	4.43%	(38.64)%
100	143,950	(24,307)	(14.45)	6.36	(11.91)
Base case	168,257	--	--	7.22	--
(100)	209,554	41,297	24.54	8.76	21.33
(200)	242,294	74,037	44.00	9.91	37.26

(1) Based on the portfolio value of the Company's assets in the base case scenario.

As in the case with the Gap table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV requires the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV model presented assumes that the composition of the Company's interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements provide an indication of the Company's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not

provide a precise forecast of the effect of changes in market interest rates on the Company's net portfolio value and will differ from actual results.

ANALYSIS OF CORE EARNINGS

The Company's profitability is primarily dependent upon net interest income, which represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income is dependent on the average balances and rates received on interest-earning assets, and the average balances and rates paid on interest-bearing liabilities. Net income is further affected by non-interest income, non-interest expense, the provision for loan losses, and income taxes.

The following table sets forth certain information relating to the Company's average consolidated statements of financial condition and consolidated statements of income for the three years ended December 31, 1998 and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields.

```
1998 1997 1996 ---------
------------------------
------------------------
--------- -------------
   ----------------
 AVERAGE AVERAGE AVERAGE
  AVERAGE YIELD/ AVERAGE
   YIELD/ AVERAGE YIELD/
   BALANCE INTEREST COST
   BALANCE INTEREST COST
BALANCE INTEREST COST --
------- --------- ------
----- --------- --------
 - ----------- ---------
   --------- ---------
 (DOLLARS IN THOUSANDS)
ASSETS: Interest-earning
    assets: Mortgage
     loans..........
  $1,265,803 $ 96,146
7.60% $ 956,819 $ 75,266
7.87% $ 647,516 $ 53,110
      8.20% Other
   loans.............
33,444 3,303 9.88 32,639
```

3,220 9.87 35,952 3,638
10.12
MBSs(1)................
628,556 42,040 6.69
482,523 32,755 6.79
543,810 37,517 6.90
Money market
investments...........
3,499 186 5.32 5,743 343
5.97 2,175 176 8.09 Debt
and equity securities
(1)........ 151,217
10,010 6.62 215,926
14,722 6.82 227,521
14,812 6.51 --------- --
------- --------- ------
--- --------- ---------
Total interest-earning
assets................
2,082,519 151,685 7.28
1,693,650 126,306 7.46
1,456,974 109,253 7.50
Non-interest earning
assets................
133,494 88,231 61,120 --
------- --------- ------
--- Total
assets............
2,216,013 1,781,881
1,518,094 --------- ----
----- --------- --------
- --------- ---------
LIABILITIES AND
STOCKHOLDERS' EQUITY:
Interest-bearing
liabilities: Savings
accounts........ 441,759
12,415 2.81 371,872
9,338 2.51 373,337 9,314
2.49 Certificate
accounts.... 878,991
49,965 5.68 678,599
39,309 5.79 572,768
32,436 5.66 NOW
accounts............
187,297 1,364 0.73
134,546 1,130 0.84
111,425 999 0.90 Money
market accounts...
57,597 2,041 3.54 54,107

1,823 3.37 58,108 1,929 3.32 Borrowed funds.......... 470,531 27,991 5.95 389,091 22,800 5.86 285,951 16,690 5.84 --------- --------- --------- --------- --------- ---------

Total interest-bearing liabilities........... 2,036,175 93,776 4.61 1,628,215 74,400 4.57 1,401,589 61,368 4.38 Other liabilities....... 62,121 47,247 20,628 --------- --------- --------- Total liabilities....... 2,098,296 1,675,462 1,422,217 Stockholders' equity.... 117,717 106,419 95,877 --------- --------- ---------

Total liabilities and stockholders' equity................ $2,216,013 $1,781,881 $1,518,094 --------- --------- --------- --------- --------- ---------

Net interest income/net interest rate spread (2)................... $ 57,909 2.67% $ 51,906 2.89% $ 47,885 3.12% --------- --- --------- --- --------- --------- Net interest-earning assets/net interest margin (3)............ $ 46,344 2.78% $ 65,435 3.06% $ 55,385 3.29% --------- --- --------- --- --------- ---------

Ratio of interest-earning assets to interest- bearing liabilities... 102.28% 104.02% 103.95% --------- --------- ---------

- ------------------------------
(1) Includes AFS securities and securities held to maturity.

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

(3) Net interest margin represents net interest income before provision for loan losses divided by average interest-earning assets.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED
DECEMBER 31, 1998 AND 1997

GENERAL

The Company reported net income of $8.2 million, or $0.95 per basic share for 1998 compared to net income of $11.1 million, or $1.32 per basic share for 1997. The $2.9 million decrease in earnings was primarily attributable to an increase of $31.5 million in non-interest expense and an increase of $19.4 million in interest expense. These factors were substantially offset by interest income which increased by $25.4 million and non-interest income which increased by $19.2 million, combined with decreases of $3.2 million in income tax expense and $85,000 in the provision for loan losses.

INTEREST INCOME

Interest income increased by $25.4 million, or 20.1% to $151.7 million in 1998 from $126.3 million in 1997. The increase in interest income was primarily attributable to a $388.9 million increase in average interest-earning assets, partially offset by an 18 basis point decrease in the overall average yield on interest-earning assets.

Interest income on mortgage loans increased by $20.9 million, or 27.7% to $96.1 million in 1998 from $75.3 million in 1997 primarily as a result of an increase in the average mortgage loan balance of $309.0 million, partially offset by a decrease in the average yield on mortgage loans of 27 basis points. During 1998, the Bank originated or purchased $635.1 million of mortgage loans for portfolio. Mortgage loans were originated at an average rate of 7.08% for 1998 compared to 7.52% for 1997. The decline in the average rate for originations was primarily due to decreases in the rate indices used for residential and commercial real estate loans and the increasing percentage of relatively lower yielding residential mortgages. These indices, which are the 30 year treasury bond and the 5 year treasury note, declined 83 and 116 basis points, respectively, during 1998 when compared to December 31, 1997. In addition, loan principal repayments and satisfactions during 1998 totaled $265.7 million in 1998 compared to $151.2 million in 1997. Also during 1998, the Bank

sold approximately $104.7 million in loans previously held in portfolio, including $83.3 million of adjustable-rate mortgage loans in several bulk sale transactions, and $14.0 million of cooperative apartment loans, and securitized $105.7 million of one- to four-family mortgage loans with FNMA. Interest income on other loans increased by $83,000, or 2.6% to $3.3 million in 1998 from $3.2 million in 1997 due to an increase of $0.8 million in average balance and an increase of 1 basis point in the average yield.

RATE/VOLUME ANALYSIS

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

	YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997			YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996		
	INCREASE (DECREASE) IN NET INTEREST INCOME DUE TO			INCREASE (DECREASE) IN NET INTEREST INCOME DUE TO		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(IN THOUSANDS)					
Interest-earning assets:						
Mortgage loans	$ 23,545	(2,665)	20,880	24,376	(2,220)	22,156
Other loans	80	3	83	(329)	(89)	(418)
MBSs(1)	9,775	(490)	9,285	(4,172)	(590)	(4,762)
Money market investments	(123)	(34)	(157)	223	(56)	167
Debt and equity securities(1)	(4,292)	(420)	(4,712)	(776)	686	(90)
Total	28,985	(3,606)	25,379	19,322	(2,269)	17,053
Interest-bearing liabilities:						
Savings accounts	1,880	1,197	3,077	(41)	65	24
Certificate accounts	11,414					

(758) 10,656 6,113 760 6,873 NOW
accounts................................. 397
(163) 234 200 (69) 131 Money market
accounts......................... 123 95 218
(135) 29 (106) Borrowed
funds................................ 4,836
355 5,191 6,053 57 6,110 --------- --------- -
-------- --------- --------- ---------
Total..
18,650 726 19,376 12,190 842 13,032 ---------
--------- --------- --------- --------- ------
--- Net change in net interest
income............. $ 10,335 (4,332) 6,003
7,132 (3,111) 4,021 --------- --------- ------
--- --------- --------- --------- --------- --
------- --------- --------- --------- --------
-

- ------------------------

(1) Includes AFS securities and securities held to maturity.

Interest income on MBSs was $42.0 million for 1998, an increase of $9.3 million, or 28.3% over the $32.8 million earned in 1997. This reflects a $146.0 million increase in the average balance of MBSs for 1998 to $628.6 million from $482.5 million for 1997, partially offset by a decrease in the average yield on the MBS portfolio of 10 basis points to 6.69% for 1998 from 6.79% in 1997. During 1998, the Company purchased $687.9 million of MBSs for its AFS portfolio which were partially offset by sales totaling $357.3 million and principal repayments of $199.6 million. Also during 1998, the Bank securitized $105.7 million in residential real estate loans and retained the underlying securities in its AFS portfolio.

Interest income on money market investments decreased by $157,000, or 45.8% to $186,000 in 1998 from $343,000 in 1997, primarily as a result of a decrease in average balances of $2.2 million from $5.7 million in 1997 to $3.5 million in 1998. Interest on debt and equity securities decreased by $4.7 million, or 32.0% to $10.0 million in 1998 from $14.7 million in 1997, primarily as a result of a decrease in the average balance of $64.7 million, coupled with a decrease in the average yield of 20 basis points. The decrease in the average balance of debt and equity securities during 1998 is due primarily to sales of $97.7 million, partially offset by purchases fo $36.1 million.

INTEREST EXPENSE

Interest expense increased by $19.4 million, or 26.0% to $93.8 million in 1998 from $74.4 million in 1997. The increase was primarily attributable to an

increase in interest on deposits of $14.2 million, or 27.5% to $65.8 million in 1998 from $51.6 million in 1997. The increase in interest on deposits was due to an increase of $326.5 million, or 26.3% in average deposits to $1.57 billion in 1998 from $1.24 billion in 1997, coupled with a 4 basis point increase in the average cost of deposits. Interest expense on borrowed funds increased by $5.2 million, or 22.8% during 1998, due to an increase of $81.4 million in the average balance, coupled with a 9 basis point increase in the average cost of borrowed funds.

