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CREATING A PREMIER BANKING FRANCHISE

ROSLYN BANCORP, INC.

2002 Annual Report

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## FINANCIAL HIGHLIGHTS

| At or For the Years Ended December 31,   | 2002         | 2001        |
|------------------------------------------|--------------|-------------|
| <i>(Dollars in thousands)</i>            |              |             |
| Total assets                             | \$11,020,219 | \$8,736,780 |
| Loans receivable, net                    | 3,113,265    | 3,656,526   |
| Deposits                                 | 5,710,850    | 4,486,767   |
| Total stockholders' equity               | 576,514      | 568,968     |
| <br><b>Performance Ratios</b>            |              |             |
| Return on average assets                 | 1.51%        | 1.36%       |
| Return on average stockholders' equity   | 25.99        | 18.29       |
| Operating expenses to average assets     | 0.92         | 0.97        |
| Efficiency ratio                         | 28.54        | 32.07       |
| <br><b>Cash-Based Performance Ratios</b> |              |             |
| Return on average assets                 | 1.60%        | 1.47%       |
| Return on average stockholders' equity   | 27.60        | 19.85       |
| Operating expenses to average assets     | 0.83         | 0.86        |
| Efficiency ratio                         | 25.66        | 28.30       |

## COMPANY PROFILE

Roslyn Bancorp, Inc. (Nasdaq:RSLN), headquartered in Jericho, New York, is the holding company for The Roslyn Savings Bank, a New York State chartered, FDIC insured bank with approximately \$11.0 billion in assets at December 31, 2002. Based on total assets, Roslyn ranks as the fourth largest publicly traded thrift in New York State.

The Bank operates 37 retail branches and currently serves more than 170,000 households throughout the New York City boroughs of Brooklyn, Queens and The Bronx, as well as Nassau and Suffolk counties on Long Island. Through its signature de novo branching program, Roslyn has increased its geographic footprint on average by approximately 20% per year for the past several years and has targeted between 10 and 15 new locations slated to be opened during 2003 and 2004.

Additionally, Roslyn is one of the most well respected lenders in the New York Metropolitan area's multi-family construction arena and a leader in the financing of single-family sub-divisions on Long Island.

Throughout the years, financial strength, efficiency and profitability have become the Company's trademark. While continuing to capitalize on our strengths, which include our premier retail banking franchise, niche construction business, efficiency and interest rate risk management, Roslyn is well positioned for continued growth.

TO OUR FELLOW SHAREHOLDERS:



John M. Tsimbinos

Joseph L. Mancino

John R. Bransfield, Jr.

By any measure, 2002 was a landmark year for Roslyn Bancorp, Inc. with the Company achieving its fifth consecutive year of record core earnings per share. For the year ended December 31, 2002, the Company also produced record levels of reported earnings per share, return on equity and deposits. We believe this strong and consistent earnings history reflects a franchise that capitalizes on its strengths and positions itself well for the future.

Financial Performance – One of the Best Performers in Our Industry

The strength of our performance was clearly reflected in earnings of \$146.4 million, or \$1.82 on a diluted per share basis, for the year ended December 31, 2002. This represents an increase of 42.2% in diluted earnings per share over the prior year. These strong results were achieved amid a challenging and uncertain economic climate and clearly illustrate that our strategies remain focused on enhancing shareholder value. When compared with our peers' performance for 2002, Roslyn ranked among the top performers in such categories as efficiency, return on average equity and deposit growth.

The Company once again took a leading position as one of the most efficient operators in the industry with a fourth quarter efficiency ratio of 27.74%. Since December 2000, the Company has expanded its branch network by 54%, while at the same time bettering its efficiency ratio by 16%. This compares very favorably to the top ten thrifts in the nation, whose average efficiency ratio was approximately 44%.

Retail Banking Franchise – Unprecedented Growth

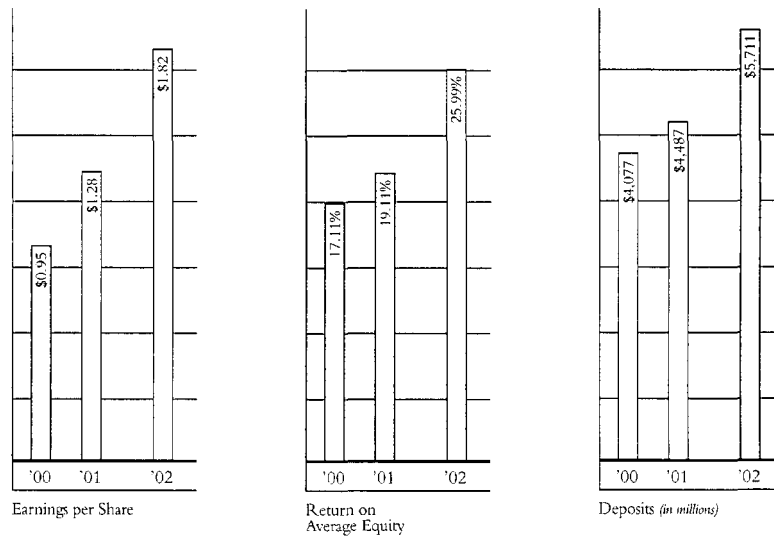
The Company's overall deposit growth continues to accelerate with total deposits at December 31, 2002 of \$5.71 billion and core deposits of \$2.58 billion. For the year, core deposits increased \$851.4 million, or 49.2%. Core deposit increases are largely attributable to the Bank's high performance checking campaign, popular money market accounts and the continued success of the Bank's newly opened de novo branches.

Earnings per share at Roslyn  
has continued to grow  
at a compounded annual rate of

20%

since its initial public offering





With the December opening of its branch in St. James in Suffolk County, New York, Roslyn has successfully completed its 2002 de novo program, and has targeted between 10 and 15 additional locations slated to be opened throughout 2003-2004. We plan to continue opening de novo branches, which employ state-of-the-art technology and our signature customer service philosophy. These strategies allow Roslyn to provide the utmost in service and convenience, which has been the basis of our strong reputation and loyal customer base for generations. On average, Roslyn's de novo branches have reached profitability in just over seven months, significantly faster than the industry average.

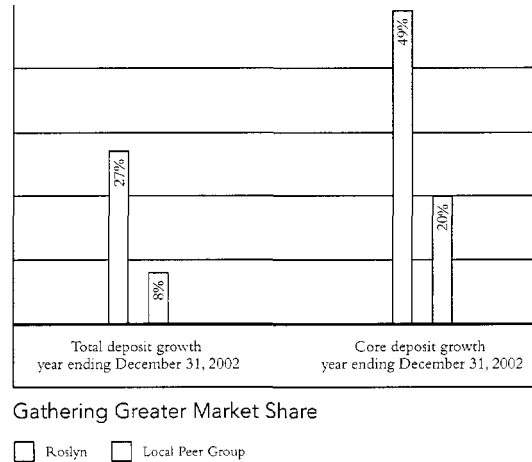
At the same time, our mature branches have continued to grow their deposits by approximately 20% despite increased competition. We firmly believe our strong retail banking efforts make us uniquely situated to continue achieving solid deposit growth for 2003.

**Lending Initiatives – Growing Our Asset Niche**

Management continues to believe in its strategy of concentrating loan growth in Roslyn's niche of multi-family fundings and single-family housing developments, which provide the Company with historically safe credit quality, improve liquidity and enhance our interest rate risk profile.

Total loan originations for the year ended December 31, 2002 were \$1.04 billion, up \$287.0 million, or 38.1%, from the prior year period. The Company's multi-family, construction and commercial real estate fundings for the year ended December 31, 2002 totaled \$731.2 million, up 38.6% from the prior year period.

Roslyn's expertise in multi-family lending extends into both construction rehabilitation and permanent financing. By offering both of these lending products to our customers, Roslyn serves as a full service provider of funds, which is a distinct advantage in this market.



The Company also capitalizes on its extensive knowledge of local market areas in Nassau and Suffolk counties for the development of single-family sub-divisions and seeks to maintain relationships with select quality builders and developers having historically strong reputations and financial performance over many years and multiple economic cycles. This strategy has allowed Roslyn to cultivate relationships with 9 of the top 10 residential builders in this area. Roslyn's portfolio of single-family sub-division loans provides it with attractive spreads and short-duration assets, with the average life of these credits approximating 18 to 24 months. Furthermore, asset quality for this portfolio has been pristine, as the Company has not experienced a charge-off in sub-division lending since 1995.

**Interest Rate Management**

The flexibility incorporated into Roslyn's securities portfolio allows it, as it has in the past, to reposition its balance sheet and take advantage of current market conditions. During 2002, management undertook a number of initiatives to improve the Bank's interest rate risk profile. These initiatives resulted in enhanced margins and spreads for that same period. The Company will continue to look for opportunities to integrate flexibility into its repositioning strategy in an effort to further enhance net interest income.

**Capital Management – Ongoing Strategies for Shareholder Enhancement**

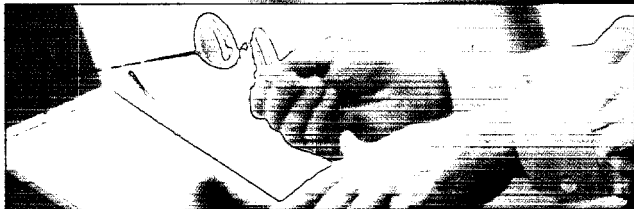
On March 20, 2003, Roslyn paid a quarterly cash dividend of \$0.15 per common share. This dividend represents a 7.1% increase over the prior quarter and is the Company's twenty-third consecutive quarterly dividend increase. The dividend was paid to shareholders of record on March 10, 2003. As of March 20, 2003, this represented a dividend yield of 3.2%. Total dividends paid in 2002 increased by 15% over total dividends paid in the prior year.

We are targeting

20% growth in our  
branch network

over

2003 &  
2004

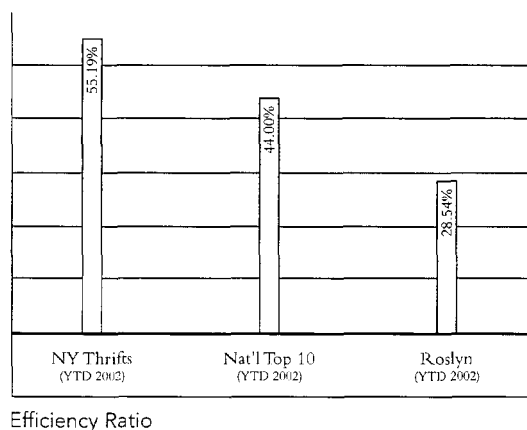


Roslyn continues to be an

# industry leader in efficiency







An aggressive share repurchase program that included 6.4 million shares repurchased in the calendar year 2002 also enhanced shareholder value. As of December 31, 2002, the Company had repurchased 8.6 million of the 8.9 million shares authorized in its eighth stock repurchase program. During the fourth quarter of 2002, the Company announced its ninth stock repurchase program, which authorizes the purchase of 4.0 million additional shares.

#### Investor Relations Activities

The Company plans to continue its active Investor Relations program, which includes nationwide roadshows throughout the year to various United States cities. Roadshows are an important part of this program and provide institutional money managers and analysts the chance to meet with Roslyn's management face-to-face.

The Company also participates in a variety of industry conferences throughout the year either by making presentations or being part of panel discussions. These conferences are webcasted so that all investors and interested parties can access the presentation as well as the "question-and-answer" session.

Individual investors will have an opportunity to meet with management at the Annual Meeting of Shareholders, set for May 20, 2003 at 9:30 AM Eastern Daylight Time. In the past, these meetings have been well attended, with approximately 400 to 500 shareholders participating.

## Outlook for 2003

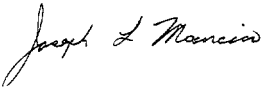
In retrospect, 2002 was a very rewarding year filled with positive financial performance and many strategic achievements. As the year came to a close, we were left with a well-positioned franchise and a management team that remains truly excited about executing our strategy.

We believe that the Company's performance for 2003 will be driven by Roslyn's premier retail banking strategy, expanding asset niche and superior efficiency. Our ongoing performance targets continue to be: achieving double-digit EPS growth, delivering 20%-25% return on equity and 1.40%-1.50% return on assets and maintaining an efficiency ratio of approximately 30% or less, while expanding our branch locations by approximately 20% per year into the foreseeable future.

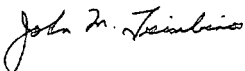
We have provided detailed factors that could effect our financial performance in the forward-looking statement safe harbor disclaimer located in the Financial Section of this annual report and encourage our readers to familiarize themselves with these risks as they refer to our performance targets and business strategy.

We are grateful for the dedication of our employees and the way they approach each day with energy and enthusiasm for serving the customer. We look to our Board of Directors for their experience, strength and partnership in creating innovative solutions. But most of all, we thank our loyal shareholders and customers for their continued confidence. We expect the next year to bring even greater achievements.