The increase in the average balance of deposits is primarily attributable to the Bank's continuing expansion of the in-store banking program. As of December 31, 1998, the Bank had fifty-seven in-store branches with deposits totaling $504.0 million, as compared to thirty-two branches with deposits totaling $157.2 million as of December 31, 1997. Interest expense on certificate accounts increased by $10.7 million, or 27.1% from 1997 to 1998. The in-store banking expansion contributed to the increase in the average balance of certificate accounts of $200.4 million, or 29.5%, partially offset by a 11 basis point decrease in the average cost of certificate accounts. Interest expense on savings accounts increased by $3.1 million, or 33.0%, from 1997 to 1998. The increase was also due to the in-store banking expansion, as well as the introduction of a "Liquid Asset" account in the in-store branches during the second quarter of 1998. As of December 31, 1998, the balance of these accounts was $158.8 million. This account currently pays 4.25% for the first year on account balances of $2,500 or more. Overall, the average balance of savings accounts experienced a net increase of $69.9 million, or 18.8%, coupled with a 30 basis point increase in the average cost, which is attributable to the aforementioned Liquid Asset account. Interest expense on NOW accounts and money market accounts increased by $234,000 and $218,000, respectively, in 1998 over 1997, primarily as a result of the increase in the average balance of such accounts. The average yield paid on money market accounts increased by 17 basis points to 3.54% for 1998, primarily as a result of a shift in the average balance of such deposits from traditional branches to the in-store locations, which paid comparatively higher money market rates.

Interest expense on borrowed funds increased by $5.2 million, or 22.8%, primarily as a result of the increase in the average balance of borrowed funds of $81.4 million, or 20.9%, coupled with a 9 basis point increase in the average cost of borrowed funds from 5.86% in 1997 to 5.95% in 1998. The increase in the average balance of borrowed funds is due primarily to fund the increase in residential loan originations and purchases by CFS Intercounty Mortgage, the Bank's residential lending division, as well as to fund purchases of securities for the Company's AFS portfolio.

NET INTEREST INCOME

Net interest income increased by $6.0 million, or 11.6% to $57.9 million in 1998 from $51.9 million in 1997. The average yield on interest-earning assets decreased to 7.28% in 1998 from 7.46% in 1997, as a result of an overall decline in market indices which serve as leading indicators for mortgage loan rates and rates on securities. The average cost of liabilities increased by 4 basis points

to 4.61% in 1998 from 4.57% in 1997 primarily due to the growth in certificate accounts and the introduction of the Liquid Asset savings account in 1998. The net interest rate spread was 2.67% in 1998 compared to 2.89% in 1997.

PROVISION FOR LOAN LOSSES

The Bank provided $2.7 million for loan losses in 1998, which was virtually flat as compared to 1997. The provision for loan losses reflects management's periodic review and evaluation of the loan portfolio. The slight decrease in the provision for loan losses was mainly due to the continued decline in non-performing loans to $8.4 million at December 31, 1998 from $12.5 million at December 31, 1997. As of December 31, 1998, the allowance for loan losses was $14.0 million compared to $12.5 million at December 31, 1997. As of December 31, 1998, the allowance for loan losses was 1.07% of total loans

compared to 1.09% of total loans at December 31, 1997. The slight decrease was attributable to the substantial growth in the loan portfolio. The allowance for loan losses was 166.70% of non-performing loans at December 31, 1998 compared to 99.97% at December 31, 1997. The increase is the result of the significant decline in non-performing loans from December 31, 1997 to December 31, 1998.

NON-INTEREST INCOME

Non-interest income increased by $19.2 million, or 138.3%, from $13.9 million in 1997 to $33.1 million in 1998. More than half of the increase in non-interest income is attributable to the $10.3 million in servicing released premiums and fees on loans sold in the secondary market. Savings and checking fees were $9.8 million in 1998, a $4.3 million, or 79.3% increase over 1997. Net gains on sales of interest-earning assets were $2.9 million in 1998. In 1997, the Company reported a net loss on such sales of $5,000. Insurance, annuity and mutual fund fees generated in 1998 were $5.9 million, a $2.1 million, or 56.3% increase over the $3.8 million earned in 1997. Other non-interest income increased by $1.0 million, or 65.2%, to $2.6 million in 1998, from $1.6 million in 1997, primarily as a result of the Bank's in-store banking expansion.

On May 1, 1998 the Bank completed the purchase of the loan production franchise of Intercounty Mortgage, Inc. ("IMI"). The Bank's prior residential lending operations and the newly acquired production franchise of IMI operate under the name CFS Intercounty Mortgage Company, originating and purchasing residential loans for the Bank's portfolio and for sale in the secondary market. In 1998 the Bank originated $1.04 billion in residential mortgage loans, $570.0 million of which were originated for sale in the secondary market. During 1998, the Bank sold $515.8 million to investors in the secondary market on a servicing released basis, and recognized $10.3 million in related servicing released premiums and fees.

The increase in savings and checking fees and fees generated from the sale of insurance, annuities, and mutual funds were primarily a result of the Bank's

in-store banking expansion. During 1998, the Bank opened twenty-five in-store branches, contributing to the increase in in-store deposits of $346.8 million, or 220.6% from December 31, 1997 to December 31, 1998. During 1998, the Company sold $453.7 million in securities available for sale, resulting in net gains of $1.2 million. During the third quarter of 1998, the Bank sold $14.0 million of cooperative apartment loans in a bulk transaction as part of its ongoing effort to divest itself of this portion of the portfolio, resulting in a $1.0 million gain. During the fourth quarter of 1998, the Bank realized $0.7 million in gains on bulk sales of adjustable-rate residential mortgage loans previously held in portfolio. The loans were sold in response to the high level of prepayments experienced with these loans. Other non-interest income increased primarily as a result of ATM surcharge fees which increased by $0.9 million, or 517.9% from $0.2 million in 1997, to $1.1 million in 1998. ATM surcharge fees, which are fees charged to non-customers who use the Bank's ATM network, increased primarily as a result of the Bank's in-store branch expansion, as well as increases in the fees charged for such transactions.

NON-INTEREST EXPENSE

Non-interest expense increased by $31.5 million, or 68.6%, from $45.8 million in 1997 to $77.3 million in 1998. Compensation and benefits expense increased by $17.0 million, or 69.9%, from $24.3 million in 1997 to $41.2 million in 1998. Occupancy and equipment expense increased by $4.7 million, or 73.7% from $6.3 million in 1997 to $11.0 million in 1998. The increases in compensation and benefits, occupancy and equipment, and advertising and promotion expenses were due primarily to the Bank's in-store banking expansion, as well as the expansion of the Bank's residential lending function with the acquisition of the loan production franchise of IMI. During 1998, the Bank opened twenty-five new in-store branches, while the acquisition of the loan production franchise of IMI added 6 primary loan origination offices and several smaller satellite offices to the Company's facilities. Occupancy and equipment expense also increased as a result of the purchase of the Company's new headquarters, which was completed in the third quarter of 1998.

Federal deposit insurance premiums increased by $134,000, or 18.2%, from $736,000 in 1997 to $870,000 in 1998, due to the increase in insurable deposits as a result of the in-store banking expansion. Other non-interest expenses increased by $10.0 million, or 70.9%, from $14.2 million in 1997 to $24.2 million in 1998. $1.4 million of the increase is due to the increase in data processing expenses which increased as a result of the in-store banking expansion and the increase in the number of transactions processed. Advertising and promotion expense increased by $1.1 million, or 64.7% from $1.7 million in 1997 to $2.8 million in 1998. Other items that contributed to the increase in other non-interest expense were telephone expense, which increased by $925,000, stationery, printing, and office supplies expense, which increased by $570,000, and ATM transaction expenses, which increased by $540,000. These increases were directly related to the in-store banking expansion and the operations of CFS Intercounty Mortgage. Amortization of goodwill increased by $710,000, primarily

as a result of the acquisition of IMI, while mortgage tax expense and appraisal expenses related to loans sold in the secondary market increased by $540,000 and $820,000, respectively. The balance of the increase in other non-interest expenses were generally related to the Bank's in-store branch expansion and the expansion of the residential lending operations as a result of the acquisition of IMI. These increases were partially offset by a $1.2 million reduction in non-performing loan expense due to the recapture of reserves established for the bulk sales on REO and non-performing loans in 1994. The increase in non-interest expense was partially offset by a $344,000 decrease in REO operations, net.

INCOME TAX EXPENSE

Income tax expense was $2.9 million in 1998, compared to $6.1 million in 1997. The effective tax rate for 1998 was 26.4% compared to 35.6% in 1997. The decrease in the effective tax rate was primarily due to the establishment of Columbia Preferred Capital Corp. ("CPCC"), the Bank's real estate investment trust ("REIT") subsidiary, during the second quarter of 1997. The tax provision for 1998 includes the effect of CPCC's operations for the full year of 1998 compared to one quarter in 1997. The lower tax rate was also due to an adjustment of the Bank's tax accrual upon the filing of the Company's Federal, New York State and City tax returns for 1997 during September 1998, as well as a state tax credit recognized for mortgage recording taxes paid on loans originated in certain counties of New York State.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED
DECEMBER 31, 1997 AND 1996

GENERAL

The Company reported net income of $11.1 million for 1997 compared to net income of $9.4 million for 1996. The $1.7 million increase in earnings was primarily attributable to an increase of $17.1 million in interest income, an increase of $4.4 million in non-interest income, a decrease of $0.4 million in the provision for loan losses and a decrease of $0.3 million in income tax expense. These factors were mainly offset by interest expense which increased by $13.0 million and non-interest expense which increased by $7.4 million primarily due to the Bank's in-store branch expansion.

INTEREST INCOME

Interest income increased by $17.1 million, or 15.6% to $126.3 million in 1997 from $109.3 million in 1996. The increase was primarily the result of an increase in interest income on mortgage loans which was partially offset by a decrease in interest income on MBSs and other loans.

Interest income on mortgage loans increased by $22.2 million, or 41.7% to $75.3 million in 1997 from $53.1 million in 1996 primarily as a result of an increase in the average mortgage loan balance of $309.3 million partially offset by a decrease in average yield on mortgage loans of 33 basis points. During 1997, the Bank originated or purchased $459.8 million of mortgage loans.

Mortgage loans were originated at an average rate of 7.52% for 1997 compared to 7.56% for 1996. The decline in the average rate for

originations was primarily due to decreases in the rate indices used for residential and commercial real estate loans and the increasing percentage of relatively lower yielding residential mortgages. These indices which are the 30 year treasury bond and the 5 year treasury note declined 71 and 50 basis points, respectively, during 1997 when compared to December 31, 1996. In addition, loan satisfactions during 1997 totaled $134.1 million, some of which were at higher interest rates than current originations. Principal repayments totaled $151.2 million in 1997 compared to $78.2 million in 1996.

Interest income on other loans decreased by $418,000, or 11.5% to $3.2 million in 1997 from $3.6 million in 1996 due to a decrease of $3.3 million in average balances and a decline of 25 basis points in the average yield. The Bank's consumer loan products with the exception of equity loan/lines were discontinued in November 1996. However, during the fourth quarter of 1997, the Bank added unsecured loans to its list of consumer loan products to expand the array of products available to its customers.