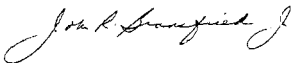
Sincerely,



Joseph L. Mancino  
*President, Chief Executive Officer  
& Vice Chairman of the Board*



John M. Tsimbinos  
*Chairman of the Board*



John R. Bransfield, Jr.  
*Vice Chairman of the Board*

FINANCIAL REPORT TO OUR SHAREHOLDERS

Roslyn Bancorp, Inc. 2002 Annual Report

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## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA OF THE COMPANY

The selected consolidated financial and other data of Roslyn Bancorp, Inc. and subsidiaries (collectively, the Company) set forth below is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto presented elsewhere in this Annual Report.

| At December 31,                                                       | 2002         | 2001        | 2000        | 1999        | 1998        |
|-----------------------------------------------------------------------|--------------|-------------|-------------|-------------|-------------|
| <i>(Dollars in thousands)</i>                                         |              |             |             |             |             |
| Selected Financial Condition Data:                                    |              |             |             |             |             |
| Total assets                                                          | \$11,020,219 | \$8,736,780 | \$7,664,269 | \$7,725,183 | \$7,799,719 |
| Money market investments                                              | 102,000      | 27,200      | 19,800      | 30,800      | 38,079      |
| Debt securities, net <sup>(1)</sup> :                                 |              |             |             |             |             |
| Held-to-maturity                                                      | 374,763      | —           | —           | —           | 26,965      |
| Available-for-sale                                                    | 877,253      | 355,695     | 711,744     | 340,655     | 349,778     |
| Equity securities:                                                    |              |             |             |             |             |
| Available-for-sale                                                    | 642,934      | 649,033     | 374,967     | 388,546     | 445,584     |
| Mortgage-backed and mortgage related securities, net <sup>(1)</sup> : |              |             |             |             |             |
| Held-to-maturity                                                      | —            | —           | —           | —           | 1,250,266   |
| Available-for-sale                                                    | 5,418,706    | 3,560,854   | 2,089,983   | 2,801,284   | 1,795,833   |
| Loans receivable held for investment, net <sup>(2)</sup>              | 3,113,265    | 3,656,526   | 4,046,332   | 3,808,307   | 3,583,742   |
| Deposits                                                              | 5,710,850    | 4,486,767   | 4,076,781   | 4,045,612   | 4,218,982   |
| Borrowed funds                                                        | 4,519,147    | 3,520,295   | 2,855,025   | 2,844,541   | 2,527,847   |
| Capital securities                                                    | 63,000       | —           | —           | —           | —           |
| Stockholders' equity                                                  | 576,514      | 568,968     | 580,714     | 637,659     | 853,366     |
| For the Years Ended December 31,                                      | 2002         | 2001        | 2000        | 1999        | 1998        |
| <i>(Dollars in thousands, except per share amounts)</i>               |              |             |             |             |             |
| Selected Operating Data:                                              |              |             |             |             |             |
| Interest income                                                       | \$ 602,290   | \$ 561,915  | \$ 539,822  | \$ 527,766  | \$ 546,744  |
| Interest expense                                                      | 324,216      | 341,690     | 342,131     | 315,194     | 343,804     |
| Net interest income before provision for loan losses                  | 278,074      | 220,225     | 197,691     | 212,572     | 202,940     |
| Provision for loan losses                                             | 3,000        | 850         | 1,000       | —           | 1,500       |
| Net interest income after provision for loan losses                   | 275,074      | 219,375     | 196,691     | 212,572     | 201,440     |
| Non-interest income                                                   | 53,705       | 32,160      | 6,218       | 25,618      | 34,912      |
| Non-interest expense <sup>(3)</sup>                                   | 102,031      | 88,131      | 81,622      | 178,003     | 89,407      |
| Income before provision for income taxes                              | 226,748      | 163,404     | 121,287     | 60,187      | 146,945     |
| Provision for income taxes                                            | 80,342       | 52,161      | 31,388      | 40,561      | 51,402      |
| Net income                                                            | \$ 146,406   | \$ 111,243  | \$ 89,899   | \$ 19,626   | \$ 95,543   |
| Basic earnings per share <sup>(4)</sup>                               | \$ 1.85      | \$ 1.30     | \$ 0.96     | \$ 0.18     | \$ 0.88     |
| Diluted earnings per share <sup>(4)</sup>                             | \$ 1.82      | \$ 1.28     | \$ 0.95     | \$ 0.18     | \$ 0.86     |

(Continued on next page)

| At or For the Years Ended December 31,                                                                                          | 2002     | 2001     | 2000     | 1999     | 1998     |
|---------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
| <i>(Dollars in thousands)</i>                                                                                                   |          |          |          |          |          |
| Selected Financial Ratios and Other Data <sup>(5)</sup> :                                                                       |          |          |          |          |          |
| Performance Ratios:                                                                                                             |          |          |          |          |          |
| Return on average assets                                                                                                        | 1.47%    | 1.36%    | 1.20%    | 0.26%    | 1.22%    |
| Return on average stockholders' equity                                                                                          | 25.22    | 18.29    | 15.78    | 2.56     | 11.20    |
| Average stockholders' equity to average assets                                                                                  | 5.81     | 7.42     | 7.61     | 9.97     | 10.90    |
| Stockholders' equity to total assets                                                                                            | 5.23     | 6.51     | 7.58     | 8.25     | 10.94    |
| Net interest rate spread <sup>(6)</sup>                                                                                         | 2.68     | 2.42     | 2.20     | 2.27     | 2.07     |
| Net interest margin <sup>(7)</sup>                                                                                              | 2.89     | 2.78     | 2.69     | 2.82     | 2.66     |
| Average interest-earning assets to average interest-bearing liabilities                                                         | 106.34   | 108.28   | 110.53   | 113.23   | 113.18   |
| General and administrative expenses to average assets                                                                           | 0.92     | 0.97     | 0.92     | 0.98     | 1.15     |
| Net interest income to general and administrative expenses                                                                      | 303.08   | 276.46   | 285.85   | 282.69   | 226.19   |
| Efficiency ratio <sup>(8)</sup>                                                                                                 | 28.54    | 32.07    | 31.56    | 32.14    | 40.79    |
| Dividend payout ratio                                                                                                           | 29.12    | 35.94    | 42.96    | 190.74   | 58.91    |
| Performance Ratios Excluding Prepayment Penalties, Restructuring and Merger Related Charges <sup>(9)(10)</sup> :                |          |          |          |          |          |
| Return on average assets                                                                                                        | 1.51%    | 1.42%    | 1.30%    | 1.39%    | 1.22%    |
| Return on average stockholders' equity                                                                                          | 25.99    | 19.11    | 17.11    | 13.89    | 11.20    |
| Cash Basis Performance Ratios Excluding Prepayment Penalties, Restructuring and Merger Related Charges <sup>(9)(10)(11)</sup> : |          |          |          |          |          |
| Return on average assets                                                                                                        | 1.60%    | 1.53%    | 1.40%    | 1.50%    | 1.43%    |
| Return on average stockholders' equity                                                                                          | 27.60    | 20.67    | 18.45    | 15.07    | 13.15    |
| General and administrative expenses to average assets                                                                           | 0.83     | 0.86     | 0.83     | 0.87     | 0.94     |
| Net interest income to general and administrative expenses                                                                      | 337.01   | 313.30   | 319.38   | 319.01   | 276.01   |
| Efficiency ratio <sup>(8)</sup>                                                                                                 | 25.66    | 28.30    | 28.24    | 28.48    | 33.43    |
| Asset Quality Data and Ratios:                                                                                                  |          |          |          |          |          |
| Total non-performing loans <sup>(12)</sup>                                                                                      | \$41,865 | \$45,506 | \$ 9,780 | \$18,963 | \$22,074 |
| Real estate owned, net                                                                                                          | 717      | 478      | 293      | —        | 1,176    |
| Total non-performing assets                                                                                                     | \$42,582 | \$45,984 | \$10,073 | \$18,963 | \$23,250 |
| Non-performing loans as a percent of loans <sup>(12)</sup>                                                                      | 1.33%    | 1.23%    | 0.24%    | 0.49%    | 0.61%    |
| Non-performing assets as a percent of total assets                                                                              | 0.39     | 0.53     | 0.13     | 0.25     | 0.30     |
| Allowance for loan losses as a percent of loans <sup>(2)</sup>                                                                  | 1.38     | 1.10     | 0.99     | 1.04     | 1.11     |
| Allowance for loan losses as a percent of total non-performing loans <sup>(2)(12)</sup>                                         | 103.72   | 89.29    | 414.36   | 211.75   | 182.15   |
| Other Data:                                                                                                                     |          |          |          |          |          |
| Number of customer service facilities                                                                                           | 37       | 29       | 27       | 25       | 25       |

(1) Includes securities having an amortized cost of \$1.27 billion that were transferred from held-to-maturity to available-for-sale in 1999.

(2) Loans receivable held for investment are presented net of the allowance for loan losses, which, at December 31, 2002, 2001, 2000, 1999, and 1998 were \$43.4 million, \$40.6 million, \$40.5 million, \$40.2 million and \$40.2 million, respectively.

(3) Included in 2002, 2001 and 1999 are prepayment penalty charges related to financial liability repositioning of \$7.3 million, \$8.3 million and \$7.2 million, respectively. Included in 2000 is a \$12.0 million restructuring charge relating to the divestiture of Roslyn National Mortgage Corporation (RNMC). Included in 1999 is \$89.2 million of merger related costs associated with the acquisition of T R Financial Corp. and a \$5.9 million restructuring charge in connection with an early retirement program for certain Bank employees.

(4) The data has been retroactively adjusted to reflect the 3-for-2 split distributed in the form of a stock dividend on August 22, 2001.

(5) Selected financial ratios are end of year ratios, with the exception of all ratios that are based on average balances during the indicated year.

(6) The net interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities. The weighted average cost also includes the effect of the Bank's payment of a special interest payment of 3% and 15% of the interest paid on savings and NOW accounts for the years ended December 31, 1999 and 1998, respectively. Additionally, such special interest payment was not paid on T R Financial Corp. accounts. No such special interest payment was paid in 2002, 2001 or 2000.

(7) The net interest margin represents net interest income as a percent of average interest-earning assets. Net interest income also includes the effect of the Bank's payment of a special interest payment of 3% and 15% of the interest paid on savings and NOW accounts for the years ended December 31, 1999 and 1998, respectively. Additionally, such special interest payment was not paid on T R Financial Corp. accounts. No such special interest payment was paid in 2002, 2001 or 2000.

(8) The efficiency ratio represents the ratio of general and administrative expenses, divided by the sum of net interest income and non-interest income, adjusted for securities gains or losses, gains on sales of fixed assets and servicing impairment provisions.

(9) Performance and cash basis performance ratios are measures that the Company believes are useful to investors in order to gain an understanding of the trends and the results of operations for the Company's core business. However, such ratios are not calculated in accordance with accounting principles generally accepted in the United States of America (GAAP).

(10) Excludes, net of tax, in 2002, 2001 and 1999 are prepayment penalty charges related to financial liability repositioning of \$4.4 million, \$5.0 million and \$4.2 million, respectively. Excludes, net of tax, in 2000 a \$7.6 million restructuring charge relating to the divestiture of Roslyn National Mortgage Corporation (RNMC). Excludes, net of tax, in 1999 \$79.2 million of merger related costs associated with the acquisition of T R Financial Corp. and a \$3.4 million restructuring charge in connection with an early retirement program for certain Bank employees.

(11) Excludes non-cash charges related to the amortization of intangible assets and the amortization relating to certain employee stock benefit plans.

(12) Non-performing loans consist of all non-accrual loans and loans contractually past due 90 days or more and still accruing. It is the Bank's policy generally to cease accruing interest on all loans contractually past due 90 days or more.

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

## Private Securities Litigation Reform Act Safe Harbor Statement

This Annual Report, including information included or incorporated by reference, contains statements which are not historical facts but "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of Roslyn Bancorp, Inc. and its subsidiaries (the Company). These forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents that the Company files with the Securities and Exchange Commission (the SEC) from time to time.

Forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," "intend" and "potential." Examples of forward-looking statements include, but are not limited to, possible or assumed estimates with respect to the Company's financial condition, expected or anticipated revenue, results of operations and the Company's business, including with respect to earnings growth (on the basis of generally accepted accounting principles in the United States of America (GAAP) and on a non-GAAP cash basis); asset quality and levels of non-performing assets; resolution of non-performing assets; origination volume in the Company's consumer, commercial and other lending businesses; results of operations from real estate joint ventures; demand for the Company's products and services, including, among other things, retail deposit products sold through retail branches, including the Company's de novo branches; current and future capital management programs; non-interest income, including fees from services and product sales; tangible capital generation; market share; expenses; and other business operations and strategies, each of which are subject to various factors which could cause actual results to differ materially from these estimates. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain.

Factors which could have a material adverse effect on the Company's operations include, but are not limited to prevailing economic conditions; changes in interest rates; changes in loan demand; changes in real estate values; changes in competition; changes in retail banking revenues; changes in revenues from sales of non-deposit investment products; the level of real estate joint venture activities; the level of defaults on loans owed to the Company; losses and prepayments on loans made by the Company, whether held in portfolio or sold in the secondary markets; changes in accounting principles, policies or guidelines; changes in any applicable law, rule, regulation or practice with respect to tax or other legal issues; risks and uncertainties related to acquisitions and related integration and restructuring activities; and other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products and services or the operations, pricing or products of the Company's real estate joint ventures.

Forward-looking statements are made as of the date of this document, and, except as required by applicable law, the Company assumes no obligation to update forward-looking statements or to update the reasons why actual results could differ from those projected in forward-looking statements. You should consider these risks and uncertainties in evaluating forward-looking statements and you should not place undue reliance on these statements.

## General

Roslyn Bancorp, Inc. (on a stand alone basis, the Holding Company), incorporated on July 26, 1996, is the holding company for The Roslyn Savings Bank and its subsidiaries (collectively, the Bank). The Bank was converted from a New York State chartered mutual savings bank to a New York State chartered stock savings bank on January 10, 1997.

During 2000, the Company announced its strategic initiatives and plans to discontinue its residential mortgage banking business through the divestiture of its mortgage banking subsidiary, Roslyn National Mortgage Corporation (RNMC). The Company recorded a pre-tax restructuring charge of \$12.0 million in the third quarter of 2000 related to the divestiture of RNMC. See Note 3 of Notes to Consolidated Financial Statements.

After the close of business on February 16, 1999, T R Financial Corp., a Delaware company, merged with and into the Company and T R Financial Corp.'s subsidiary, Roosevelt Savings Bank, a New York State chartered stock savings bank, merged with and into the Bank (the Merger). All subsidiaries of Roosevelt Savings Bank became subsidiaries of the Bank. The acquisition was accounted for as a pooling-of-interests, and, accordingly, all historical financial information for the Company has been restated to include T R Financial Corp.'s historical information for the earliest period presented. Previously reported balances of T R Financial Corp. have been reclassified to conform to the Company's presentation and restated to give effect to the Merger. See Note 2 of Notes to Consolidated Financial Statements.

The Company conducts business primarily through its ownership of the Bank. Currently, the Bank operates 37 banking locations in the New York boroughs of Kings, Queens and The Bronx, and the counties of Nassau and Suffolk. Subsequent to the 2000 divestiture of RNMC, the Bank discontinued its operations through mortgage origination offices.

The Company's results of operations are dependent primarily on net interest income, which is the difference between the income earned on its loan and security portfolios and the cost of funds, consisting of the interest paid, on its deposits and borrowings. Results of operations are also affected by, among other things, the Company's provision for loan losses, security sale activities, levels of non-performing assets, sales of non-deposit investments and real estate joint venture activities and, to a lesser extent, loan sale and servicing activities. The Company's non-interest expense principally consists of compensation and employee benefits, occupancy and equipment expense, federal deposit insurance premiums and other operating expenses. Results of operations are also affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities.

#### Management Strategy

The Company's general operating strategy focuses on the origination of commercial, construction, multi-family and consumer loans and the efficient use of personnel and technological resources. During the last half of 2000 the Company reduced its previous emphasis on investing in one- to four-family loans through the divestiture of RNMC, in favor of investing in higher margin business lines, including commercial, construction and multi-family real estate loans, as well as consumer and business loans. The Company's current operating strategy consists primarily of: (1) the origination of commercial, construction and multi-family real estate loans in the Bank's primary market area and the origination of consumer and business loans; (2) investing funds, not utilized for loan originations, in the purchase of United States Government Agency securities, mortgage-backed and mortgage related securities, preferred stock of corporate issuers and repurchasing the Company's common stock; (3) expanding the branch network by opening de novo branches; (4) generating fee income by attracting and retaining high transaction core deposit accounts and through the sale of non-deposit investment products; and (5) maintaining a low expense ratio by efficiently utilizing personnel, branch facilities and alternative delivery channels (telephone banking, internet and ATMs) to service its customers.

#### Management of Interest Rate Risk

The principal objectives of the Company's interest rate risk management are to evaluate the interest rate risk inherent in certain balance sheet accounts, to maintain an appropriate level of risk given the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and to manage the risk consistent with the Board of Directors' approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates. The Company's Board of Directors reviews the Company's interest rate risk position on a monthly basis. Additionally, an Asset/Liability Committee comprised of the Bank's senior management reviews the Company's interest rate risk position on a weekly basis. Senior management also reviews, with the Board of Directors, its activities and strategies, the effect of those activities and strategies on the Company's net interest margin, the market value of the Company's portfolio of investments and loans and the effect that changes in interest rates may have on the Company's investment and loan portfolios and exposure limits.

The Company has utilized the following strategies to manage interest rate risk: (1) increasing low-cost core deposits through an expanded branch network and product offerings; (2) focusing on higher margin business lines by expanding construction, commercial real estate and multi-family lending; and (3) effectively utilizing borrowed funds and deposits to fund and sustain asset growth while maintaining market spreads. Management believes that reducing exposure to interest rate fluctuations in this manner will enhance long-term profitability.

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

*(continued)*

## Gap Analysis

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 that same time period. At December 31, 2002, the Company's one-year gap position was positive 42.73%. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, an institution with a positive gap position would be in a better position to invest in higher yielding assets, which, consequently, may result in the yield of its interest-earning assets increasing at a rate faster than its cost of interest-bearing liabilities, as opposed to if the institution had a negative gap. Accordingly, during a period of falling interest rates, an institution with a positive gap would tend to have its interest-earning assets repricing downward at a faster rate than its interest-bearing liabilities as compared to an institution with a negative gap which, consequently, may tend to negatively affect the growth of its net interest income. The Company's December 31, 2002 cumulative one-year gap position reflects the classification of available-for-sale and held-to-maturity securities within repricing periods based on their contractual maturities adjusted for estimated callable features and prepayments, if any. If available-for-sale securities at December 31, 2002 were classified within the "Up to One Year" maturity or repricing category, net interest-earning assets would have exceeded interest-bearing liabilities maturing or repricing within the same period by \$6.30 billion, representing a positive cumulative one-year gap position of 57.14%. Available-for-sale securities may or may not be sold, subject to management's discretion. Given the Company's existing liquidity position and its ability to sell securities from its available-for-sale portfolio, management of the Company believes that its current gap position will not have a material adverse effect on its liquidity position.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2002, that are anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown (the Gap Table). Except as stated, the amount of assets and liabilities shown which reprice or mature during a particular period was determined in accordance with the earlier of the term to reprice or the contractual maturity of the asset or liability. The Gap Table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2002 on the basis of contractual maturities, anticipated prepayments, callable features and scheduled rate adjustments within a one year period and subsequent annual time intervals. Prepayment rate assumptions ranging from 4% to 70% per year were applied to the real estate loan portfolio, dependent upon the loan type and coupon. Mortgage-backed and mortgage related securities were assumed to prepay at rates between 45% and 95% annually, dependent upon the security type and pass-through rate. Money market accounts were assumed to decay (estimated deposit withdrawal activity) at 11% per annum, savings accounts were assumed to decay at 5% per annum and Super NOW and NOW accounts were assumed to decay at 3% per annum. Prepayment and deposit decay rates can have a significant impact on the Company's estimated gap. While the Company believes such assumptions are reasonable, there can be no assurance that assumed prepayment and decay rates will approximate actual future real estate loan and mortgage-backed and mortgage related securities principal prepayments and deposit withdrawal activity.

In addition to the foregoing, callable features of certain assets and liabilities may cause actual experience to vary from that indicated. Included in the Gap Table are \$1.26 billion of callable securities at their estimated fair value and classified primarily based upon their respective call features and interest rates. Of such securities, \$975.9 million have been classified, using callable features, in the "Up to One Year" category, \$70.4 million have been classified, using callable features, in the "One to Two Years" category and \$213.7 million have been classified, according to their contractual maturity date, in the "Over Five Years" category. Also included in the Gap Table are \$2.32 billion of callable borrowings, classified according to their maturity date, except for \$150.0 million of such borrowings which have been classified according to their first call date in the "Up to One Year" category. If all callable borrowings at December 31, 2002 were classified according to their first call date, the Company's one-year gap position would have been positive 27.87%.



The Company's positive gap position at December 31, 2002 of 42.73% as compared to a positive 15.33% at December 31, 2001 primarily reflects the effect of continued prepayment activity experienced during 2002 in the mortgage-backed securities and real estate loan portfolios, as well as recent investment in callable federal agency securities. In addition, maturities of certificates of deposit (CDs) lengthened during 2002. Certificates of deposits maturing in one year or less decreased from 79.9% of the total CDs held at December 31, 2001 to 56.7% of the total CDs held at December 31, 2002. Slightly offsetting the lengthening of CD maturities was an increase in the estimated withdrawal activity of the "Up to One Year" category in money market and savings accounts, which reflects the impact of the rise in deposit activity for these accounts.

| At December 31, 2002                                                                              |                    |                        |                          |                           |                          |                       |                     |
|---------------------------------------------------------------------------------------------------|--------------------|------------------------|--------------------------|---------------------------|--------------------------|-----------------------|---------------------|
|                                                                                                   | Up to<br>One Year  | One<br>to Two<br>Years | Two<br>to Three<br>Years | Three<br>to Four<br>Years | Four<br>to Five<br>Years | Over<br>Five<br>Years | Total               |
| <i>(Dollars in thousands)</i>                                                                     |                    |                        |                          |                           |                          |                       |                     |
| Interest-earning assets <sup>(1)</sup> :                                                          |                    |                        |                          |                           |                          |                       |                     |
| Money market investments                                                                          | \$ 102,000         | \$ —                   | \$ —                     | \$ —                      | \$ —                     | \$ —                  | \$ 102,000          |
| Debt and equity securities, net <sup>(2)</sup>                                                    | 1,276,490          | 69,956                 | —                        | 21,083                    | 1,000                    | 623,461               | 1,991,990           |
| Mortgage-backed and mortgage related securities, net <sup>(2)</sup>                               | 4,323,659          | 825,536                | 170,350                  | 56,926                    | 21,748                   | 20,487                | 5,418,706           |
| Real estate loans, net <sup>(3)(4)</sup>                                                          | 1,413,147          | 499,969                | 243,668                  | 234,442                   | 320,563                  | 118,682               | 2,830,471           |
| Consumer and other loans, net <sup>(3)(4)</sup>                                                   | 288,639            | 1,904                  | 1,953                    | 1,387                     | 252                      | 1,851                 | 295,986             |
| <b>Total interest-earning assets</b>                                                              | <b>\$7,403,935</b> | <b>\$1,397,365</b>     | <b>\$ 415,971</b>        | <b>\$ 313,838</b>         | <b>\$ 343,563</b>        | <b>\$ 764,481</b>     | <b>\$10,639,153</b> |
| Interest-bearing liabilities:                                                                     |                    |                        |                          |                           |                          |                       |                     |
| Money market accounts                                                                             | \$ 98,297          | \$ 51,112              | \$ 33,933                | \$ 26,875                 | \$ 23,466                | \$ 629,774            | \$ 863,457          |
| Savings accounts                                                                                  | 56,859             | 52,001                 | 47,762                   | 44,051                    | 40,794                   | 953,369               | 1,194,836           |
| Super NOW and NOW accounts                                                                        | 9,292              | 9,013                  | 8,743                    | 8,480                     | 8,226                    | 265,970               | 309,724             |
| Certificates of deposit                                                                           | 1,775,405          | 687,311                | 212,417                  | 125,934                   | 252,383                  | 76,019                | 3,129,469           |
| Borrowed funds                                                                                    | 755,005            | 238,294                | 875,305                  | 600,007                   | 340,052                  | 1,710,484             | 4,519,147           |
| <b>Total interest-bearing liabilities</b>                                                         | <b>2,694,858</b>   | <b>1,037,731</b>       | <b>1,178,160</b>         | <b>805,347</b>            | <b>664,921</b>           | <b>3,635,616</b>      | <b>10,016,633</b>   |
| <b>Interest sensitivity gap<sup>(5)</sup></b>                                                     | <b>\$4,709,077</b> | <b>\$ 359,634</b>      | <b>\$ (762,189)</b>      | <b>\$ (491,509)</b>       | <b>\$ (321,358)</b>      | <b>\$ (2,871,135)</b> | <b>\$ 622,520</b>   |
| <b>Cumulative interest sensitivity gap</b>                                                        | <b>\$4,709,077</b> | <b>\$5,068,711</b>     | <b>\$4,306,522</b>       | <b>\$3,815,013</b>        | <b>\$3,493,655</b>       | <b>\$ 622,520</b>     |                     |
| Cumulative interest sensitivity gap as a percentage of total assets                               | 42.73%             | 45.99%                 | 39.08%                   | 34.62%                    | 31.70%                   | 5.65%                 |                     |
| Cumulative net interest-earning assets as a percentage of cumulative interest-bearing liabilities | 274.74%            | 235.80%                | 187.70%                  | 166.74%                   | 154.75%                  | 106.21%               |                     |

(1) Interest-earning assets are included in the period in which the balances are expected to be re-deployed and/or repriced as a result of anticipated prepayments and call dates, scheduled rate adjustments and contractual maturities.

(2) Debt, equity, mortgage-backed and mortgage related securities, net, are shown at their respective carrying values. Included in debt and equity securities, net, is \$97.0 million of Federal Home Loan Bank stock.

(3) For the purpose of the gap analysis, the allowance for loan losses and non-performing loans have been excluded.

(4) Loans held-for-sale are included in the "Up to One Year" category.

(5) The interest sensitivity gap represents the difference between total interest-earning assets and total interest-bearing liabilities.

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

Certain shortcomings are inherent in the method of analysis presented in the preceding table. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage (ARM) loans, have features which limit adjustments to interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the GAP Table. Finally, the ability of borrowers to service their ARM loans may decrease in the event of an interest rate increase. The Gap Table reflects management's estimates as to periods to repricing at particular points in time. Among the factors considered, management monitors both current trends and historical repricing experience with respect to particular or similar products. For example, the Bank has a number of deposit accounts, including passbook savings, Super NOW and NOW and money market accounts which, subject to certain regulatory exceptions, may be withdrawn at any time. The Bank, based upon its historical experience, assumes that while all customers in these account categories could withdraw their funds on any given day, not all will do so even if market interest rates were to change. As a result, different assumptions may be used at different points in time.

The Company's interest rate sensitivity is also monitored by management through the use of a net portfolio value (NPV) model, which generates estimates of the change in 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. For purposes of the NPV model, prepayment assumptions similar to those used in the Gap Table were used, reinvestment rates were those in effect for similar products currently being offered and rates on core deposits were modified to reflect recent trends. The following table sets forth the Company's NPV as of December 31, 2002:

| Change in<br>Interest Rates<br>in Basis<br>Points<br>(Rate Shock) | Net Portfolio Value <sup>(1)</sup> |                  |                   | NPV as a Percentage of<br>Portfolio Value of Assets |                                  |
|-------------------------------------------------------------------|------------------------------------|------------------|-------------------|-----------------------------------------------------|----------------------------------|
|                                                                   | Amount                             | Dollar<br>Change | Percent<br>Change | NPV<br>Ratio                                        | Percent<br>Change <sup>(2)</sup> |
| <i>(Dollars in thousands)</i>                                     |                                    |                  |                   |                                                     |                                  |
| 200                                                               | \$749,832                          | \$ 219,497       | 41.39%            | 7.59%                                               | 50.60%                           |
| 100                                                               | 782,805                            | 252,470          | 47.61             | 7.67                                                | 52.18                            |
| Static                                                            | 530,335                            | —                | —                 | 5.04                                                | —                                |
| (100)                                                             | 173,223                            | (357,112)        | (67.34)           | 1.58                                                | (68.65)                          |

(1) The NPV model excludes \$63.0 million of guaranteed preferred beneficial interest in junior subordinated debentures.