Interest income on MBSs was $32.8 million for 1997 compared to $37.5 million in 1996. The average balance for 1997 decreased by $61.3 million, or 11.3% to $482.5 million from $543.8 for 1996. In addition, the average yield on the MBS portfolio decreased by 11 basis points to 6.79% for 1997 from 6.90% in 1996. During 1997, the Bank purchased $421.9 million of MBSs for its AFS portfolio which were partially offset by sales totaling $226.3 million. The MBS securities purchased for the AFS portfolio during 1997 represented 82.5% of total purchases for the AFS portfolio because these securities allow the Bank to shorten its duration exposure for net interest margin purposes and also provide a better cash flow for reinvestment purposes. The sales from the AFS portfolio were used to fund mortgage loan originations, purchases of loans in the secondary market and also for managing the AFS portfolio to improve overall yield and shorten duration of various securities.

Interest income on money market investments increased by $167,000, or 94.9% to $343,000 in 1997 from $176,000 in 1996 primarily as a result of an increase in average balances of $3.6 million in 1997.

Interest on debt and equity securities decreased by $90,000, or 0.6% to $14.7 million in 1997 from $14.8 million in 1996 primarily as a result of a decrease in the average balance of $11.6 million partially offset by an increase in average yield of 31 basis points. During 1997, the Company purchased $89.2 million of debt and equity securities for its AFS portfolio which were offset by sales totaling $111.4 million. The increase in the overall yield to 6.82% from 6.51% was due to the purchase of callable agency securities and sales of FNMA preferred stock.

INTEREST EXPENSE

Interest expense increased by $13.0 million, or 21.2% to $74.4 million in 1997 from $61.4 million in 1996. The increase was partially attributable to an increase in interest on deposits of $6.9 million, or 15.5% to $51.6 million in 1997 from $44.7 million in 1996. The increase in interest on deposits was due to an increase of $123.5 million, or 11.1% in average deposits to $1.24 billion in 1997 from $1.12 billion in 1996. The increase in average deposits was due to inflows of $145.1 million in the supermarket branches and $104.4 million in the traditional branches. The overall cost of deposits was 4.16% in 1997 compared to 4.00% in 1996.

Interest expense on certificate accounts increased by $6.9 million, or 21.2% to $39.3 million in 1997 from $32.4 million in 1996. The average balance of certificate accounts increased by $105.8 million, or 18.5% to $678.6 million in 1997 from $572.8 million in 1996. The increase in average balances of certificate accounts was primarily due to inflows of $98.4 million in the supermarket branches and $82.1 million in the traditional branches. The average cost of certificates increased to 5.79% in 1997 from 5.66% in 1996. In 1997, passbook accounts experienced an excess of deposits over withdrawals of $14.0 million primarily due to inflows into the supermarket branches of $28.7 million. Certificates of deposit experienced an excess of deposits over withdrawals of $141.3 million. The Company's in-store branch program accounted for $98.4 million of the increase in deposit balances for certificates of deposit. Money market accounts decreased by $3.9 million during 1997.

Interest on borrowed funds increased by $6.1 million, or 36.6% to $22.8 million in 1997 compared to $16.7 million in 1996. Borrowed funds on an average basis increased by $103.1 million in 1997 due to the addition of $25.0 million of capital securities issued by Haven Capital Trust I and the addition of an $85.0 million leverage program which was implemented during the first quarter to offset the additional interest expense resulting from the issuance of the capital securities. The average cost of borrowings increased to 5.86% in 1997 from 5.84% in 1996.

NET INTEREST INCOME

Net interest income increased by $4.0 million, or 8.4% to $51.9 million in 1997 from $47.9 million in 1996. The average yield on interest-earning assets decreased to 7.46% in 1997 from 7.50% in 1996, and the average cost of liabilities increased by 19 basis points to 4.57% in 1997 from 4.38% in 1996 primarily due to the growth in certificate of deposit accounts and the issuance of the trust preferred securities. The net interest rate spread was 2.89% in 1997 compared to 3.12% in 1996.

PROVISION FOR LOAN LOSSES

The Bank provided $2.7 million for loan losses in 1997 compared to $3.1 million in 1996. The provision for loan losses reflects management's periodic

review and evaluation of the loan portfolio. The decrease in the provision for loan losses was mainly due to the continued decline in non-performing loans to $12.5 million at December 31, 1997 from $13.9 million at December 31, 1996. As of December 31, 1997, the allowance for loan losses was $12.5 million compared to $10.7 million at December 31, 1996. As of December 31, 1997, the allowance for loan losses was 1.09% of total loans compared to 1.26% of total loans at December 31, 1996. The decrease was attributable to the growth in the loan portfolio and a decline in non-performing loans. The allowance for loan losses was 99.97% of non-performing loans at December 31, 1997 compared to 77.05% at December 31, 1996.

NON-INTEREST INCOME

Non-interest income increased by $4.4 million, or 45.6% to $13.9 million in 1997 from $9.6 million in 1996. Fee income on savings and checking accounts increased by $2.1 million, or 62.2% primarily due to an increase of approximately 53,000 in the number of savings and checking accounts. This growth was primarily due to the Company's in-store branch program which added approximately 48,000 savings and checking accounts during 1997. Insurance, annuity and mutual fund fees increased by $644,000, or 20.7% due to an increase of $185,000 in annuity income and an increase of $471,000 in mutual fund income. The increase in sales of annuity and mutual fund products by CFS Investment Services, Inc. (formerly Columbia Investment Services, Inc.) ("CFSI"), the Bank's wholly-owned subsidiary, is partially due to the increased demand for alternative sources of investments by the Bank's depositors and the addition of the supermarket branches. Approximately 63% of CFSI sales were external. Loan fees and servicing income increased by $1.3 million, or 72.1% to $3.1 million in 1997 from $1.8 million in 1996. The increase was attributable to a prepayment fee of $2.0 million on a commercial real estate loan during the fourth quarter of 1997. During 1997, the Company realized a net loss of $5,000 on the sales of interest-earning assets. Miscellaneous income increased by $456,000, or 40.9% to $1.6 million in 1997 from $1.1 million in 1996. The increase is primarily due to an increase of $186,000 in fees on ATM surcharges and $142,000 due to the close-out of CFSB Funding, Inc., the Bank's finance subsidiary during 1997. Also, fee income on refinance transactions increased by $67,000 from 1996.

NON-INTEREST EXPENSE

Non-interest expense increased by $7.4 million, or 19.2% to $45.8 million in 1997 from $38.5 million in 1996. Non-interest expense for 1996 included a one-time SAIF recapitalization charge of $6.8 million which was paid during the fourth quarter of 1996. Excluding this special assessment, non-interest expense increased by $14.2 million, or 44.8% in 1997. The Company's in-store branch expansion program accounted for $11.5 million of the increase in 1997. Compensation and benefit costs increased by $8.5

million, or 54.1% to $24.3 million in 1997 from $15.7 million in 1996. The in-store branch expansion accounted for $5.3 million of the increase in

compensation costs since the Bank added 226 employees for its supermarket branches in 1997. Salary costs for the Bank's subsidiary, CFSI, also increased by $540,000 due to higher sales volume. Federal social security taxes increased by $537,000 and the cost incurred for hospitalization, group life insurance, federal and NYS unemployment insurance increased by $431,000 from the prior year due to the increase in staff. ESOP compensation increased by $201,000 from 1996 due to the increase in the average price of Haven Bancorp common stock for the year. Occupancy and equipment costs increased by $2.9 million, or 82.1% to $6.3 million in 1997 from $3.5 million in 1996 primarily due to the addition of 28 supermarket branches during 1997 and a $150,000 charge for obsolete signage in connection with the name change to CFS Bank. REO operations, net increased by $75,000, or 27.1% to $352,000 for 1997 from $277,000 for 1996. The increase is due to a decline in profits realized on the sale of REO properties since the REO portfolio, exclusive of reserves, decreased to $542,000 at December 31, 1997 from $1.1 million at December 31, 1996. The significant decrease in the federal deposit insurance premium costs of $1.6 million was due to a decrease in the assessment rate from 23 basis points in 1996 to 6.48 basis points in 1997. Miscellaneous operating costs increased by $4.3 million, or 44.1% to $14.2 million in 1997 from $9.8 million in 1996. Operating expenses including stationery, telephone, postage and insurance increased by $1.6 million and professional consulting fees increased by $555,000 from 1996 primarily due to the in-store branch program and services related to the formation of CPCC. In addition, the Bank incurred staff placement costs of $184,000 primarily for in-store branches in New Jersey and Connecticut. Advertising costs increased by $430,000 due to the growth in both the loan portfolio and deposit base. NYCE and PLUS fees increased by $122,000 also due to the growth in the deposit base. Appraisal and credit costs increased by $162,000 during 1997 due to the growth in the loan portfolio. Miscellaneous operating losses increased by $416,000 because the results for 1996 included the reversal of a reserve regarding claims subsequently paid by a check collection service. Operating expenses for CFSI increased by $209,000 due to higher sales volume.

INCOME TAX EXPENSE

Income tax expense was $6.1 million in 1997 compared to $6.4 million in 1996. The effective tax rate for 1997 was 35.6% compared to 40.6% for 1996. The decrease in the effective tax rate is due to several factors: first, during the first quarter of 1996, a deferred tax liability of $330,000 was reversed related to the potential recapture of the New York City tax bad debt reserve which was no longer necessary due to New York City tax legislation enacted earlier this year. The New York City tax law was amended in the first quarter of 1996 to conform to the New York State tax treatment for bad debt reserve. The legislation "decouples" New York State's and New York City's thrift bad debt provisions from the federal tax law and allows for the use of the percentage of taxable income method ("PTI") for computing the tax bad debt reserves. The second factor which contributed to the tax savings when compared to the prior period was the switch to the PTI method for calculating the bad debt deduction for New York City. The final factor contributing to the decline in the effective tax rate for 1997 was the establishment of CPCC during the second quarter of 1996 which resulted in certain tax savings. (See Note 12 to Notes to

Consolidated Financial Statements.)

NON-PERFORMING ASSETS

The following table sets forth information regarding non-performing assets which include all non-accrual loans (which consist of loans 90 days or more past due and restructured loans that have not yet performed in accordance with their modified terms for the required six-month seasoning period), accruing restructured loans and real estate owned.