(2) Based on the portfolio value of the Company's assets assuming no change in interest rates.

As in the case with the Gap Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. The current low interest rate environment prevents the performance of a downward change in interest rates of 200 basis points as certain asset yields, liability costs and related indexes are below 2.00% at December 31, 2002. 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 and net interest income models provide an indication of the Company's interest rate risk exposure at a particular point in time, actual results may differ from those indicated by the models as such measurements are not intended to and may not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income.

#### Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid upon them.

The following table sets forth certain information regarding the Company's consolidated average statements of financial condition and the Company's average yields on interest-earning assets and average costs of interest-bearing liabilities for the years indicated. Such yield or costs are derived by dividing income or expense, by the average balance of interest-earning assets or interest-bearing liabilities, respectively. Average balances are derived from average daily balances. The yields and costs include fees that are considered adjustments to such yields and costs.

| For the Years Ended December 31,                                    |                 |           |                    |                 |           |                    |                 |           |                    |
|---------------------------------------------------------------------|-----------------|-----------|--------------------|-----------------|-----------|--------------------|-----------------|-----------|--------------------|
|                                                                     | 2002            |           |                    | 2001            |           |                    | 2000            |           |                    |
|                                                                     | Average Balance | Interest  | Average Yield/Cost | Average Balance | Interest  | Average Yield/Cost | Average Balance | Interest  | Average Yield/Cost |
| <i>(Dollars in thousands)</i>                                       |                 |           |                    |                 |           |                    |                 |           |                    |
| Assets:                                                             |                 |           |                    |                 |           |                    |                 |           |                    |
| Interest-earning assets:                                            |                 |           |                    |                 |           |                    |                 |           |                    |
| Money market investments                                            | \$ 83,021       | \$ 1,336  | 1.61%              | \$ 43,788       | \$ 1,579  | 3.61%              | \$ 19,580       | \$ 1,214  | 6.20%              |
| Debt and equity securities, net <sup>(1)</sup>                      | 1,456,039       | 97,741    | 6.71               | 951,383         | 75,786    | 7.97               | 905,930         | 69,204    | 7.64               |
| Mortgage-backed and mortgage related securities, net <sup>(1)</sup> | 4,693,046       | 271,549   | 5.79               | 3,024,973       | 193,890   | 6.41               | 2,393,562       | 164,839   | 6.89               |
| Real estate loans, net <sup>(2)</sup>                               | 3,086,656       | 215,686   | 6.99               | 3,610,942       | 268,956   | 7.45               | 3,774,654       | 283,279   | 7.50               |
| Consumer and other loans, net <sup>(2)</sup>                        | 301,381         | 15,978    | 5.30               | 298,990         | 21,704    | 7.26               | 256,560         | 21,286    | 8.30               |
| Total interest-earning assets                                       | 9,620,143       | 602,290   | 6.26               | 7,930,076       | 561,915   | 7.09               | 7,350,286       | 539,822   | 7.34               |
| Non-interest-earning assets <sup>(3)</sup>                          | 369,204         |           |                    | 265,423         |           |                    | 135,460         |           |                    |
| Total assets                                                        | \$9,989,347     |           |                    | \$8,195,499     |           |                    | \$7,485,746     |           |                    |
| Liabilities and Stockholders' Equity:                               |                 |           |                    |                 |           |                    |                 |           |                    |
| Interest-bearing liabilities:                                       |                 |           |                    |                 |           |                    |                 |           |                    |
| Interest-bearing deposits:                                          |                 |           |                    |                 |           |                    |                 |           |                    |
| Money market accounts                                               | \$ 571,847      | 12,413    | 2.17               | \$ 321,728      | 10,046    | 3.12               | \$ 239,525      | 10,512    | 4.39               |
| Savings accounts <sup>(4)</sup>                                     | 1,053,347       | 11,551    | 1.10               | 897,122         | 14,604    | 1.63               | 925,293         | 17,571    | 1.90               |
| Super NOW and NOW accounts                                          | 280,997         | 1,747     | 0.62               | 218,055         | 2,916     | 1.34               | 168,708         | 3,130     | 1.86               |
| Certificates of deposit                                             | 3,022,106       | 105,239   | 3.48               | 2,732,065       | 142,169   | 5.20               | 2,554,147       | 143,799   | 5.63               |
| Total interest-bearing deposits                                     | 4,928,297       | 130,950   | 2.66               | 4,168,970       | 169,735   | 4.07               | 3,887,673       | 175,012   | 4.50               |
| Borrowed funds                                                      | 4,118,437       | 193,266   | 4.69               | 3,154,877       | 171,955   | 5.45               | 2,762,551       | 167,119   | 6.05               |
| Total interest-bearing liabilities                                  | 9,046,734       | 324,216   | 3.58               | 7,323,847       | 341,690   | 4.67               | 6,650,224       | 342,131   | 5.14               |
| Non-interest-bearing liabilities                                    | 362,161         |           |                    | 263,300         |           |                    | 265,750         |           |                    |
| Total liabilities                                                   | 9,408,895       |           |                    | 7,587,147       |           |                    | 6,915,974       |           |                    |
| Stockholders' equity                                                | 580,452         |           |                    | 608,352         |           |                    | 569,772         |           |                    |
| Total liabilities and stockholders' equity                          | \$9,989,347     |           |                    | \$8,195,499     |           |                    | \$7,485,746     |           |                    |
| Net interest income/interest rate spread <sup>(5)</sup>             |                 | \$278,074 | 2.68%              |                 | \$220,225 | 2.42%              |                 | \$197,691 | 2.20%              |
| Net interest margin <sup>(6)</sup>                                  |                 |           | 2.89%              |                 |           | 2.78%              |                 |           | 2.69%              |
| Ratio of interest-earning assets to interest-bearing liabilities    |                 |           | 106.34%            |                 |           | 108.28%            |                 |           | 110.53%            |

(1) Includes, at amortized cost, securities available-for-sale, net, and in the case of debt and equity securities, net, Federal Home Loan Bank stock.

(2) Amount is net of deferred loan fees, deferred mortgage interest, unamortized discounts and allowance for loan losses and includes loans held-for-sale, net, and non-performing loans.

(3) Included in non-interest-earning assets for the years ended December 31, 2002, 2001 and 2000 is Bank Owned Life Insurance (BOLI) with an average balance of \$116.0 million, \$108.3 million and \$65.5 million, respectively, and income of \$7.5 million, \$7.7 million and \$4.7 million, respectively. The reclassification of the BOLI asset into interest-earning assets and the associated income from other income to interest income for the years ended December 31, 2002, 2001 and 2000 would change the net interest rate spread, net interest margin and the ratio of interest-earning assets to interest-bearing liabilities to 2.68%, 2.93% and 107.62%, respectively, 2.42%, 2.84% and 109.76%, respectively, and 2.20%, 2.73% and 111.51%, respectively.

(4) Savings accounts include mortgagors' escrow deposits.

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

(6) Net interest margin represents net interest income divided by average interest-earning assets.

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

## 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: (1) changes attributable to changes in volume (changes in volume multiplied by prior rate); (2) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (3) 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 rate.

|                                                      | Year Ended December 31, 2002<br>Compared to<br>Year Ended December 31, 2001 |                  |                  | Year Ended December 31, 2001<br>Compared to<br>Year Ended December 31, 2000 |                  |                  |
|------------------------------------------------------|-----------------------------------------------------------------------------|------------------|------------------|-----------------------------------------------------------------------------|------------------|------------------|
|                                                      | Increase (Decrease)<br>Due to                                               |                  |                  | Increase (Decrease)<br>Due to                                               |                  |                  |
|                                                      | Volume                                                                      | Rate             | Net              | Volume                                                                      | Rate             | Net              |
| <i>(In thousands)</i>                                |                                                                             |                  |                  |                                                                             |                  |                  |
| <b>Interest-earning assets:</b>                      |                                                                             |                  |                  |                                                                             |                  |                  |
| Money market investments                             | \$ 930                                                                      | \$ (1,173)       | \$ (243)         | \$ 552                                                                      | \$ (187)         | \$ 365           |
| Debt and equity securities, net                      | 31,211                                                                      | (9,256)          | 21,955           | 3,558                                                                       | 3,024            | 6,582            |
| Mortgage-backed and mortgage related securities, net | 94,291                                                                      | (16,632)         | 77,659           | 39,487                                                                      | (10,436)         | 29,051           |
| Real estate loans, net                               | (37,357)                                                                    | (15,913)         | (53,270)         | (12,361)                                                                    | (1,962)          | (14,323)         |
| Consumer and other loans, net                        | 175                                                                         | (5,901)          | (5,726)          | 1,729                                                                       | (1,311)          | 418              |
| <b>Total interest-earning assets</b>                 | <b>89,250</b>                                                               | <b>(48,875)</b>  | <b>40,375</b>    | <b>32,965</b>                                                               | <b>(10,872)</b>  | <b>22,093</b>    |
| <b>Interest-bearing liabilities:</b>                 |                                                                             |                  |                  |                                                                             |                  |                  |
| Money market accounts                                | 3,894                                                                       | (1,527)          | 2,367            | (2,937)                                                                     | 2,471            | (466)            |
| Savings accounts <sup>(1)</sup>                      | 3,493                                                                       | (6,546)          | (3,053)          | (520)                                                                       | (2,447)          | (2,967)          |
| Super NOW and NOW accounts                           | 1,369                                                                       | (2,538)          | (1,169)          | (5,459)                                                                     | 5,245            | (214)            |
| Certificates of deposit                              | 17,452                                                                      | (54,382)         | (36,930)         | 18,745                                                                      | (20,375)         | (1,630)          |
| Borrowed funds                                       | 39,117                                                                      | (17,806)         | 21,311           | 16,003                                                                      | (11,167)         | 4,836            |
| <b>Total interest-bearing liabilities</b>            | <b>65,325</b>                                                               | <b>(82,799)</b>  | <b>(17,474)</b>  | <b>25,832</b>                                                               | <b>(26,273)</b>  | <b>(441)</b>     |
| <b>Net change in net interest income</b>             | <b>\$ 23,925</b>                                                            | <b>\$ 33,924</b> | <b>\$ 57,849</b> | <b>\$ 7,133</b>                                                             | <b>\$ 15,401</b> | <b>\$ 22,534</b> |

(1) Includes mortgagors' escrow deposits.

## Critical Accounting Policies

The Company has identified the accounting policies below as critical to the Company's operations and understanding of the Company's results of operations. Certain accounting policies are considered to be important to the portrayal of the Company's financial condition, since they require management to make complex or subjective judgments, some of which may relate to matters that are inherently uncertain. The inherent sensitivity of the Company's consolidated financial statements to critical accounting policies and the use of judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition.

**Allowance for Loan Losses**—The Company has determined that the methodology used in determining the level of its allowance for loan losses is critical in the presentation and understanding of the Company's consolidated financial statements. The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings and loss recovery rates, among other things, are considered in this evaluation, as are the size and diversity of individual large credits. Changes in these estimates could have a direct impact on the provision for loan losses and could result in a change in the allowance. While management uses available information to determine losses on loans, future additions to the allowance may be necessary based, among other things, on unanticipated changes in economic conditions, particularly in the New York Metropolitan area.

In evaluating the loan portfolio, management takes into consideration numerous factors such as the Company's loan growth, prior loss experience, present risks of the loan portfolio, risk ratings assigned by lending personnel, ratings assigned by the Company's independent loan review function, the present financial condition of borrowers, current economic conditions and other portfolio risk characteristics. The Company's formalized process for assessing the adequacy of the allowance for

loan losses and the resultant need, if any, for periodic provisions to the allowance charged to income entails both individual loan analyses and loan pool analyses. The individual loan analyses are periodically performed on individually significant loans, or when otherwise deemed necessary, and primarily encompass multi-family, commercial real estate and construction and development loans. The result of these analyses may result in the allocation of the overall allowance to specific allowances for individual loans considered impaired and non-impaired.

The loan pool analyses are performed on the balance of the Company's loan portfolio, which were not individually reviewed. The pools consist of aggregations of homogeneous loans, primarily one- to four-family residential and consumer loans, having similar credit risk characteristics. Examples of pools defined by the Company for this purpose are Company-originated, fixed-rate residential loans; Company-originated, adjustable-rate residential loans; purchased fixed-rate residential loans; outside-serviced residential loans; residential second mortgage loans; participations in conventional first mortgage loans; residential construction loans; commercial construction loans, etc. For each such defined pool there is a set of sub-pools based upon delinquency status, including: current, 30-59 days, 60-89 days, 90-119 days and 120+ days (the latter two sub-pools are considered to be "classified" by the Company). For each sub-pool, the Company has developed a range of allowances necessary to adequately provide for probable losses inherent in that pool of loans. These ranges are based upon a number of factors, including the risk characteristics of the pool, actual loss and migration experience, expected loss and migration experience considering current economic conditions, industry norms and the relative seasoning of the pool. The ranges of allowance developed by the Company are applied to the outstanding principal balance of the loans in each sub-pool; as a result, further specific and general allocations of the overall allowance are made (the allocations for the classified sub-pools are considered specific and the allocations for the non-classified sub-pools are considered general).

The Company's allowance for loan losses also takes into consideration known and expected trends that are likely to affect the creditworthiness of the loan portfolio as a whole, such as national and local economic conditions, unemployment conditions in the local lending area and the timeliness of court foreclosure proceedings in the Company's lending areas. Management continues to believe that the Company's allowance for loan losses at December 31, 2002 is both appropriate in the circumstances and adequate to provide for estimated probable losses inherent in the loan portfolio.

*Employee Benefit Plans*—The Company provides a range of benefits to its employees and retired employees, including pensions and post-retirement health care and life insurance benefits. The Company records annual amounts relating to these plans based on calculations specified by accounting principles generally accepted in the United States of America (GAAP), which include various actuarial assumptions, such as discount rates, assumed rates of return, assumed rates of compensation increases, turnover rates and health care cost trends. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As required by GAAP, the effect of the modifications are generally recorded or amortized over future periods. The Company believes that the assumptions utilized in recording its obligations under its employee benefit plans are reasonable based upon the advice of its actuaries.

*Investment in Debt and Equity Securities*—Certain of the Company's fixed income securities classified as available-for-sale are not publicly traded, and quoted market prices are not available from brokers or investment bankers on these securities. The change in the fair value of these available-for-sale securities is recorded in other comprehensive income as an unrealized gain or loss. The Company calculates the fair value of these securities based upon assumptions established through the use of pricing models and discounted cash flows of similar outstanding securities. Realized gains and losses on sales of securities are computed using the specific identification method. The Company conducts a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary.

*Income Taxes*—The Company has established reserves for possible payments to various taxing authorities with respect to the admissibility and timing of tax deductions. Management has made certain assumptions and judgments concerning the eventual outcome of these items. The Company continually reviews those assumptions and judgments to reflect any changes that may have arisen concerning these items.

#### Comparison of Financial Condition for the Years Ended December 31, 2002 and 2001

##### Total Assets

Total assets at December 31, 2002 were \$11.02 billion, an increase of \$2.28 billion, or 26.1%, from \$8.74 billion at December 31, 2001. This increase primarily was due to increases in the mortgage-backed and mortgage related securities portfolio and the debt and equity securities portfolio, partially offset by a decrease in total loans receivable held for investment, net. Mortgage-backed and mortgage related securities increased \$1.86 billion, or 52.2%, from \$3.56 billion at December 31, 2001 to \$5.42 billion at December 31, 2002. Debt and equity securities, net, increased \$890.2 million, or

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

88.6%, to \$1.89 billion at December 31, 2002, as compared to \$1.00 billion at December 31, 2001. These increases in the securities portfolios were primarily due to the deployment of proceeds received from increased deposits, borrowings and principal repayments on loans and securities into mortgage-backed and mortgage related securities and debt and equity securities. Total loans receivable held for investment, net, decreased \$540.5 million, or 14.6%, to \$3.16 billion at December 31, 2002, as compared to \$3.70 billion at December 31, 2001. The decrease in total loans receivable held for investment, net, is primarily due to principal repayments, which were partially offset by loan originations for the twelve months ended December 31, 2002.

#### Total Liabilities

Total liabilities at December 31, 2002 were \$10.38 billion, an increase of \$2.21 billion, or 27.1%, from \$8.17 billion at December 31, 2001. The increase in total liabilities principally was due to an increase in total deposits and borrowed funds. Total deposits increased \$1.22 billion, or 27.3%, from \$4.49 billion at December 31, 2001 to \$5.71 billion at December 31, 2002. The increase in total deposits reflects the Bank's continued emphasis on attracting core deposits through new product offerings and the addition of de novo branches. Core deposits increased \$851.4 million, or 49.2%, from \$1.73 billion at December 31, 2001 to \$2.58 billion at December 31, 2002. Additionally, certificates of deposit increased \$372.7 million, or 13.5%, from \$2.76 billion at December 31, 2001 to \$3.13 billion at December 31, 2002. The increase in certificates of deposit includes a net increase in brokered deposits. The Company had acquisitions of \$192.1 million and maturities of \$24.8 million of brokered deposits during the year ended December 31, 2002. At December 31, 2002 and 2001, brokered deposits totaled \$226.4 million and \$59.1 million, respectively. Borrowed funds increased \$998.9 million, or 28.4%, from \$3.52 billion at December 31, 2001 to \$4.52 billion at December 31, 2002. The Company utilizes borrowings, primarily in the form of reverse-repurchase agreements and Federal Home Loan Bank (FHLB) borrowings, to fund asset growth. At December 31, 2002 and 2001, senior notes totaled \$189.8 million and \$75.0 million, respectively. See Note 11 to Notes to Consolidated Financial Statements for further discussion of the senior notes.

#### Capital Securities

On March 20, 2002, Roslyn Preferred Trust I (RPT I), a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$63.0 million aggregate liquidation amount of floating rate guaranteed preferred beneficial interests in Junior Subordinated Debentures (the Capital Securities) due April 1, 2032, at a distribution rate equal to the 6-month LIBOR plus 360 basis points, resetting on a semi-annual basis. The maximum distribution rate on the Capital Securities is 12.0% through April 1, 2007, with no maximum thereafter. The Company may redeem the Capital Securities, in whole or in part, at any time on or after April 1, 2007. At December 31, 2002, the distribution rate was 5.36%. See Note 12 to Notes to Consolidated Financial Statements for further discussion of the Capital Securities.

#### Stockholders' Equity

Stockholders' equity increased \$7.5 million, or 1.3%, to \$576.5 million at December 31, 2002 from \$569.0 million at December 31, 2001. The increase was due to net income for the year ended December 31, 2002 of \$146.4 million, the amortization of unallocated and unearned shares of common stock held by the Company's stock-related benefit plans of \$9.2 million and an increase of \$30.6 million in the net unrealized gains on securities available-for-sale from December 31, 2001. Items that offset these increases were dividends paid of \$41.9 million, the \$14.6 million effect of stock options exercised for the year ended December 31, 2002 and the purchase of \$120.6 million, or 6,363,474 shares, of treasury stock and \$1.6 million, or 73,162 shares, of supplemental executive retirement plan (SERP) and Stock-Based Incentive Plan (SBIP) stock for the year ended December 31, 2002.

#### Comparison of Operating Results for the Years Ended December 31, 2002 and 2001

##### General

The Company reported net income of \$146.4 million for the year ended December 31, 2002, or basic and diluted earnings per share of \$1.85 and \$1.82, respectively, as compared to net income of \$111.2 million, or basic and diluted earnings per share of \$1.30 and \$1.28, respectively, for the year ended December 31, 2001.

##### Interest Income

Interest income increased to \$602.3 million for the year ended December 31, 2002, an increase of \$40.4 million, or 7.2%, from \$561.9 million for the prior year. This increase was primarily attributable to an increase in average interest-earning assets of \$1.69 billion, or 21.3%, to \$9.62 billion for the year ended December 31, 2002 from \$7.93 billion for the prior year. This increase was partially offset by a decrease in the average yield on interest-earning assets of 83 basis points from 7.09% for the year ending December 31, 2001 to 6.26% for the year ended December 31, 2002. The increase in average interest-earning assets was primarily attributable to an increase of \$1.67 billion in the average balance of mortgage-backed and mortgage

related securities, net, a \$504.7 million increase in the average balance of debt and equity securities, net, a \$39.2 million increase in the average balance of money market investments and a \$2.4 million increase in the average balance of consumer and other loans, net. These increases were partially offset by a \$524.3 million decrease in the average balance of real estate loans, net.

Interest income on mortgage-backed and mortgage related securities, net, increased \$77.6 million, or 40.1%, to \$271.5 million for the year ended December 31, 2002 from \$193.9 million for the same period in 2001. The increase was a result of a \$1.67 billion, or 55.1%, increase in the average balance of mortgage-backed and mortgage related securities, net, from \$3.02 billion for the year ended December 31, 2001 to \$4.69 billion for the year ended December 31, 2002. The increase in the average balance of such securities was due to the utilization of part of the proceeds received from increased borrowings and deposit liabilities, coupled with the re-deployment of principal repayments of real estate loans, to purchase mortgage-backed and mortgage related securities. The increase was partially offset by a 62 basis point decline in the average yield on mortgage-backed and mortgage related securities from 6.41% for the year ended December 31, 2001 to 5.79% for the same period in 2002.

Interest income on debt and equity securities, net, increased \$21.9 million, or 29.0%, to \$97.7 million for the year ended December 31, 2002 from \$75.8 million for the same period in 2001. The increase in interest income on debt and equity securities, net, was principally due to a \$504.7 million, or 53.0%, increase in the average balance of debt and equity securities, net, from \$951.4 million for the year ended December 31, 2001 to \$1.46 billion for the year ended December 31, 2002. This increase was partially offset by a 126 basis point decrease in the average yield on debt and equity securities, net, from 7.97% for the year ended December 31, 2001 to 6.71% for the same period in 2002.

Interest income on money market investments decreased \$243,000, or 15.4%, to \$1.3 million for the year ended December 31, 2002 from \$1.6 million for the same period in 2001. The decrease was the result of a decrease of 200 basis points in the average yield on money market investments from 3.61% for the year ended December 31, 2001 to 1.61%, for the same period in 2002, coupled with a \$39.2 million, or 89.6%, increase in the average balance of money market investments from \$43.8 million for the year ended December 31, 2001 to \$83.0 million for the year ended December 31, 2002. The increase in the average balance of money market investments reflects an increase in volume of principal prepayments in 2002 as compared to 2001. The decrease in average yield was principally due to the declining interest rate environment experienced during 2002.

Interest income on consumer and other loans, net, decreased \$5.7 million, or 26.4%, to \$16.0 million for the year ended December 31, 2002 from \$21.7 million for the same period in 2001. The decrease was a result of a decrease of 196 basis points in the average yield on consumer and other loans, net, from 7.26% for the year ended December 31, 2001 to 5.30% for the same period in 2002. Offsetting the decrease in average yield was a \$2.4 million, or 0.8%, increase in the average balance of consumer and other loans, net, from \$299.0 million for the year ended December 31, 2001 to \$301.4 million for the year ended December 31, 2002. The increase in the average balance of consumer and other loans, net, reflects an increase in loan volume in 2002 as compared to 2001. The decrease in average yield was principally due to downward repricing of consumer loan products during the declining interest environment experienced during 2002.

Interest income on real estate loans, net, decreased \$53.3 million, or 19.8%, to \$215.7 million for the year ended December 31, 2002 from \$269.0 million for the same period in 2001. The decrease was a result of the decrease of \$524.3 million, or 14.5%, in the average balance of real estate loans, net, outstanding from \$3.61 billion for the year ended December 31, 2001 to \$3.09 billion for the year ended December 31, 2002, coupled with a 46 basis point decrease in the average yield on real estate loans from 7.45% for the year ended December 31, 2001 to 6.99% for the same period in 2002. The decrease in the average balance was the result of the increased amount of principal repayments occurring in the one- to four-family loan portfolio in 2002 compared to 2001, combined with management's decision to de-emphasize its reliance on one- to four-family lending. The decrease in yield was principally due to the declining interest rate environment experienced during 2002, which resulted in the increased principal repayments as consumers refinanced their one- to four-family loans at lower rates, primarily with third parties.

#### Interest Expense

Interest expense for the year ended December 31, 2002 was \$324.2 million, compared to \$341.7 million for the year ended December 31, 2001, a decrease of \$17.5 million, or 5.1%. This decrease was the result of a decline in the average rate paid on interest-bearing liabilities of 109 basis points from 4.67% for the year ended December 31, 2001 to 3.58% for the same 2002 period. This decline in average rate paid was offset by an increase in the average balance of interest-bearing liabilities of \$1.73 billion, or 23.5%, from \$7.32 billion in 2001 to \$9.05 billion in 2002. The increase in the average balance of interest-bearing liabilities in 2002 as compared to 2001 was due to increases in the average balances of borrowed funds and interest-bearing deposits.

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

The average balance of borrowed funds increased \$963.6 million, or 30.5%, from \$3.15 billion for the year ended December 31, 2001 to \$4.12 billion for the year ended December 31, 2002. The increase in average balance, offset by a 76 basis point decrease in the average cost of borrowings, resulted in a \$21.3 million, or 12.4%, increase in interest expense on borrowed funds, from \$172.0 million for the year ended December 31, 2001 to \$193.3 million for the year ended December 31, 2002. The proceeds from the increase in average borrowed funds were primarily used to fund asset growth and repurchase the Company's common stock. The decrease in the average cost of borrowings was due to the continued declining interest rate environment experienced during 2002, coupled with the impact of \$286.7 million and \$258.9 million of reverse-repurchase agreements extinguished during the years ended December 31, 2001 and 2002, respectively.

The average balance of interest-bearing deposits increased \$759.3 million, or 18.2%, from \$4.17 billion for the year ended December 31, 2001 to \$4.93 billion for the year ended December 31, 2002. The increase was primarily due to an increase in the average balance of certificates of deposit of \$290.0 million, or 10.6%, an increase in the average balance of money market accounts of \$250.1 million, or 77.7%, an increase in the average balance of Super NOW and NOW accounts of \$62.9 million, or 28.9%, and an increase in the average balance of savings accounts of \$156.2 million, or 17.4%. The increase in average interest-bearing deposits was achieved by expansion of the Bank's branch network during 2001 and 2002, as well as the introduction of new deposit products and the continuation of competitive deposit pricing. The increase in average balance was offset by a 141 basis point decrease in the average cost of deposits which resulted in a \$38.7 million, or 22.9%, decrease in interest expense on deposits, from \$169.7 million for the year ended December 31, 2001 to \$131.0 million for the year ended December 31, 2002. The decrease in the average rate paid was principally due to the declining interest rate environment experienced during 2002.

#### Net Interest Income

Net interest income before provision for loan losses was \$278.1 million for the year ended December 31, 2002, an increase of \$57.9 million, or 26.3%, from \$220.2 million for the year ended December 31, 2001. The increase in net interest income was attributable to increases in the net interest rate spread and margin of 26 and 11 basis points, respectively, for the year ended December 31, 2002 as compared to the year ended December 31, 2001. The increase in the net interest rate spread and margin for 2002 resulted primarily from the downward repricing of the Company's interest-bearing liabilities to an average rate of 3.58% in 2002, as compared to 4.67% in 2001.