DECEMBER 31,	1998	1997	1996
	(IN THOUSANDS)		
Non accrual loans:			
One- to four-family	$ 3,779	3,534	4,083
Cooperative	367	698	431
Multi-family	308	2,531	1,463
Non-residential and other	2,074	3,633	4,756
Total non-accrual loans	6,528	10,396	10,733
Restructured loans:			
One- to four-family	544	679	887
Cooperative	183	290	486
Multi-family	1,130	1,167	1,427
Non-residential and other	--	--	360
Total restructured loans	1,857	2,136	3,160
Total non-performing loans	8,385	12,532	13,893
REO, net:			
One- to four-family	66	126	266
Cooperative	38	295	292
Non-residential and other	121	121	561
Total REO	225	542	1,119
Less allowance for REO	(25)	(87)	(81)
REO, net	200	455	1,038
Total non-performing assets	$ 8,585	12,987	14,931

The Company's expanded loan workout/resolution efforts have successfully

contributed toward reducing non-performing assets to manageable levels. Since year-end 1996, non-performing assets have declined by $6.3 million, or 42.5%, from a level of $14.9 million to $8.6 million at year-end 1998. The decrease in non-performing assets is reflected in the following ratios: the ratio of non-performing loans to total loans ratio was 0.64% for 1998 compared to 1.09% for 1997 and 1.64% for 1996; the ratio of non-performing assets to total assets was 0.36% for 1998 compared to 0.66% for 1997 and 0.94% for 1996; and, the ratio of non-performing loans to total assets was 0.35% for 1998 compared to 0.63% for 1997 and 0.87% for 1996. There can be no assurance that non-performing assets will continue to decline.

The decrease in non-performing assets in 1998 was primarily due to the continued decline in non-performing loans and sales of REO properties. During 1998, the Company sold 21 REO properties with a fair value of $0.7 million. Total restructured loans decreased by $0.3 million during 1998 due to transfers to classified loan status and the REO portfolio. Total non-accrual loans decreased by $3.9 million during 1998.

The decrease in non-performing assets in 1997 was primarily due continued sales of REO properties and a the continued decline in non-performing loans. During 1997, the Company sold 37 REO properties with a fair value of $1.4 million. Total restructured loans decreased by $1.0 million during 1997 due to transfers to classified loan status and the REO portfolio. Total non-accrual loans decreased by $337,000 during 1997.

LIQUIDITY

The Bank is required to maintain minimum levels of liquid assets as defined by the OTS regulations. This requirement, which may be varied by the OTS depending upon economic conditions and deposit flows, is based upon a percentage of withdrawable deposits and short-term borrowings. The required ratio is currently 4%. The Bank's ratio was 4.24% at December 31, 1998 compared to 8.94% at December 31, 1997.

The Company's primary sources of funds are deposits, principal and interest payments on loans, debt securities and MBSs, retained earnings and advances from FHLB and other borrowings. Proceeds from the sale of AFS securities and loans held for sale are also a source of funding, as are, to a lesser extent, the sales of annuities, insurance products and securities brokerage activities conducted by the Bank's wholly owned subsidiary, CFSI and the Company's wholly owned subsidiary, CIA. While maturities and scheduled amortization of loans and securities are somewhat predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, competition and regulatory changes.

The Company's most liquid assets are cash and short term investments. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At December 31, 1998

and December 31, 1997, cash and short term investments totaled $44.8 million and $40.3 million, respectively.

The Company and the Bank have other sources of liquidity which include debt securities maturing within one year and AFS securities. Other sources of funds include FHLB advances, which at December 31, 1998, totaled $325.2 million. If needed, the Bank may borrow an additional $106.8 million from the FHLB.

The Company's cash flows are comprised of three primary classifications: cash flows from operating activities; investing activities and financing activities. Net cash provided by operating activities, consisting primarily of interest and dividends received less interest paid on deposits were $16.2 million, $24.6 million and $12.1 million for the years ended December 31, 1998, 1997 and 1996, respectively. Net cash used in investing activities, consisting primarily of disbursements of loan originations and securities purchases, offset by principal collections on loans and proceeds from maturities of securities held to maturity or sales of AFS securities or disposition of assets including REO were $340.7 million, $385.8 million and $117.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. Net cash provided by financing activities, consisting primarily of net activity in deposits and borrowings, purchases of treasury stock, payments of common stock dividends and proceeds from stock options exercised was $329.0 million, $365.7 million and $102.3 million for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, the Bank had outstanding commitments to originate $164.6 million of loans. In addition, at December 31, 1998, the Bank had a $97.5 million due to brokers. The Bank believes that it will have sufficient funds available to meet these commitments. At December 31, 1998, certificates of deposit which are scheduled to mature in one year or less totaled $767.9 million.

CAPITAL RESOURCES

See Note 17 to Notes to Consolidated Financial Statements.

INFLATION AND CHANGING PRICES

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, 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 and changes due to inflation. The impact of inflation is reflected in the increased cost of the Bank's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Bank are monetary. As a result, interest rates have a greater impact on the Bank's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

COMPUTER ISSUES FOR THE YEAR 2000

Many of the Company's existing computer systems use two digits to identify the year in the date fields. As a result, these systems may not be able to distinguish the year 2000 from the year 1900. Software, hardware and equipment both within and outside the Company's direct control and with which the Company electronically or operationally interfaces (e.g. third party vendors providing data processing, information system management, maintenance of computer systems, and credit bureau information) are likely to be affected. Further, if computer systems are not adequately changed to identify the year 2000, many computer applications could fail or create erroneous results. As a result, many calculations which rely on the date field information, such as interest, payment or due dates and other operating functions, could generate results which could be significantly misstated, and the Company could experience a temporary inability to process transactions, send invoices or engage in similar normal business activities. If not corrected, these computer systems could fail by or at the year 2000.

The Company primarily uses a third party vendor to process its electronic data. This vendor has made modifications or replacements of its computer applications and systems necessary to correct the year 2000 date issue. Management has substantially completed the testing of the modifications to these systems and applications. The Company also utilizes a combination of purchased and contract-based software as well as other third party vendors for a variety of data processing needs. The Company's assessment of potential computer issues for the year 2000 have been substantially completed. Where potential computer issues have been identified, the vendors have committed to definitive dates to resolve such issues. Under regulatory guidelines issued by the federal banking regulators, the Bank and the Company must substantially complete testing of both internally and externally supplied systems and all renovations, by June 30, 1999. In the event that the Company's significant vendors do not achieve year 2000 compliance, the Company's operations could be adversely affected.

The Company has established contingency plans for these systems for which year 2000 issues will not be corrected. The OTS, the Company's primary federal bank regulatory agency, along with the other federal bank regulatory agencies has published guidance on the year 2000 compliance and has identified the year 2000 issue as a substantive area of examination for both regularly scheduled and special bank examinations. These publications, in addition to providing guidance as to examination criteria, have outlined requirements for creation and implementation of a compliance plan and target dates for testing and implementation of corrective action, as discussed above. As a result of the oversight by and authority vested in the federal bank regulatory agencies, a financial institution that does not become year 2000 compliant could become subject to administrative remedies similar to those imposed on financial institutions otherwise found not to be operating in a safe and sound manner, including remedies available under prompt corrective action regulations.

There has been limited litigation filed against corporations regarding the

year 2000 problem and such corporations' compliance efforts. To date, no such litigation has resulted in a decided case imposing liability on the corporate entity. Nonetheless, the law in this area will likely continue to develop well into the new millennium. Should the Company experience a year 2000 failure, exposure of the Company could be significant and material, unless there is legislative action to limit such liability. Legislation has been introduced in several jurisdictions regarding the year 2000 problem. However, no assurance can be given that legislation will be enacted in jurisdictions where the Company does business that will have the effect of limiting any potential liability. Through December 31, 1998, the Company had incurred approximately $126,000 in costs associated with achieving year 2000 compliance. The Company expects to incur approximately $450,000 in additional costs to achieve year 2000 compliance during 1999.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 to Notes to Consolidated Financial Statements.

STOCK DATA

Haven common stock, listed under the symbol HAVN is publicly traded on the Nasdaq Stock Market. As of March 3, 1999, the Company had approximately 428 stockholders of record (not including the number of persons or entities holding stock in nominee or street name through various brokerage firms) and 8,861,184 outstanding shares of common stock (excluding treasury shares). The common stock traded in a high and low range of $29.75 and $9.125 during the year ended December 31, 1998.

APPENDIX C

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 000-21628

HAVEN BANCORP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	11-3153802
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
615 MERRICK AVENUE, WESTBURY, NEW YORK	11590
(Address of principal executive offices)	(Zip Code)

(516) 683-4100

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

There were 8,918,542 shares of the Registrant's common stock outstanding as of May 12, 1999.

HAVEN BANCORP, INC.

FORM 10-Q

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PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

HAVEN BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS, EXCEPT FOR SHARE DATA)

(UNAUDITED)

MARCH 31, DECEMBER 31, 1999 1998 ------------ ------------ ASSETS Cash and due from banks.. $ 31,759 $ 43,088 Money market investments... 1,421 1,720 Securities available for sale (note 2).. 941,027 889,251 Loans held for

sale.. 59,440
54,188 Federal Home Loan Bank of NY stock, at
cost..................................... 22,255 21,990 Loans receivable:
First mortgage loans...
1,384,483 1,271,784 Cooperative apartment
loans... 3,432 3,970 Other
loans...
36,211 34,926 ------------ ------------ Total loans
receivable.. 1,424,126
1,310,680 Less allowance for loan
losses.. (14,573) (13,978) ---------
--- ------------ Loans receivable,
net... 1,409,553
1,296,702 Premises and equipment,
net.. 37,772 39,209 Accrued
interest receivable...
13,586 12,108 Other
assets..
33,346 37,267 ------------ ------------ Total
assets.. $
2,550,159 $2,395,523 ------------ ------------ ------------ ------------
LIABILITIES AND STOCKHOLDERS' EQUITY Liabilities:
Deposits...
$ 1,804,795 $1,722,710 Borrowed
funds.. 586,330
440,346 Due to
broker... 10,000
97,458 Other
liabilities...
29,904 15,142 ------------ ------------ Total
liabilities... 2,431,029
2,275,656 ------------ ------------ STOCKHOLDERS' EQUITY: Preferred stock, $.01 par
value, 2,000,000 shares authorized, none issued (note
7).. -
- -- Common stock, $.01 par value, 30,000,000 shares authorized, 9,918,750 issued;
8,867,814 and 8,859,692 shares outstanding in 1999 and 1998, respectively (note
7)..
100 100 Additional paid-in
capital... 51,580 51,383
Retained earnings, substantially restricted..................................
81,020 79,085 Accumulated other comprehensive income: Unrealized (loss) gain on
securities available for sale, net of tax effect....... (2,107) 945 Treasury stock,
at cost (1,050,936 and 1,059,058 shares in 1999 and 1998,
respectively)...
(9,753) (9,800) Unallocated common stock held by Bank's
ESOP................................... (1,149) (1,222) Unearned common stock
held by Bank's Recognition Plans and Trusts................ (262) (263) Unearned
compensation.. (299)
(361) ------------ ------------ Total stockholders'
equity... 119,130 119,867 -------

----- ------------ Total liabilities and stockholders'
equity.................................... $ 2,550,159 $2,395,523 ------------ ---
--------- ------------ ------------

See accompanying notes to consolidated financial statements.

HAVEN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

THREE MONTHS ENDED MARCH 31, -------------------- 1999 1998 --------- --------- Interest
income: Mortgage
loans.. $ 24,885
$ 21,739 Other
loans... 850
787 Mortgage-backed
securities.. 12,650 8,931
Money market investments...
30 104 Debt and equity
securities.. 2,065 3,402 ---
------ --------- Total interest
income.. 40,480 34,963 ----
----- --------- Interest expense: Deposits: Savings
accounts... 4,669
2,416 NOW
accounts... 324
261 Money market
accounts.. 419 423
Certificate accounts...
11,753 11,863 Borrowed
funds.. 7,109
6,506 --------- --------- Total interest
expense.. 24,274 21,469 ----
----- --------- Net interest income before provision for loan
losses.................................... 16,206 13,494 Provision for loan
losses.. 675 670 --------
- --------- Net interest income after provision for loan
losses.................................... 15,531 12,824 --------- --------- Non-
interest income: Loan fees and servicing
income.. 505 518 Sevicing
released premiums and fees on loans sold................................. 4,531 --
Savings/checking fees..
3,125 1,811 Net gain on sales of interest-earning

assets... 335 352 Insurance annuity and mutual
fund fees... 1,975 1,187
Other...
590 591 --------- --------- Total non-interest
income.. 11,061 4,459 ---------
--------- Non-interest expense: Compensation and
benefits.. 12,055 7,577
Occupancy and equipment...
3,344 2,219 Real estate owned operations,
net.. (151) 49 Federal deposit
insurance premiums.. 254 207
Other...
6,887 4,015 --------- --------- Total non-interest
expense... 22,389 14,067 --------
- --------- Income before income tax
expense... 4,203 3,216 Income tax
expense.. 1,603
1,067 --------- --------- Net
income.. $
2,600 $ 2,149 --------- --------- --------- --------- Net income per common share:
Basic...
$ 0.30 $ 0.25 --------- --------- --------- ---------
Diluted...
$ 0.29 $ 0.24 --------- --------- --------- ---------

See accompanying notes to consolidated financial statements.

HAVEN BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 1999

(UNAUDITED)

ACCUMULATED UNALLOCATED
ADDITIONAL OTHER COMMON
COMMON PAID-IN RETAINED
COMPREHENSIVE TREASURY
STOCK HELD (DOLLARS IN
THOUSANDS) TOTAL STOCK
CAPITAL EARNINGS INCOME
STOCK BY ESOP - -----------
------------------ --------
- ------------- -----------
----------- --------------
-- ----------- ------------
- Balance at December 31,

1998.......................
$ 119,867 100 51,383 79,085
945 (9,800) (1,222)
Comprehensive Income: Net
income.................
2,600 -- -- 2,600 -- -- --
Other comprehensive income,
net of tax Net unrealized
depreciation on certain
securities, net of
reclassification adjustment
(1)......... (3,052) -- --
-- (3,052) -- -- ---------
Comprehensive
Loss........... (452) -- --
-- -- -- -- Dividends
declared (note
5)........................
(665) -- -- (665) -- -- --
Treasury stock issued for
RRP and deferred
compensation plan (3,630
shares)........ -- -- 35 --
-- 21 -- Stock options
exercised, net of tax
effect (4,492 shares) (note
4)........... 22 -- (4) --
-- 26 -- Allocation of ESOP
stock and amortization of
award of RRP stock and
related tax
benefits...................
260 -- 166 -- -- -- 73
Amortization of deferred
compensation plan..........
98 -- -- -- -- -- -- ------
--- --- ----------- -------
---- ------ ----------- ---
--- Balance at March 31,
1999.... $ 119,130 100
51,580 81,020 (2,107)
(9,753) (1,149) --------- -
-- ----------- -----------
------ ----------- ------ -
--------- --- ----------- --
--------- ------ ----------
- ------ UNEARNED COMMON
STOCK HELD UNEARNED
(DOLLARS IN THOUSANDS) BY
RRP COMPENSATION - --------

--------------------- -----
-------- ----------------
Balance at December 31,
1998.......................
(263) (361) Comprehensive
Income: Net
income................. --
-- Other comprehensive
income, net of tax Net
unrealized depreciation on
certain securities, net of
reclassification adjustment
(1)......... -- --
Comprehensive
Loss........... -- --
Dividends declared (note
5)........................
-- -- Treasury stock issued
for RRP and deferred
compensation plan (3,630
shares)........ (20) (36)
Stock options exercised,
net of tax effect (4,492
shares) (note 4)...........
-- -- Allocation of ESOP
stock and amortization of
award of RRP stock and
related tax
benefits...................
21 -- Amortization of
deferred compensation
plan.......... -- 98 --- --
- Balance at March 31,
1999.... (262) (299) --- --
- --- ---

(1) DISCLOSURE OF RECLASSIFICATION ADJUSTMENT:
(IN THOUSANDS)

THREE MONTHS ENDED MARCH 31, 1999 --------------------- Net
unrealized holding loss arising during
period...
(2,844) Less: reclassification adjustment for net gains included
in net income..................................... 208 ------
Net unrealized loss on securities available for
sale...
(3,052) ------ ------

See accompanying notes to consolidated financial statements.

HAVEN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 1999	1998
Cash flows from operating activities:		
Net income	$ 2,600	2,149
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of cost of stock benefit plans	358	490
Amortization of net deferred loan origination fees	(23)	(10)
Amortization of premiums and accretion of discounts on loans, mortgage-backed and debt securities	(70)	(473)
Provision for loan losses	675	670
Provision for losses on real estate owned	--	5
Deferred income taxes	(404)	(389)
Net gain on sales of interest-earning assets	(335)	(352)
Loans originated and purchased for sale, net of proceeds from sale	(5,252)	--
Depreciation and amortization	1,178	625
(Increase) decrease in accrued interest receivable	(1,478)	524
Decrease in due to broker	(87,458)	(10,000)
Increase in other liabilities	14,762	8,715
Decrease (increase) in other assets	6,187	(930)
Net cash (used in) provided by operating activities	(69,260)	1,024
Cash flows from investing activities:		
Net increase in loans	(113,517)	(45,347)
Proceeds from disposition of assets (including REO)	22	1,876
Purchases of securities available for sale	(191,880)	(186,510)
Principal repayments and maturities on securities available for sale	64,373	50,366
Proceeds from sales of securities available for sale	71,214	123,249
Principal repayments, maturities and calls on debt securities held to maturity	--	16,020
Principal repayments on mortgage-backed securities held to maturity	--	

10,580 Purchases of FHLB stock,
net... (265) -- Net decrease
(increase) in premises and equipment................................... 259
(2,191) ---------- ---------- Net cash used in investing
activities.. (169,794) (31,957) ---
------- ---------- Cash flows from financing activities: Net increase in
deposits... 82,085
109,816 Net increase (decrease) in borrowed
funds.. 145,984 (66,877) Payment of
common stock dividends... (665)
(546) Stock options
exercised... 22 418 ----
------ ---------- Net cash provided by financing
activities.. 227,426 42,811 ----------
---------- Net (decrease) increase in cash and cash
equivalents.................................. (11,628) 11,878 Cash and cash
equivalents at beginning of period.. 44,808
40,306 ---------- ---------- Cash and cash equivalents at end of
period... $ 33,180 $ 52,184 ---------- --
-------- ---------- ---------- Supplemental information: Cash paid during the period
for:
Interest...
$ 24,011 $ 20,523 Income
taxes... 1 1
Additions to real estate
owned.. -- 310 Securities
purchased, not yet received.. 10,000 -
- ---------- ---------- ---------- ----------

See accompanying notes to consolidated financial statements.

HAVEN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999 AND 1998

(UNAUDITED)

NOTE 1--BASIS OF PRESENTATION.

The accompanying unaudited consolidated financial statements include the accounts of Haven Bancorp, Inc. ("Haven Bancorp" or the "Company") and its wholly-owned subsidiaries, including CFS Bank ("CFS" or the "Bank") as of March 31, 1999 and December 31, 1998 and for the three-month period ended March 31, 1999 and 1998, respectively. Material intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring accruals necessary for a fair presentation have been included. The results of operations for the three-month period ended March 31, 1999 are not necessarily indicative of the results that may be expected for the entire fiscal year.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders for the fiscal year ended December 31, 1998.

NOTE 2--DEBT, EQUITY AND MORTGAGE-BACKED SECURITIES ("MBSS").

Debt securities and MBSs which the Company has the ability and the intent to hold until maturity, are carried at cost adjusted for amortization of premiums and accretion of discounts. Debt and equity securities and MBSs to be held for indefinite periods of time and not intended to be held to maturity or on a long-term basis are classified as available for sale securities which are recorded at fair value, with unrealized gains (losses), net of tax, reported as accumulated other comprehensive income, a separate component of stockholders' equity. At March 31, 1999 and December 31, 1998, all of the Company's debt, equity and mortgage-backed securities were classified as available for sale.

SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair values of securities available for sale at March 31, 1999 are summarized as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Debt and equity securities available for sale:				
U.S. Government and Agency obligations........................	$ 81,699	6	(909)	80,796
Preferred Stock..	10,992	--	(277)	10,715
Corporate debt securities....................................	46,025	--	--	46,025
	138,716	6	(1,186)	137,536

NOTE 2--DEBT, EQUITY AND MORTGAGE-BACKED SECURITIES ("MBSS"). (CONTINUED)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
MBSs available for sale:				
GNMA Certificates	428	8	--	436
FNMA Certificates	167,589	1,105	(797)	167,897
FHLMC Certificates	45,422	606	(58)	45,970
CMOs and REMICS	592,269	1,166	(4,247)	589,188
	805,708	2,885	(5,102)	803,491
Total	$ 944,424	2,891	(6,288)	941,027

The net unrealized loss on securities available for sale at March 31, 1999, was reported as a separate component of stockholders' equity, in the amount of $2.1 million which is net of a tax effect of $1.3 million.

NOTE 3--CAPITAL SECURITIES.

On April 13, 1999, Haven Bancorp, Inc. filed a registration statement with the Securities and Exchange Commission to issue $35.0 million of capital securities through Haven Capital Trust II. The registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. The Company currently intends to use the net proceeds from the sale of the capital securities to invest in the Bank to increase its capital level. The increased capital will enable the Bank to expand its deposit base and also invest in residential and commercial real estate loans in its market area and in investment-grade mortgage-backed and investment securities. It is also possible that, if the Company's Board of Directors determines that it is in the best interest of its shareholders, a portion of the net proceeds may be used for repurchases of the Company's stock.