#### Provision for Loan Losses

The Company had a \$3.0 million provision for loan losses for the year ended December 31, 2002, as compared to an \$850,000 provision for loan losses for the year ended December 31, 2001. The provision for loan losses for the years ended December 31, 2002 and 2001 reflects management's qualitative and quantitative assessment of the loan portfolio, changes in the composition of the loan portfolio and net charge-offs and prospects for collection of delinquent loans. A significant factor supporting management's decision to increase the provision for loan losses in 2002 was the migration of the loan portfolio toward higher risk commercial real estate, construction and multi-family loans. At December 31, 2002 and 2001, the allowance for loan losses amounted to \$43.4 million and \$40.6 million, respectively, and the ratio of such allowance to total non-performing loans was 103.72% and 89.29%, respectively. Included in non-performing loans at December 31, 2002 and 2001 were \$3.6 million and \$5.9 million, respectively, of Federal Housing Administration (FHA) and Veterans Administration (VA) government guaranteed loans. Excluding these loans, non-performing loans totaled \$38.3 million and \$39.6 million at December 31, 2002 and 2001, respectively, resulting in non-performing loan coverage ratios of 113.47% and 102.50%, respectively. Management assesses the level and adequacy of the allowance for loan losses based on an evaluation of known and inherent risks in the loan portfolio and upon continuing analysis of the factors underlying the quality of the loan portfolio. Management believes the Company's reported allowance for loan losses at December 31, 2002 is both appropriate in the circumstances and adequate to provide for estimated probable losses inherent in the loan portfolio.

The allowance for loan losses as a percentage of total non-performing loans continued to be negatively impacted by the 2001 fourth quarter placement of two non-performing commercial credit relationships, totaling \$32.1 million and \$32.3 million at December 31, 2002 and 2001, respectively, on non-accrual status.

The first commercial credit consists of loans totaling \$13.3 million secured by four commercial properties in the New York Metropolitan area. As a preferred alternative to pursuing foreclosure, the Bank, the borrowers' other creditors and the chapter 11 debtors reached agreement on a plan that provided for the prompt sale of all of the properties securing the Bank's loans and full repayment of all sums owed to the Bank under its notes, with consideration in excess of that amount being paid to the subordinated secured creditors. During the first quarter of 2003, three of the four collateral properties were sold, generating \$11.1 million in proceeds which were entirely utilized to reduce this non-performing credit to \$2.2 million. In



consideration for the Bank's agreement to release the borrower's principals from liability for the debt, the borrowers transferred title to the fourth remaining property to a subsidiary of the Bank by deed-in-lieu of foreclosure and assigned to such subsidiary all of the borrower's rights under a certain contract for the sale of the property to a third party, which is expected to close during the first quarter of 2003.

The second credit is an \$18.8 million loan secured by two assisted living facilities in the New York Metropolitan area. A court-appointed receiver has operated the facilities since the commencement of the borrowers' consolidated bankruptcy filing in November 2001 and has improved the facilities' cash flows and profitability since that time. Concurrently, the facilities are actively being marketed for sale. Independent third parties have valued the facilities in excess of \$16.0 million and, based upon such independent opinion of values, management believes it has allocated an appropriate amount of the allowance for loan losses to this credit.

#### Non-Interest Income

Non-interest income increased \$21.5 million, or 67.0%, from \$32.2 million for the year ended December 31, 2001 to \$53.7 million for the same period in 2002. The increase reflects the increase in fees and service charges of \$4.8 million, or 39.7%, from \$12.1 million for the year ended December 31, 2001 to \$16.9 million for the comparable 2002 period. The increase was attributable to a rise in fee income and service charges resulting from the continued success of the Bank's checking campaign, as well as increased fee income associated with the sale of non-deposit investment products. Primarily contributing to the increase in non-interest income was joint venture income of \$17.5 million for the year ended December 31, 2002, as compared to \$6.3 million for the corresponding 2001 period. Such income resulted from the delivery of 275 units in the Company's joint venture for the development of a residential community in Oyster Bay, New York for the year ended December 31, 2002 as compared to 81 units delivered for the year ended December 31, 2001. Also contributing to the increase in non-interest income was an increase of \$6.5 million in net gain on securities for the year ended December 31, 2002. The increase in gain on securities reflects management's efforts to reposition the balance sheet during the year ended December 31, 2002. During 2002 the Company sold \$1.06 billion of securities as compared to \$504.2 million sold during 2001. Income on Bank Owned Life Insurance (BOLI) decreased \$234,000 during the current year period reflecting a decrease in the guaranteed rate paid on the cash surrender value of the BOLI policy.

#### Non-Interest Expense

Total non-interest expense was \$102.0 million for the year ended December 31, 2002, as compared to \$88.1 million for the year ended December 31, 2001, an increase of \$13.9 million, or 15.8%. The increase in non-interest expense was attributable to an increase in general and administrative expenses, primarily relating to increases in compensation and benefits expenses and other non-interest expenses. Additionally, non-interest expense increased due to the incurrence \$2.9 million of expense for the year ended December 31, 2002 relating to \$63.0 million of Capital Securities issued in March of 2002. See Note 12 to Notes to Consolidated Financial Statements for further discussion of the Capital Securities.

General and administrative expenses for the year ended December 31, 2002 increased \$12.0 million, or 15.2%, to \$91.7 million from \$79.7 million for the year ended December 31, 2001. The increase in general and administrative expenses was primarily due to an increase in compensation and employee benefit costs of \$6.3 million, an increase in occupancy and equipment expense of \$2.0 million and an increase in other non-interest expenses of \$3.7 million.

The increase in compensation and employee benefits of \$6.3 million, or 12.9%, primarily was due to an increase in employee performance-based compensation and greater compensation costs associated with the Company's branch expansion. The increase in occupancy and equipment expenses of \$2.0 million, or 17.4%, relates to additional costs associated with the operation of several new banking locations which opened in late 2001 and 2002. The \$3.7 million, or 24.2%, increase in other non-interest expenses was primarily due to increased item and data processing, professional fees and other operational expenses associated with the increased branch network, as well as higher legal fees related to an increased number of loan closings.

#### Income Taxes

Provision for income taxes increased \$28.1 million, or 54.0%, from \$52.2 million recorded during the year ended December 31, 2001 to \$80.3 million during the year ended December 31, 2002. This increase was principally due to a \$63.3 million, or 38.8%, increase in income before provision for income taxes for the year ended December 31, 2002.

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

## Comparison of Operating Results for the Years Ended December 31, 2001 and 2000

## General

The Company reported net income of \$111.2 million for the year ended December 31, 2001, or basic and diluted earnings per share of \$1.30 and \$1.28, respectively, as compared to net income of \$89.9 million, or basic and diluted earnings per share of \$0.96 and \$0.95, respectively, for the year ended December 31, 2000.

## Interest Income

Interest income increased to \$561.9 million for the year ended December 31, 2001, an increase of \$22.1 million, or 4.1%, from \$539.8 million for the prior year. This increase was primarily attributable to an increase in average interest-earning assets of \$579.8 million, or 7.9%, to \$7.93 billion for the year ended December 31, 2001 from \$7.35 billion for the prior year. This increase was partially offset by a decrease in the average yield on interest-earning assets of 25 basis points from 7.34% for the year ending December 31, 2000 to 7.09% for the year ended December 31, 2001. The increase in average interest-earning assets was primarily attributable to an increase of \$631.4 million in the average balance of mortgage-backed and mortgage related securities, net, a \$45.5 million increase in the average balance of debt and equity securities, net, and a \$42.4 million increase in the average balance of consumer and other loans, net. These increases were partially offset by a \$163.7 million decrease in the average balance of real estate loans, net.

Interest income on mortgage-backed and mortgage related securities, net, increased \$29.1 million, or 17.6%, to \$193.9 million for the year ended December 31, 2001 from \$164.8 million for the same period in 2000. The increase was a result of a \$631.4 million, or 26.3%, increase in the average balance of mortgage-backed and mortgage related securities, net, from \$2.39 billion for the year ended December 31, 2000 to \$3.02 billion for the year ended December 31, 2001. The increase in average balance was due to the utilization of part of the proceeds received from increased borrowings and deposit liabilities, coupled with the re-deployment of principal repayments of real estate loans, to purchase mortgage-backed and mortgage related securities. The increase was partially offset by a 48 basis point decline in the average yield on mortgage-backed and mortgage related securities from 6.89% for the year ended December 31, 2000 to 6.41% for the same period in 2001.

Interest income on debt and equity securities, net, increased \$6.6 million, or 9.5%, to \$75.8 million for the year ended December 31, 2001 from \$69.2 million for the same period in 2000. The increase was principally the result of a 33 basis point increase in the average yield on debt and equity securities, net, from 7.64% for the year ended December 31, 2000 to 7.97% for the same period in 2001. The increase in interest income on debt and equity securities, net, was also due to a \$45.5 million, or 5.0%, increase in the average balance of debt and equity securities, net, from \$905.9 million for the year ended December 31, 2000 to \$951.4 million for the year ended December 31, 2001.

Interest income on consumer and other loans, net, increased \$418,000, or 2.0%, to \$21.7 million for the year ended December 31, 2001 from \$21.3 million for the same period in 2000. The increase was a result of the \$42.4 million, or 16.5%, increase in the average balance of consumer and other loans, net, from \$256.6 million for the year ended December 31, 2000 to \$299.0 million for the year ended December 31, 2001. Offsetting the increase was a decrease of 104 basis points in the average yield on consumer and other loans, net, from 8.30% for the year ended December 31, 2000 to 7.26%, for the same period in 2001. The increase in the average balance of consumer and other loans, net, reflects an increase in home equity and consumer loan volume in 2001 as compared to 2000. The decrease in average yield was principally due to downward repricing of consumer loan products during the declining interest rate environment which prevailed during 2001.

Interest income on real estate loans, net, decreased \$14.3 million, or 5.1%, to \$269.0 million for the year ended December 31, 2001 from \$283.3 million for the same period in 2000. The decrease was a result of the decrease of \$163.7 million, or 4.3%, in the average balance of real estate loans, net, outstanding from \$3.77 billion for the year ended December 31, 2000 to \$3.61 billion for the year ended December 31, 2001, coupled with a five basis point decrease in the average yield on real estate loans from 7.50% for the year ended December 31, 2000 to 7.45% for the same period in 2001. The decrease in the average balance was the result of the increased principal repayments occurring in the one- to four-family loan portfolio in 2001 compared to 2000, combined with management's decision to de-emphasize its reliance on one- to four-family lending. The decrease in yield was principally due to the declining interest rate environment during 2001, which resulted in increased principal repayments as consumers refinanced their loans at lower rates, primarily with third parties.

#### Interest Expense

Interest expense for the year ended December 31, 2001 was \$341.7 million, compared to \$342.1 million for the year ended December 31, 2000, a decrease of \$441,000, or 0.1%. This decrease was the result of a decline in the average rate paid on interest-bearing liabilities of 47 basis points from 5.14% for the year ended December 31, 2000 to 4.67% for the same 2001 period. This decline in average rate paid was offset by an increase in the average balance of interest-bearing liabilities from \$6.65 billion in 2000 to \$7.32 billion in 2001. The increase in the average balance of interest-bearing liabilities in 2001 as compared to 2000 was due to increases in the average balances of borrowed funds and interest-bearing deposits.

The average balance of borrowed funds increased \$392.3 million, or 14.2%, from \$2.76 billion for the year ended December 31, 2000 to \$3.15 billion for the year ended December 31, 2001. This increase, offset by a 60 basis point decrease in the average cost of borrowings, resulted in a \$4.9 million, or 2.9%, increase in interest expense on borrowed funds, from \$167.1 million for the year ended December 31, 2000 to \$172.0 million for the year ended December 31, 2001. The proceeds from the increase in average borrowed funds were primarily used to fund asset growth and repurchase the Company's common stock. The decrease in the average cost of borrowings was due to the declining interest rate environment experienced during 2001.

The average balance of interest-bearing deposits increased \$281.3 million, or 7.2%, from \$3.89 billion for the year ended December 31, 2000 to \$4.17 billion for the year ended December 31, 2001. The increase was primarily due to an increase in the average balance of certificates of deposit of \$177.9 million, or 7.0%, an increase in the average balance of money market accounts of \$82.2 million, or 34.3%, and an increase in the average balance of Super NOW and NOW accounts of \$49.3 million, or 29.2%, offset in part by a \$28.2 million, or 3.0%, decrease in the average balance of savings accounts. The increase in average interest-bearing deposits was achieved by expansion of the Bank's branch network during late 2000 as well as the introduction of new deposit products and continuation of competitive deposit pricing.

#### Net Interest Income

Net interest income before provision for loan losses was \$220.2 million for the year ended December 31, 2001, an increase of \$22.5 million, or 11.4%, from \$197.7 million for the year ended December 31, 2000. The increase in net interest income was attributable to increases in the net interest rate spread and margin of 22 and 9 basis points, respectively, for the year ended December 31, 2001 as compared to the year ended December 31, 2000. The increase in the net interest rate spread and margin for 2001 resulted from the Company's interest-bearing liabilities repricing downward at a faster rate than its interest-earning assets during the declining interest rate environment of 2001.