NOTE 4--STOCK PLANS.

Changes in outstanding options for the benefit of directors, officers and other key employees of the Bank for the three months ended March 31, 1999 are as follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1998	1,305,268	9.44
Granted	176,500	13.77

Forfeited..
(10,000) 25.70
Exercised..
(4,492) 5.00 ---------- ----- Balance at March 31,
1999.................................... 1,467,276 9.86 ---
------- ----- ---------- ----- Shares exercisable at March
31, 1999........................... 1,035,022 7.20 ----------
----- ---------- -----

NOTE 5--DIVIDENDS PAYABLE.

On March 24, 1999, the Company's Board of Directors approved a regular quarterly cash dividend of $0.075 per share, payable on April 23, 1999, to shareholders of record as of April 3, 1999.

NOTE 6--RECENT ACCOUNTING/REGULATORY PRONOUNCEMENTS.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 and does not require restatement of prior periods. Management of the Company currently believes the implementation of SFAS No. 133 will not have a material impact on the Company's financial condition or results of operations.

NOTE 7--NET INCOME PER SHARE OF COMMON STOCK.

There were 8,634,171 basic shares outstanding and 9,021,614 diluted shares outstanding for the three months ended March 31, 1999. The weighted average number of shares outstanding does not include 229,769 shares which are unallocated by the Employee Stock Ownership Plan ("ESOP") as of March 31, 1999 in accordance with American Institute of CPAs ("AICPA") Statement of Position ("SOP") 93-6, "Employers' Accounting for ESOPs". Basic EPS excludesdilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the relevant period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

NOTE 8--COMPREHENSIVE (LOSS) INCOME.

Comprehensive (loss) income was $(452,000) and $878,000 for the three month periods ended March 31, 1999 and 1998, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Haven Bancorp, Inc. ("Haven Bancorp" or the "Company") is the holding company for CFS Insurance Agency, Inc. and CFS Bank ("CFS" or the "Bank"), a federally chartered stock savings bank. CFS converted from a mutual to a stock savings bank on September 23, 1993 in conjunction with the issuance of the Bank's capital stock to Haven Bancorp.

Haven Bancorp's business currently consists primarily of the business of the Bank. The Bank's principal business has been and continues to be attracting retail deposits from the general public and investing those deposits, together with funds generated from operations primarily in one- to four-family, owner occupied residential mortgage loans. In addition, the Bank will invest in debt, equity and mortgage-backed securities ("MBSs") to supplement its lending portfolio. The Bank also invests, to a lesser extent, in multi-family residential mortgage loans, commercial real estate loans and other marketable securities. The Bank's results of operations are dependent primarily on its net interest income, which is the difference between the interest income earned on its loan and securities portfolios and its cost of funds, which primarily consists of the interest paid on its deposits and borrowed funds. The Bank's net income also is affected by its non-interest income, including servicing released premiums and fees on loans sold in the secondary market, its provision for loan losses and operating expenses consisting primarily of compensation and benefits, occupancy and equipment, real estate owned operations, net, federal deposit insurance premiums and other general and administrative expenses. The earnings of the Bank are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, and to a lesser extent by government policies and actions of regulatory authorities.

ASSETS

Total assets increased by $154.6 million, or 6.5% to $2.55 billion at March 31, 1999 from $2.40 billion at December 31, 1998. Securities available for sale ("AFS") increased by $51.8 million, or 5.8% to $941.0 million at March 31, 1999 from $889.2 million at December 31, 1998 resulting primarily due to purchases during the quarter for the AFS portfolio. During the quarter ended March 31, 1999, the Bank purchased $136.9 million of MBSs and $55.0 million of debt and equity securities for its AFS portfolio. The emphasis on MBS securities was due to the availability of more favorable rates and shorter durations. These increases were partially offset by sales and principal repayments of $71.2 million and $64.4 million, respectively.

Net loans increased by $112.9 million, or 8.7% to $1.41 billion at March 31, 1999 from $1.30 billion at December 31, 1998. Loan originations during the quarter totaled $329.9 million (comprised of $292.8 million of residential one- to four-family mortgage loans, $3.0 million of equity loans and lines of credit, $26.8 million of multi-family loans and $7.3 million of commercial real estate loans). Originations of residential one- to four-family mortgage loans included purchases of $112.6 million of residential loans in the secondary market. Residential loans originated or purchased for sale in the secondary market for the three months ended March 31, 1999 totaled $160.6 million. During the first quarter of 1999, the Bank sold $155.4 million of residential loans on a servicing released basis to third party investors. During the first quarter of 1999, principal repayments totaled $53.6 million.

LIABILITIES

Deposits increased by $82.1 million, or 4.8% to $1.80 billion at March 31, 1999 from $1.72 billion at December 31, 1998 primarily due to deposit inflows in the Bank's supermarket branches. Deposits in the supermarket branches totaled $578.1 million at March 31, 1999 compared to $504.0 million at December 31, 1998. The Bank had fifty-nine supermarket bank branches as of March 31, 1999 compared to fifty-seven supermarket branches at December 31, 1998. The Bank expects to open one additional in-store branch during May of 1999. Core deposits (comprised of checking, savings and money market accounts) were equal to 58.3% of total in-store branch deposits at March 31, 1999 compared to 45.3% in the Bank's eight traditional branches. Core deposits for the supermarket branches included $209.3 million of "Liquid Asset" account balances at March 31, 1999. Overall, core deposits represented 53.6% of total deposits at March 31, 1999 compared to 47.7% at December 31, 1998. Borrowed funds increased by $146.0 million, or 33.2% to $586.3 million at March 31, 1999 from $440.3 million at December 31, 1998 primarily due to the funding requirements for loan origination volume and wholesale purchases of CFS Intercounty, the Bank's residential lending division.

STOCKHOLDERS' EQUITY

Haven Bancorp's stockholders' equity decreased to $119.1 million at March 31, 1999 from $119.9 million at December 31, 1998. The decrease in stockholders' equity was due to a reduction of $3.1 million in the unrealized gain on securities available for sale and dividends declared totaling $665,000. These decreases were partially offset by net income of $2.6 million for the quarter and $380,000 related to the amortization of awards of shares of stock by the Bank's RRPs, and amortization of the deferred compensation plan, and stock options exercised.

NON-PERFORMING ASSETS

The following table sets forth information regarding all non-accrual loans

(which consist of loans 90 days or more past due and restructured loans that have not yet performed in accordance with their modified terms for the required six-month seasoning period), restructured loans and real estate owned ("REO").

	MARCH 31, 1999	DECEMBER 31, 1998
	(DOLLARS IN THOUSANDS)	
Non-accrual loans		
One- to four-family	$ 5,374	3,779
Cooperative	387	367
Multi-family	620	308
Non-residential and other	2,215	2,074
Total non-accrual loans	8,596	6,528
Restructured loans		
One- to four-family	193	544
Cooperative	182	183
Multi-family	1,123	1,130
Total restructured loans	1,498	1,857
Total non-performing loans	10,094	8,385
REO, net		
One- to four-family	44	66
Cooperative	38	38
Non-residential and other	121	121
Total REO	203	225
Less allowance for REO	(12)	(25)
REO, net	191	200
Total non-performing assets	$ 10,285	8,585
Non-performing loans to total loans	0.71%	0.64%
Non-performing assets to total assets	0.40	0.36
Non-performing loans to total assets	0.40	0.35

The increase in non-performing assets was primarily due to an increase of $1.7 million in non-performing loans from December 31, 1998 to March 31, 1999. The ratios of non-performing loans to total loans, non-performing assets to total assets and non-performing loans to total assets all increased primarily due to the increase of $1.7 million in non-performing loans during the quarter.

The Bank maintains an allowance for loan losses and an allowance for REO,

which it believes are adequate for potential losses at each period end. Management's judgment as to potential losses is based on its review of the loan and REO portfolios and its judgment regarding prevailing and anticipated economic conditions and a variety of other factors which have an impact on those portfolios. Although management believes that the allowances are adequate as of the period end, additional provisions may be required in the future.

ALLOWANCE FOR LOAN LOSSES

The following table sets forth the changes in the allowance for loan losses for the three months ended March 31, 1999 and 1998:

(DOLLARS IN THOUSANDS)	1999	1998
Balance at beginning of period	$ 13,978	12,528
Charge-offs:		
Residential	(324)	(84)
Cooperative	--	(56)
Multi-family	--	(708)
Non-residential and other	--	(291)
Total charge-offs	(324)	(1,139)
Recoveries	244	857
Net charge-offs	(80)	(282)
Provision for loan losses	675	670
Balance at end of period	$ 14,573	12,916
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.10%
Ratio of allowance for loan losses to total loans at the end of the period	1.02	1.08
Ratio of allowance for loan losses to non-performing loans at the end of the period	144.37	119.05

The ratio of net charge-offs to average loans outstanding during the first quarter of 1999 decreased compared to the same period in 1998 primarily due to the decrease in net charge-offs for the first quarter of 1999 compared to the first quarter of 1998, as well as the increase in average loans outstanding. The ratio of allowance for loan losses to total loans decreased for the quarter due to the increase in loans outstanding at March 31, 1999. The ratio of allowance for loan losses to non-performing loans increased between the periods due to an increase of $1.7 million in the allowance for loan losses. The Bank's allowance for loan losses was $14.6 million and $12.9 million at March 31, 1999 and March

31, 1998, respectively, whereas non-performing loans totaled $10.1 million and $10.8 million, respectively, at those dates.

ASSET/LIABILITY MANAGEMENT

The Company has attempted to reduce its exposure to interest rate risk through the origination and purchase of ARM loans, debt securities and MBSs and maintaining an AFS securities portfolio. During the first quarter of 1999, the Bank originated or purchased for its portfolio $77.7 million of residential adjustable-rate mortgages and $34.1 million of adjustable-rate multi-family, commercial real estate and construction loans which are expected to help protect net interest margins during periods of rising interest rates. During the same period, the Bank purchased $176.6 million of fixed rate debt securities and MBSs to take advantage of higher yields compared to rates offered on adjustable-rate securities. At March 31, 1999, $240.5 million, or 25.6% of the Company's AFS portfolio were adjustable-rate securities and $700.5 million, or 74.4% of the portfolio were fixed rate securities.