#### Provision for Loan Losses

The Company had a \$850,000 provision for loan losses for the year ended December 31, 2001, as compared to a \$1.0 million provision for loan losses for the year ended December 31, 2000. The provision for loan losses for the year ended December 31, 2001 reflects management's qualitative and quantitative assessment of the loan portfolio, net charge-offs and prospects for collection of delinquent loans. The \$1.0 million provision for loan losses for the year ended December 31, 2000 related to \$11.2 million of loans transferred from RNMC based on management's qualitative and quantitative assessment of the loan portfolio and net charge-offs and prospects for collection of delinquent loans in connection with the divestiture process. At December 31, 2001 and 2000, the allowance for loan losses amounted to \$40.6 million and \$40.5 million, respectively, and the ratio of such allowance to total non-performing loans was 89.29% and 414.36%, respectively. The ratio of the allowance for loan losses to total non-performing loans principally declined due to two commercial credit relationships, totaling \$32.3 million at December 31, 2001, which were placed on non-accrual status during the fourth quarter of 2001. Included in non-performing loans at December 31, 2001 and 2000 were \$5.9 million and \$3.0 million, respectively, of Federal Housing Administration (FHA) and Veterans Administration (VA) government guaranteed loans. Excluding these loans, non-performing loans totaled \$39.6 million and \$6.8 million at December 31, 2001 and 2000, respectively, resulting in non-performing loan coverage ratios of 102.50% and 599.73%, respectively. Management assesses the level and adequacy of the allowance for loan losses based on an evaluation of known and inherent risks in the loan portfolio and upon continuing analysis of the factors underlying the quality of the loan portfolio. Management believes the Company's reported allowance for loan losses at December 31, 2001 is both appropriate in the circumstances and adequate to provide for estimated probable losses inherent in the loan portfolio.

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

(continued)

### Non-Interest Income

Non-interest income increased \$26.0 million, or 417.2%, from \$6.2 million for the year ended December 31, 2000 to \$32.2 million for the same period in 2001. The increase principally reflects the increase in the net gain on securities of \$22.3 million from the 2000 period loss of \$18.6 million to a net gain on securities of \$3.7 million in the 2001 period. In addition to the increase in the net gain on securities, fees and service charges increased \$5.0 million, or 70.2%, from \$7.1 million for the year ended December 31, 2000 to \$12.1 million for the year ended December 31, 2001. The increase in fees and service charges was attributable to a rise in fee income and service charges resulting from the continued success of the Bank's checking campaign, as well as increased fee income associated with the sale of non-deposit investment products.

Income on BOLI increased \$3.0 million, or 62.7%, during the year ended December 31, 2001, reflecting a full twelve months of BOLI income, or \$7.7 million, as compared to the partial year, or \$4.7 million, of BOLI income recorded during the twelve months ended December 31, 2000. Also included in non-interest income for the year ended December 31, 2001 was \$6.3 million in income related to the delivery of 81 residential units, during the third and fourth quarters of 2001, in connection with the Company's joint venture for the development of a residential community in Oyster Bay, New York. Partially offsetting the above increases was a decrease of \$8.6 million in mortgage banking operations income due to the divestiture of RNMC in 2000 and a \$2.0 million, or 45.3%, decrease in other non-interest income. Other non-interest income in 2000 included a \$3.3 million gain on the sale of the former T R Financial Corp. headquarters in Garden City, New York.

### Non-Interest Expense

Total non-interest expense was \$88.1 million for the year ended December 31, 2001, as compared to \$81.6 million for the year ended December 31, 2000, an increase of \$6.5 million, or 8.0%. Included in total non-interest expense for the year ended December 31, 2001 was \$8.3 million in prepayment penalties resulting from debt extinguishments. Included in total non-interest expense for the year ended December 31, 2000 was a \$12.0 million restructuring charge associated with the divestiture of RNMC.

General and administrative expenses for the year ended December 31, 2001 increased \$10.5 million, or 15.2%, to \$79.7 million from \$69.2 million for the year ended December 31, 2000. The increase in general and administrative expenses was primarily due to an increase in compensation and employee benefit costs of \$13.4 million and an increase in occupancy and equipment expense of \$951,000. These increases were partially offset by decreases in advertising and promotion expenses of \$489,000 and other non-interest expenses of \$3.2 million.

The increase in compensation and employee benefits of \$13.4 million, or 37.7%, primarily was due to an increase in employee stock and performance-based benefit plans expenses and commissions paid in connection with increases in sales of non-deposit investment products. The increase in compensation and employee benefits for 2001 also reflects a \$3.5 million credit for an employee benefit plan settlement gain recognized in 2000. The increase in occupancy and equipment expense of \$951,000, or 9.2%, relates to additional costs associated with the operation of several new banking locations which opened in late 2000, coupled with the operation of the Company's headquarters in Jericho, New York, for a full year in 2001. The decrease in advertising and promotion expense of \$489,000, or 12.0%, was due to higher promotion expenses recorded in 2000 for the Bank's checking campaign. The \$3.2 million, or 17.5%, decrease in other non-interest expenses was primarily due to decreased operational and loan processing expenses related to the discontinuation of residential mortgage lending operations conducted by RNMC, as well as a decrease in other operational and professional expenses.

### Income Taxes

Provision for income taxes increased \$20.8 million, or 66.2%, from \$31.4 million recorded during the year ended December 31, 2000 to \$52.2 million during the year ended December 31, 2001. This increase was principally due to a \$42.1 million, or 34.7%, increase in income before provision for income taxes from \$121.3 million for the year ended December 31, 2000 to \$163.4 million for the year ended December 31, 2001.

### Liquidity and Capital Resources

The Company's primary sources of funds are deposits, borrowings and proceeds from the principal and interest payments on loans and securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, prepayment of mortgage loans and mortgage-backed securities are greatly influenced by general interest rates, economic conditions and competition.

Another source of funding for the Holding Company is dividend payments from the Bank. Dividends paid by the Bank have primarily been used to fund common stock repurchases, pay dividends on the Company's common stock and to repay borrowings. The Bank's ability to pay dividends to the Holding Company is generally limited by New York State banking law and regulations and the regulations of the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. For the year ended December 31, 2002, the Bank paid \$7.2 million of dividends to the Holding Company.

As of December 31, 2002, the Company has issued \$190.0 million in unsecured senior notes. Of such notes, \$75.0 million are at a rate of 7.50%, which were issued at par, and have a maturity date of December 1, 2008; \$115.0 million of such notes are at a rate of 5.75%, which were issued at a price of 99.785%, and have a maturity date of November 15, 2007. The proceeds from the issuance of the senior notes were used for general corporate purposes, including, among other things, the repurchase of the Company's common stock and the repayment of borrowed funds. In addition, the Company currently has the ability to issue an additional \$10.0 million in debt and other types of securities, with rates and terms to be determined, pursuant to the Company's \$200.0 million shelf registration filed with the SEC during 2001.

On March 20, 2002 the Company, through its wholly-owned subsidiary RPT I, issued \$63.0 million in floating rate Capital Securities. Such securities bear interest at 6-month LIBOR plus 360 basis points and are due April 1, 2032. At December 31, 2002, the distribution rate was 5.36%. The proceeds from the issuance of the Capital Securities were used for general corporate purposes, including, among other things, the repurchase of the Company's common stock and the repayment of borrowed funds. The issuance costs, totaling \$850,000, associated with the Capital Securities issuance have been capitalized and are being amortized over the life of the security.

The primary investing activities of the Company are the origination of mortgage and construction loans and the purchase of mortgage-backed, mortgage related, debt and equity securities. During the years ended December 31, 2002 and 2001, the Bank originated \$147.3 million and \$85.0 million, respectively, of one- to four-family mortgage loans. During the year ended December 31, 2002, the Bank originated \$731.2 million of construction, multi-family and commercial real estate loans, as compared to \$527.4 million in the comparable 2001 period. This increase reflects management's decision to de-emphasize its reliance on one- to four-family lending and capitalize on its higher margin lending operations. Purchases of securities available-for-sale totaled \$9.26 billion and \$4.87 billion during the years ended December 31, 2002 and 2001, respectively. Purchases of held-to-maturity securities for 2002 totaled \$371.5 million. In addition to the aforementioned investing activities, the Company, during 2002, invested \$25.0 million in a joint venture with The Holiday Organization of Westbury, New York, for the development of a 177 unit residential community in Mt. Sinai, New York.

In early 2001 the Bank entered into a private label program for the origination of one- to four-family loans through its existing branch network under a mortgage origination assistance agreement with a third party mortgage originator. Under this program, the Bank utilizes the third party's mortgage loan origination platforms (including, among others, telephone and internet platforms) to originate loans, based on defined underwriting criteria and in accordance with Federal National Mortgage Association guidelines, that close in the Bank's name and utilize the Bank's licensing. The Bank funds such loans directly, and, under a separate loan and servicing rights purchase and sale agreement with the same third party, has the option to retain the loans in its portfolio, sell the loans to third party investors or sell the loans to the same third party at agreed upon pricing.

The Bank intends to enter into a private label agreement, during the second quarter of 2003, with a nationally recognized third party for the purpose of originating lines of credit and fixed-rate second mortgages. The loans will be underwritten in accordance with the Bank's underwriting guidelines for these products. The loans may be sold to the originator under a separate purchase and sale agreement at a predetermined price, or the Bank may elect to retain the originated loans for its own portfolio. Additionally, the loans originated under this program will be serviced by a third party servicer.

The Company closely monitors its liquidity position on a daily basis. Excess short-term liquidity is invested in overnight federal funds sold. In the event that the Company should require funds beyond its ability to generate them internally, additional sources of funds are available through the use of reverse-repurchase agreements, FHLB advances and other borrowing facilities. At December 31, 2002, the Company had \$4.52 billion in borrowed funds outstanding, as compared to \$3.52 billion at December 31, 2001.

At December 31, 2002, the Company had outstanding loan commitments, including standby letters of credit, to advance \$448.8 million, primarily for commercial real estate and construction loans. Management anticipates that it will have sufficient funds available to meet its current loan commitments.

In the normal course of business, the Company enters into commitments to purchase securities. As of December 31, 2002, the Company had \$809.3 million in commitments to purchase mortgage-backed securities.

Certificates of deposit that are scheduled to mature in one year or less at December 31, 2002 totaled \$1.78 billion. Based upon prior experience, and the Company's current pricing strategy, management believes that a significant portion of such deposits will remain with the Company.

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

The Company's most liquid assets are cash and cash equivalents, money market investments, short-term securities and securities available-for-sale. The levels of these assets are dependent on the Company's operating, financing, lending and investment activities during any given period. At December 31, 2002 and 2001, the Company had \$171.0 million and \$102.8 million, respectively, in cash and cash equivalents and money market investments. Included in money market investments were \$10.5 million of short-term repurchase agreements at December 31, 2002. The Company had no such agreements outstanding at December 31, 2001.

During the year ended December 31, 2002, the Company repurchased 6,363,474 shares of its common stock at an aggregate cost of \$120.6 million. As of December 31, 2002, the Company had repurchased 8.6 million of the 8.9 million shares authorized in the Company's eighth stock repurchase program. During the fourth quarter of 2002, the Company announced its ninth stock repurchase plan, which authorizes the purchase of 4.0 million shares of the Company's common stock. Future purchases will be made from time to time, in light of market conditions, at the discretion of management.

During the year ended December 31, 2002, the Company declared quarterly cash dividends totaling \$41.9 million, or \$0.53 per common share. On February 28, 2003, the Company declared a quarterly cash dividend of \$0.15 per common share. The dividend was payable on March 20, 2003 to shareholders of record on March 10, 2003.

Tangible stockholders' equity (stockholders' equity less certain intangible assets) totaled \$575.7 million at December 31, 2002, as compared to \$568.0 million at December 31, 2001. This increase reflects the change in the Company's stockholders' equity noted in the Comparison of Financial Condition section of Management's Discussion and Analysis of Financial Condition and Results of Operations. Tangible equity is a critical measure of a company's ability to repurchase stock, pay dividends and support greater asset and franchise growth. The Company is subject to various capital requirements, which affect its classification for regulatory purposes, as well as for deposit insurance purposes. These requirements utilize tangible equity as a base component, not equity, as defined by GAAP. Although reported earnings and return on equity are traditional measures of a company's performance, management believes that the growth in tangible equity, or "cash earnings," is also a significant measure of a company's performance. Cash earnings represent the amount by which tangible equity changes each period due to operating results. Cash earnings include reported earnings plus the non-cash charges related to the amortization for the allocation of Employee Stock Ownership Plan (ESOP) and SBIP stock, as well as the amortization of intangible assets. These items have either been previously charged to equity, as in the case of ESOP and SBIP charges through contra-equity accounts, or do not affect tangible equity, such as the market appreciation of allocated ESOP shares, for which the operating charge is offset by a credit to additional paid-in-capital, and intangible asset amortization for which the related intangible asset has already been deducted in the calculation of tangible equity.

Management believes that cash earnings and cash returns on average stockholders' equity and average assets reflect the Company's ability to generate tangible capital that can be leveraged for future growth. Cash earnings and cash returns on average stockholders' equity and average assets are non-GAAP measures, which the Company believes are useful to investors in order to gain an understanding of the trends and the results of operations for the Company's core business. These non-GAAP measures should be viewed in addition to the Company's GAAP results and not in lieu of such GAAP results. For the year ended December 31, 2002, cash earnings totaled \$155.8 million, or \$9.4 million higher than reported earnings, and generated a cash return on average stockholders' equity of 26.84% and a cash return on average assets of 1.56%.