Historically, the Company has been able to maintain a substantial level of core deposits (comprised of checking, savings and money market accounts) which the Company believes helps to limit interest rate risk by providing a relatively stable, low cost, long-term funding base. At March 31, 1999, core deposits represented 53.6% of deposits compared to 47.7% of deposits at December 31, 1998. Core deposits included $209.3 million of "Liquid Asset" account balances at March 31, 1999. This account was

introduced at the supermarket branches in the second quarter of 1998 and currently pays an initial rate of 4.25% for balances over $2,500. During the first quarter of 1999, savings accounts increased by $62.6 million, net of interest, whereas, certificates of deposit decreased by $10.8 million, net of interest. The number of checking accounts increased by 14,997, or 9.9% to 166,436 at March 31, 1999 from 151,439 at December 31, 1998. Most of the increase, 13,678 accounts, is attributable to the Bank's supermarket bank branches. The Company expects to attract a higher percentage of core deposits from its supermarket branch locations as the supermarket branching program continues to grow and mature.

LIQUIDITY AND CAPITAL

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of Thrift Supervision ("OTS") regulations. This requirement, which may be varied by the OTS depending upon economic conditions and deposit flows, is based upon a percentage of withdrawable deposits and short-term borrowings. The required ratio is currently 4%. The Bank's ratio was 5.43% at March 31, 1999 compared to 4.24% at December 31, 1998.

The Company's primary sources of funds are deposits, advances from Federal Home Loan Bank of New York ("FHLB-NY"), principal and interest payments on loans

and MBSs and retained earnings. Proceeds from the sale of AFS securities and loans held for sale are also a source of funding, as are, to a lesser extent, the sales of insurance, annuities and securities brokerage activities conducted by the Company's subsidiary, CFS Insurance Agency, Inc. and the Bank's subsidiary, CFS Investments, Inc. ("CFSI"). While maturities and scheduled amortization of loans and MBSs are somewhat predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, competition and regulatory changes.

The Company's most liquid assets are cash and short term investments. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At March 31, 1999 and December 31, 1998, cash and short and intermediate-term investments totaled $33.2 million and $44.8 million, respectively.

The Company and the Bank have other sources of liquidity which include debt securities maturing within one year, loans held for sale and AFS securities. Other sources of funds include FHLB advances, which at March 31, 1999, totaled $397.9 million. At March 31, 1999, the Bank had unused lines of credit totaling $39.4 million with the FHLB-NY.

As of March 31, 1999, the Bank exceeded all regulatory capital requirements as detailed in the following table:

	TANGIBLE CAPITAL		CORE CAPITAL(1)		RISK-BASED CAPITAL(2)	
	AMOUNT	RATIO (3)	AMOUNT	RATIO (3)	AMOUNT	RATIO (3)
	(DOLLARS IN THOUSANDS)					
Capital for regulatory purposes.................	$ 133,259	5.20%	$ 133,259	5.20%	$ 146,565	11.24%
Minimum regulatory requirement..................	51,212	2.00	102,423	4.00(3)	104,359	8.00
Excess..	$ 82,047	3.20%	$ 30,836	1.20%	$ 42,206	3.24%

- ------------------------

(1) Under the OTS's prompt corrective action regulations, the core capital requirement was effectively increased to 4.00% since OTS regulations stipulate that as of that date an institution with less than 4.00% core capital will be deemed to be classified as "undercapitalized".

(2) The OTS regulations require that certain institutions with more than a "normal level" of interest rate risk to maintain capital in addition to the

8.0% risk-based capital requirement. The Bank currently is not, and does not anticipate that its risk-based capital requirement will be materially affected as a result of this OTS requirement.

(3) For tangible and core capital, the ratio is to adjusted total assets. For risk-based capital, the ratio is to total risk-weighted assets.

ANALYSIS OF CORE EARNINGS

The Company's profitability is primarily dependent upon net interest income, which represents the difference between income on interest-earning assets and expenses on interest-bearing liabilities. Net interest income is dependent on the average balances and rates received on interest-earning assets and the average balances and rates paid on interest-bearing liabilities. Net income is further affected by non-interest income, non-interest expense and income taxes.

The following table sets forth certain information relating to the Company's average consolidated statements of financial condition and consolidated statements of income for the three months ended March 31, 1999 and 1998, respectively, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense annualized by the average balance of assets or liabilities, respectively, for the periods shown. Average balances were derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields.

THREE MONTHS ENDED MARCH 31, 1999
1998 ----------------------------
--- ----------------------------
---- AVERAGE AVERAGE AVERAGE
YIELD/ AVERAGE YIELD/ BALANCE
INTEREST COST BALANCE INTEREST
COST --------- --------- --------
- --------- --------- -----------
(DOLLARS IN THOUSANDS) Assets:
Interest-earning assets: Mortgage
loans..................
$1,377,235 $ 24,885 7.23%
$1,136,919 $ 21,739 7.65% Other
loans.....................
37,178 850 9.15 32,833 787 9.59
Mortgage-backed securities.......
762,234 12,650 6.64 537,116 8,931
6.65 Money market
investments......... 1,516 30
7.92 8,175 104 5.09 Debt and
equity securities....... 133,067

2,065 6.21 200,415 3,402 6.79 --- ------ --------- --------- Total interest-earning assets...... 2,311,230 40,480 7.01 1,915,458 34,963 7.30 Non-interest-earning assets........ 147,604 93,488 --- ------ --------- Total assets..................... 2,458,834 2,008,946 --------- --- ------ --------- --------- Liabilities and stockholders' equity: Interest-bearing liabilities: Savings accounts................. 576,044 4,669 3.24 384,701 2,416 2.51 Certificate accounts............. 892,050 11,753 5.27 824,774 11,863 5.75 NOW accounts..................... 222,499 324 0.58 159,088 261 0.66 Money market accounts............ 57,986 419 2.89 55,260 423 3.06 Borrowed funds................... 530,099 7,109 5.36 432,750 6,506 6.01 --------- --------- --------- --------- --------- --- Total interest-bearing liabilities..................... 2,278,678 24,274 4.26 1,856,573 21,469 4.63 Other liabilities................. 60,133 38,074 --------- --------- Total liabilities................ 2,338,811 1,894,647 Stockholders' equity.............. 120,023 114,299 --------- --------- Total liabilities and stockholders' equity.......................... $2,458,834 2,008,946 --------- --------- --------- --------- Net interest income/net interest rate spread...................... $ 16,206 2.75% $ 13,494 2.67% --------- --------- --------- --- --------- --------- --------- --- Net interest earning assets/net interest margin.................. $ 32,552 2.80% $ 58,885 2.82% --- ------ --------- --------- --- --------- --------- --------- ---

Ratio of interest-earning assets to interest-bearing liabilities.....	101.43%	103.17%

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND 1998

GENERAL. The Company reported net income of $2.6 million for the three months ended March 31, 1999 compared to net income of $2.1 million for the three months ended March 31, 1998. The increase was primarily attributable to an increase of $2.7 million in net interest income and an increase of $6.6 million in non-interest income. These increases were partially offset by an increase of $8.3 million in non-interest expense from the prior year period. Income tax expense increased $536,000 from the same period last year due to an increase of $1.0 million in pre-tax income.

INTEREST INCOME. Interest income increased by $5.5 million, or 15.8% to $40.5 million for the three months ended March 31, 1999 from $35.0 million for the three months ended March 31, 1998. The increase was primarily the result of a $3.1 million increase in interest income on mortgage loans and an increase of $3.7 million in interest income on MBS securities. These increases were partially offset by decreases in interest income on debt and equity securities and money market investments of $1.3 million and $74,000, respectively.

Interest income on mortgage loans increased by $3.1 million, or 14.5% to $24.9 million for the three months ended March 31, 1999, from $21.7 million for the comparable three-month period in 1998. The increase was primarily the result of an increase in the average balance of mortgage loans of $240.3 million, partially offset by a decline in the average yield on mortgage loans of 42 basis points from the first quarter of 1998. The increase in the average balance of mortgage loans between the periods was primarily due to mortgage originations, including purchases, for the entire year of 1998 and the first quarter of 1999 which totaled $1.22 billion and $326.8 million, respectively. The increased originations reflect the addition of the loan production franchise of CFS Intercounty. The originations for both periods were partially offset by prin-cipal payments of $279.7 million and $51.8 million, respectively. The decline in the average yield from the prior year was primarily due to the general decline in market interest rates in 1998.

Interest income on MBSs increased by $3.7 million, or 41.6% to $12.6 million for the three months ended March 31, 1999 from $8.9 million for the comparable three-month period in 1998 primarily due to an increase of $225.1 million in the average balance of MBSs at March 31, 1999 compared to March 31, 1998. During the first quarter of 1999, the Bank purchased $136.9 million of MBSs for its AFS portfolio which were partially offset by sales of MBSs totaling $54.3 million.

Interest income on debt and equity securities decreased by $1.3 million, or 39.3% to $2.1 million for the three months ended March 31, 1999 from $3.4 million for the comparable three-month period in 1998 primarily as a result of a decrease in average balances of $67.3 million coupled with a 58 basis point decrease in the average yield. During the first quarter of 1999, the Bank purchased $55.0 million of debt and equity securities for the AFS portfolio, partially offset by sales totaling $16.9 million. The emphasis on MBS securities over debt and equity securities was due to the availability of competitive rates along with shorter durations.

INTEREST EXPENSE. Interest expense increased by $2.8 million, or 13.1% to $24.3 million for the three months ended March 31, 1999 from $21.5 million for the three months ended March 31, 1998. The increase was primarily the result of a $2.2 million increase in interest expense on deposits and an increase of $0.6 million in interest expense on borrowed funds.

Interest on deposits increased by $2.2 million, or 14.7% to $17.2 million for the three months ended March 31, 1999 from $15.0 million for the comparable three-month period in 1998. The increase in interest on deposits was primarily due to the increased average balance of $324.8 million. The deposit growth is primarily attributable to the Bank's supermarket banking program. At March 31, 1999, the Bank had fifty-nine supermarket bank branches with deposits totaling $578.1 million, compared to thirty-nine supermarket branches with deposits of $238.2 million at March 31, 1998. The increase in average balance

was primarily due to savings account balances which increased by $191.3 million, or 49.7% to $576.0 million for the three months ended March 31, 1999 from $384.7 million for the comparable three-month period in 1998. Interest expense on savings accounts increased by $2.3 million, or 93.3% to $4.7 million for the three months ended March 31, 1999 from $2.4 million in the same period in 1998. The average cost of savings accounts was 3.24% for the first quarter of 1999 compared to 2.51% for the first quarter of 1998. The increase in the average cost of savings accounts was due to the "Liquid Asset" account which was introduced at the supermarket bank branches during the second quarter of 1998. This account currently pays an initial rate of 4.25% for balances over $2,500. The Bank's supermarket branches had $267.1 million in savings balances as of March 31, 1999 compared to $45.6 million as of March 31, 1998. Interest expense on certificate accounts decreased by $110,000, or 0.9% to $11.8 million for the three months ended March 31, 1999 from $11.9 million in the same period in 1998. This was primarily due to the decline in the average cost of these deposits to 5.27% for the period ended March 31, 1999 from 5.75% for the same period last year. The average cost of all deposits was 3.92% for the three months ended March 31, 1999 compared to 4.20% for the first quarter of 1998 reflecting the general decline in market interest rates.

Interest on borrowed funds increased by $603,000, or 9.3% to $7.1 million for the three months ended March 31, 1999 from $6.5 million for the comparable

three-month period in 1998. Borrowed funds on an average basis increased by $97.3 million between the periods primarily due to the addition of short-term FHLB advances and

securities sold under agreements to repurchase during 1999 in order to complement deposit growth as a funding mechanism for mortgage loan originations. The average rate paid on borrowings decreased to 5.36% for the three months ended March 31, 1999 from 6.01% for the comparable prior-year period primarily due to a decline in market rates in 1998.

NET INTEREST INCOME. Net interest income increased by $2.7 million, or 20.1% to $16.2 million for the three months ended March 31, 1999 from $13.5 million for the three months ended March 31, 1998. The increase is primarily due to the total average balance of interest-earning assets which increased by $395.8 million, or 20.7% to $2.31 billion for the three months ended March 31, 1999 from $1.92 billion for the same period last year. This growth is mainly due to growth in the Bank's residential mortgage loan and mortgage-backed securities portfolios. This increase was partially offset by the average yield on interest-earning assets which decreased to 7.01% for the three month period ended March 31, 1999 from 7.30% for the three-month period in 1998. However, the average cost of interest-bearing liabilities decreased to 4.26% from 4.63% for the three months ended March 31, 1999 and 1998, respectively, reflecting the general decline in market interest rates in 1998. Therefore, the net interest spread was 2.75% for the three months ended March 31, 1999 compared to 2.67% for the comparable period in 1998.

PROVISION FOR LOAN LOSSES. The Bank provided $675,000 for loan losses for the three months ended March 31, 1999 compared to $670,000 for the comparable three-month period in 1998. The provision for loan losses is established based on management's periodic review and evaluation of the loan portfolio.

NON-INTEREST INCOME. Non-interest income increased by $6.6 million, or 148.1% for the three months ended March 31, 1999 to $11.1 million from $4.5 million for the comparable three-month period in 1998. Non-interest income for the first quarter of 1999 included $4.5 million in servicing released premiums and fees related to loans sold in the secondary market in the quarter. The Bank generally recognizes fee income, including servicing released premiums, from its mortgage banking activities as loan sales are settled. Savings and checking fees increased by $1.3 million, or 72.6% to $3.1 million for the first quarter of 1999 compared to $1.8 million for the same period last year. The significant increase in savings and checking fees is primarily due to the number of checking accounts which increased by 54,902, or 49.2% to 166,436 accounts at March 31, 1999 from 111,534 accounts at March 31, 1998. A significant portion of this growth is attributable to the Bank's supermarket banking program. The supermarket branches generated savings and checking fees of $2.2 million for the first quarter of 1999 compared to $1.0 million for the first quarter of last year. Insurance, annuity and mutual fund fees for the first quarter of 1999 increased by

$788,000, or 66.4% to $2.0 million from $1.2 million for the same period last year which included $946,000 in revenue from sales originating from supermarket branches compared to $330,000 for the three months ended March 31, 1998.

NON-INTEREST EXPENSE. Non-interest expense increased by $8.3 million, or 59.2% for the three months ended March 31, 1999 to $22.4 million from $14.1 million for the comparable three-month period in 1998. The increase was due primarily to the addition of the expenses of the loan production franchise of CFS Intercounty and the Bank's expansion of its supermarket banking program from thirty-nine branches at March 31, 1998 to fifty-nine branches at March 31, 1999. As a result of the increased headcount, compensation and benefits costs increased by $4.5 million, or 59.1% to $12.1 million for the three months ended March 31, 1999 from $7.6 million for the same period last year. Occupancy and equipment costs increased by $1.1 million, or 50.7% to $3.3 million for the first quarter of 1999 from $2.2 million for the same period last year primarily due to the addition of twenty supermarket branches as well as the expansion of the Bank's residential lending function through CFS Intercounty. Occupancy and equipment expense also increased as a result of the purchase of the Company's new headquarters, which was completed in the third quarter 1998. Other operating costs increased by $2.9 million, or 71.5% to $6.9 million for the three months ended March 31, 1999 from $4.0 million for the same period last year primarily due to the addition of CFS Intercounty and the additional supermarket branches.

INCOME TAX EXPENSE. Income tax expense was $1.6 million for an effective tax rate of 38.1% for the three months ended March 31, 1999 compared to income tax expense of $1.1 million for an effective tax rate of 33.2% for the comparable period in 1998. The 1998 quarter included a reversal of previously provided income taxes.

COMPUTER ISSUES FOR THE YEAR 2000. Many of the Company's existing computer systems use two digits to identify the year in the date fields. As a result, these systems may not be able to distinguish the year 2000 from the year 1900. Software, hardware and equipment both within and outside the Company's direct control and with which the Company electronically or operationally interfaces (e.g. third party vendors providing data processing, information system management, maintenance of computer systems, and credit bureau information) are likely to be affected. Further, if computer systems are not adequately changed to identify the year 2000, many computer applications could fail or create erroneous results. As a result, many calculations which rely on the date field information, such as interest, payment or due dates and other operating functions, could generate results which could be significantly misstated, and the Company could experience a temporary inability to process transactions, send invoices or engage in similar normal business activities. If not corrected, these computer systems could fail by or at the year 2000.

The Company primarily uses a third party vendor to process its electronic data. This vendor has made modifications or replacements of its computer applications and systems necessary to correct the year 2000 date issue. Management has substantially completed the testing of the modifications to these

systems and applications. The Company also utilizes a combination of purchased and contract-based software as well as other third party vendors for a variety of data processing needs. The Company's assessment of potential computer issues for the year 2000 have been substantially completed. Where potential computer issues have been identified, the vendors have committed to definitive dates to resolve such issues. Under regulatory guidelines issued by the federal banking regulators, the Bank and the Company must substantially complete testing of both internally and externally supplied systems and all renovations, by June 30, 1999. In the event that the Company's significant vendors do not achieve year 2000 compliance, the Company's operations could be adversely affected.

The Company has established contingency plans for these systems for which year 2000 issues will not be corrected. The OTS, the Company's primary federal bank regulatory agency, along with the other federal bank regulatory agencies has published guidance on the year 2000 compliance and has identified the year 2000 issue as a substantive area of examination for both regularly scheduled and special bank examinations. These publications, in addition to providing guidance as to examination criteria, have

outlined requirements for creation and implementation of a compliance plan and target dates for testing and implementation of corrective action, as discussed above. As a result of the oversight by and authority vested in the federal bank regulatory agencies, a financial institution that does not become year 2000 compliant could become subject to administrative remedies similar to those imposed on financial institutions otherwise found not to be operating in a safe and sound manner, including remedies available under prompt corrective action regulations.

There has been limited litigation filed against corporations regarding the year 2000 problem and such corporations' compliance efforts. To date, no such litigation has resulted in a decided case imposing liability on the corporate entity. Nonetheless, the law in this area will likely continue to develop well into the new millennium. Should the Company experience a year 2000 failure, exposure of the Company could be significant and material, unless there is legislative action to limit such liability. Legislation has been introduced in several jurisdictions regarding the year 2000 problem. However, no assurance can be given that legislation will be enacted in jurisdictions where the Company does business that will have the effect of limiting any potential liability.

Through March 31, 1999, the Company did not incur any costs associated with achieving year 2000 compliance. However, the Company expects to incur approximately $451,000 in costs to achieve year 2000 compliance during the remainder of 1999.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In management's opinion, there has not been a material change in market risk from December 31, 1998 as reported in item 7A of the Company's Form 10-K.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In February, 1983, a burglary of the contents of safe deposit boxes occurred at a branch office of the Bank. At March 31, 1999, the Bank has a class action lawsuit related thereto pending, whereby the plaintiffs are seeking recovery of approximately $12.9 million in actual damages and an additional $12.9 million of unspecified damages. The Banks ultimate liability, if any, which might arise from the disposition of these claims cannot presently be determined. Management believes it has meritorious defenses against these actions and has and will continue to defend its position. Accordingly, no provision for any liability that may result upon adjudication has been recognized in the accompanying consolidated financial statements.

The Company is involved in various other legal actions arising in the ordinary course of business, which in the aggregate, are believed by management to be immaterial to the financial position of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

(a) The Company's Annual Meeting of Stockholders was held on April 21, 1999.

(b) Not applicable.

(c) At such meeting, the shareholders approved the following matters:

1. The election of the following individuals as Directors for a term of 3 years each:

VOTES BROKER VOTES FOR WITHHELD ABSTENTIONS NON-VOTES -
--------- --------- --------------- -------------
George S.
Worgul...
7,103,456 914,489 -0- -0- Michael J.
Levine...
7,113,320 904,625 -0- -0-

2. The ratification of KPMG LLP as independent auditors of the Company for the fiscal year ending December 31, 1999, as reflected by 7,863,457 votes for, 134,216 votes against, 20,272 abstentions and no broker non-votes.

(d) Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) 3.1 Bylaws of Haven Bancorp, Inc., as amended on April 21, 1999.

27.1 Financial Data Schedule.

b) The Company filed a Form 8-K on April 29, 1999 regarding the press release announcing its 1999 first quarter earnings.

SIGNATURES

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

HAVEN BANCORP INC
(REGISTRANT)

By: /s/ PHILIP S. MESSINA

Philip S. Messina
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Date: May 13, 1999

By: /s/ CATHERINE CALIFANO

Catherine Califano
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Date: May 13, 1999

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to

sell only the securities offered hereby, but only under circumstances where it is lawful to do so. The information contained in this prospectus is current only as of its date. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Haven Capital Trust II or Haven Bancorp, Inc. since the date hereof or that the information contained herein is correct as of any time subsequent to the date of this prospectus.

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[LOGO]

HAVEN CAPITAL TRUST II

$22,000,000

10.25% Capital Securities

Liquidation Amount $10.00 per Capital Security

Fully and unconditionally guaranteed,
to the extent described herein, by

HAVEN BANCORP, INC.

PROSPECTUS

FRIEDMAN BILLINGS RAMSEY

FIRST ALBANY CORPORATION

LADENBURG THALMANN
& CO. INC.

MAY 21, 1999

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-----END PRIVACY-ENHANCED MESSAGE-----