### Impact of Inflation and Changing Prices

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

### Impact of New Accounting Standards

For discussion regarding the impact of new accounting pronouncements, refer to Note 1 of Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| December 31,                                                                                                                                                                       | 2002         | 2001        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
| <i>(In thousands, except share amounts)</i>                                                                                                                                        |              |             |
| Assets                                                                                                                                                                             |              |             |
| Cash and cash equivalents:                                                                                                                                                         |              |             |
| Cash and cash items                                                                                                                                                                | \$ 13,249    | \$ 10,815   |
| Due from banks                                                                                                                                                                     | 55,740       | 64,810      |
| Total cash and cash equivalents                                                                                                                                                    | 68,989       | 75,625      |
| Money market investments                                                                                                                                                           | 102,000      | 27,200      |
| Securities:                                                                                                                                                                        |              |             |
| Debt securities held-to-maturity, net (fair value of \$377,393)                                                                                                                    | 374,763      | —           |
| Debt and equity securities available-for-sale, net (securities pledged of \$114,426 at December 31, 2001)                                                                          | 1,520,187    | 1,004,728   |
| Mortgage-backed and mortgage related securities available-for-sale, net (securities pledged of \$3,377,061 and \$1,754,733 at December 31, 2002 and 2001, respectively)            | 5,418,706    | 3,560,854   |
| Total securities                                                                                                                                                                   | 7,313,656    | 4,565,582   |
| Federal Home Loan Bank of New York stock, at cost                                                                                                                                  | 97,040       | 109,870     |
| Loans held-for-sale                                                                                                                                                                | 11,636       | 9,364       |
| Loans receivable held for investment, net:                                                                                                                                         |              |             |
| Real estate loans, net                                                                                                                                                             | 2,861,100    | 3,412,148   |
| Consumer and other loans, net                                                                                                                                                      | 295,586      | 285,012     |
| Total loans receivable held for investment, net                                                                                                                                    | 3,156,686    | 3,697,160   |
| Allowance for loan losses                                                                                                                                                          | (43,421)     | (40,634)    |
| Total loans receivable held for investment, net of allowance for loan losses                                                                                                       | 3,113,265    | 3,656,526   |
| Banking house and equipment, net                                                                                                                                                   | 39,558       | 32,589      |
| Accrued interest receivable                                                                                                                                                        | 58,268       | 50,550      |
| Deferred tax asset, net                                                                                                                                                            | 19,524       | 40,213      |
| Intangible assets                                                                                                                                                                  | 860          | 986         |
| Other assets                                                                                                                                                                       | 195,423      | 168,275     |
| Total assets                                                                                                                                                                       | \$11,020,219 | \$8,736,780 |
| Liabilities and Stockholders' Equity                                                                                                                                               |              |             |
| Liabilities:                                                                                                                                                                       |              |             |
| Deposits:                                                                                                                                                                          |              |             |
| Savings accounts                                                                                                                                                                   | \$ 1,194,836 | \$ 920,507  |
| Certificates of deposit                                                                                                                                                            | 3,129,469    | 2,756,737   |
| Money market accounts                                                                                                                                                              | 863,457      | 371,007     |
| Interest-bearing demand deposit accounts                                                                                                                                           | 309,724      | 256,145     |
| Demand deposit accounts                                                                                                                                                            | 213,364      | 182,371     |
| Total deposits                                                                                                                                                                     | 5,710,850    | 4,486,767   |
| Official checks outstanding                                                                                                                                                        | 38,350       | 40,349      |
| Borrowed funds:                                                                                                                                                                    |              |             |
| Reverse-repurchase agreements                                                                                                                                                      | 2,948,587    | 1,757,489   |
| Senior notes                                                                                                                                                                       | 189,759      | 75,000      |
| Other borrowings                                                                                                                                                                   | 1,380,801    | 1,687,806   |
| Total borrowed funds                                                                                                                                                               | 4,519,147    | 3,520,295   |
| Accrued interest payable and dividends                                                                                                                                             | 28,067       | 27,475      |
| Mortgagors' escrow and security deposits                                                                                                                                           | 24,296       | 30,615      |
| Accrued taxes payable                                                                                                                                                              | 18,946       | 21,837      |
| Accrued expenses and other liabilities                                                                                                                                             | 41,049       | 40,474      |
| Total liabilities                                                                                                                                                                  | 10,380,705   | 8,167,812   |
| Guaranteed preferred beneficial interest in junior subordinated debentures                                                                                                         | 63,000       | —           |
| Stockholders' equity:                                                                                                                                                              |              |             |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none issued                                                                                                       | —            | —           |
| Common stock, \$0.01 par value, 200,000,000 shares authorized; 118,811,472 shares issued; 80,752,923 and 87,116,397 shares outstanding at December 31, 2002 and 2001, respectively | 1,188        | 1,188       |
| Additional paid-in-capital                                                                                                                                                         | 509,053      | 507,413     |
| Retained earnings—partially restricted                                                                                                                                             | 682,853      | 592,865     |
| Accumulated other comprehensive income (loss):                                                                                                                                     |              |             |
| Net unrealized gain (loss) on securities available-for-sale, net of tax                                                                                                            | 4,047        | (26,573)    |
| Unallocated common stock held by Employee Stock Ownership Plan (ESOP)                                                                                                              | (43,044)     | (44,838)    |
| Unearned common stock held by Stock-Based Incentive Plan (SBIP)                                                                                                                    | (3,575)      | (9,132)     |
| Common stock held by Supplemental Executive Retirement Plan (SERP), at cost (548,800 and 553,080 shares at December 31, 2002 and 2001, respectively)                               | (5,997)      | (4,535)     |
| Treasury stock, at cost (38,058,549 and 31,695,075 shares at December 31, 2002 and 2001, respectively)                                                                             | (568,011)    | (447,420)   |
| Total stockholders' equity                                                                                                                                                         | 576,514      | 568,968     |
| Total liabilities and stockholders' equity                                                                                                                                         | \$11,020,219 | \$8,736,780 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

| Years Ended December 31,                                   | 2002             | 2001             | 2000             |
|------------------------------------------------------------|------------------|------------------|------------------|
| <i>(In thousands, except per share amounts)</i>            |                  |                  |                  |
| <b>Interest income:</b>                                    |                  |                  |                  |
| Money market investments                                   | \$ 1,336         | \$ 1,579         | \$ 1,214         |
| Debt and equity securities                                 | 97,741           | 75,786           | 69,204           |
| Mortgage-backed and mortgage related securities            | 271,549          | 193,890          | 164,839          |
| Real estate loans                                          | 215,686          | 268,956          | 283,279          |
| Consumer and other loans                                   | 15,978           | 21,704           | 21,286           |
| <b>Total interest income</b>                               | <b>602,290</b>   | <b>561,915</b>   | <b>539,822</b>   |
| <b>Interest expense:</b>                                   |                  |                  |                  |
| Deposits                                                   | 130,950          | 169,735          | 175,012          |
| Borrowed funds                                             | 193,266          | 171,955          | 167,119          |
| <b>Total interest expense</b>                              | <b>324,216</b>   | <b>341,690</b>   | <b>342,131</b>   |
| Net interest income before provision for loan losses       | 278,074          | 220,225          | 197,691          |
| Provision for loan losses                                  | 3,000            | 850              | 1,000            |
| <b>Net interest income after provision for loan losses</b> | <b>275,074</b>   | <b>219,375</b>   | <b>196,691</b>   |
| <b>Non-interest income:</b>                                |                  |                  |                  |
| Fees and service charges                                   | 16,891           | 12,089           | 7,101            |
| Net gains (losses) on securities                           | 10,257           | 3,727            | (18,557)         |
| Income from bank owned life insurance                      | 7,479            | 7,713            | 4,741            |
| Joint venture income                                       | 17,494           | 6,258            | —                |
| Mortgage banking operations                                | —                | —                | 8,595            |
| Other non-interest income                                  | 1,584            | 2,373            | 4,338            |
| <b>Total non-interest income</b>                           | <b>53,705</b>    | <b>32,160</b>    | <b>6,218</b>     |
| <b>Non-interest expense:</b>                               |                  |                  |                  |
| General and administrative expenses:                       |                  |                  |                  |
| Compensation and employee benefits                         | 55,126           | 48,807           | 35,442           |
| Occupancy and equipment                                    | 13,228           | 11,264           | 10,313           |
| Deposit insurance premiums                                 | 881              | 840              | 952              |
| Advertising and promotion                                  | 3,708            | 3,602            | 4,091            |
| Other non-interest expenses                                | 18,805           | 15,146           | 18,361           |
| <b>Total general and administrative expenses</b>           | <b>91,748</b>    | <b>79,659</b>    | <b>69,159</b>    |
| Amortization of intangible assets                          | 126              | 126              | 361              |
| Real estate operations, net                                | (65)             | 9                | 129              |
| Capital trust securities                                   | 2,891            | —                | —                |
| Prepayment penalties on debt extinguishments               | 7,331            | 8,337            | —                |
| Restructuring charge                                       | —                | —                | 11,973           |
| <b>Total non-interest expense</b>                          | <b>102,031</b>   | <b>88,131</b>    | <b>81,622</b>    |
| Income before provision for income taxes                   | 226,748          | 163,404          | 121,287          |
| Provision for income taxes                                 | 80,342           | 52,161           | 31,388           |
| <b>Net income</b>                                          | <b>\$146,406</b> | <b>\$111,243</b> | <b>\$ 89,899</b> |
| <b>Basic earnings per share</b>                            | <b>\$ 1.85</b>   | <b>\$ 1.30</b>   | <b>\$ 0.96</b>   |
| <b>Diluted earnings per share</b>                          | <b>\$ 1.82</b>   | <b>\$ 1.28</b>   | <b>\$ 0.95</b>   |

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| Years Ended                                                                                     | Common Stock | Additional Paid-in Capital | Retained Earnings—Partially Restricted | Accumulated Other Comprehensive Income (Loss) | Unallocated Common Stock Held by ESOP | Unearned Common Stock Held by SBIP | Common Stock Held by SERP, at Cost | Treasury Stock, at Cost | Total      |
|-------------------------------------------------------------------------------------------------|--------------|----------------------------|----------------------------------------|-----------------------------------------------|---------------------------------------|------------------------------------|------------------------------------|-------------------------|------------|
| December 31, 2002, 2001 and 2000                                                                |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| <i>(In thousands)</i>                                                                           |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Balance at December 31, 1999                                                                    | \$ 1,188     | \$491,915                  | \$478,891                              | \$(109,557)                                   | \$(48,425)                            | \$(20,894)                         | \$(4,191)                          | \$(151,268)             | \$ 637,659 |
| Comprehensive loss:                                                                             |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Net income                                                                                      | —            | —                          | 89,899                                 | —                                             | —                                     | —                                  | —                                  | —                       | 89,899     |
| Other comprehensive income, net of tax:                                                         |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Net unrealized appreciation on securities, net of reclassification adjustment <sup>(1)(2)</sup> | —            | —                          | —                                      | 65,143                                        | —                                     | —                                  | —                                  | —                       | 65,143     |
| Comprehensive income                                                                            |              |                            |                                        |                                               |                                       |                                    |                                    |                         | 155,042    |
| Distribution of ESOP and SERP stock                                                             | —            | 13,583                     | (4)                                    | —                                             | —                                     | —                                  | 237                                | —                       | 13,816     |
| Exercise of stock options and related tax benefit                                               | —            | —                          | (4,850)                                | —                                             | —                                     | —                                  | —                                  | —                       | (4,850)    |
| Allocation of ESOP stock                                                                        | —            | 381                        | —                                      | —                                             | 1,794                                 | —                                  | —                                  | —                       | 2,175      |
| Amortization of SBIP stock awards                                                               | —            | —                          | (103)                                  | —                                             | —                                     | 5,186                              | —                                  | —                       | 5,083      |
| Cash dividends on common stock (\$0.41 per share)                                               | —            | —                          | (38,049)                               | —                                             | —                                     | —                                  | —                                  | —                       | (38,049)   |
| Common stock acquired, at cost                                                                  | —            | —                          | —                                      | —                                             | —                                     | —                                  | (581)                              | (189,581)               | (190,162)  |
| Balance at December 31, 2000                                                                    | 1,188        | 505,879                    | 525,784                                | (44,414)                                      | (46,631)                              | (15,708)                           | (4,535)                            | (340,849)               | 580,714    |
| Comprehensive income:                                                                           |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Net income                                                                                      | —            | —                          | 111,243                                | —                                             | —                                     | —                                  | —                                  | —                       | 111,243    |
| Other comprehensive income, net of tax:                                                         |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Net unrealized appreciation on securities, net of reclassification adjustment <sup>(1)(2)</sup> | —            | —                          | —                                      | 17,841                                        | —                                     | —                                  | —                                  | —                       | 17,841     |
| Comprehensive income                                                                            |              |                            |                                        |                                               |                                       |                                    |                                    |                         | 129,084    |
| Distribution of ESOP and SERP stock                                                             | —            | 299                        | —                                      | —                                             | —                                     | —                                  | —                                  | —                       | 299        |
| Exercise of stock options and related tax benefit                                               | —            | —                          | (3,874)                                | —                                             | —                                     | —                                  | —                                  | —                       | (3,874)    |
| Allocation of ESOP stock                                                                        | —            | 1,235                      | —                                      | —                                             | 1,793                                 | —                                  | —                                  | —                       | 3,028      |
| Amortization of SBIP stock awards                                                               | —            | —                          | (503)                                  | —                                             | —                                     | 6,841                              | —                                  | —                       | 6,338      |
| Cash dividends on common stock (\$0.46 per share)                                               | —            | —                          | (39,785)                               | —                                             | —                                     | —                                  | —                                  | —                       | (39,785)   |
| Common stock acquired, at cost                                                                  | —            | —                          | —                                      | —                                             | —                                     | (265)                              | —                                  | (106,571)               | (106,836)  |
| Balance at December 31, 2001                                                                    | 1,188        | 507,413                    | 592,865                                | (26,573)                                      | (44,838)                              | (9,132)                            | (4,535)                            | (447,420)               | 568,968    |
| Comprehensive income:                                                                           |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Net income                                                                                      | —            | —                          | 146,406                                | —                                             | —                                     | —                                  | —                                  | —                       | 146,406    |
| Other comprehensive income, net of tax:                                                         |              |                            |                                        |                                               |                                       |                                    |                                    |                         |            |
| Net unrealized appreciation on securities, net of reclassification adjustment <sup>(1)(2)</sup> | —            | —                          | —                                      | 30,620                                        | —                                     | —                                  | —                                  | —                       | 30,620     |
| Comprehensive income                                                                            |              |                            |                                        |                                               |                                       |                                    |                                    |                         | 177,026    |
| Exercise of stock options and related tax benefit                                               | —            | —                          | (14,595)                               | —                                             | —                                     | —                                  | —                                  | —                       | (14,595)   |
| Allocation of ESOP stock                                                                        | —            | 1,640                      | —                                      | —                                             | 1,794                                 | —                                  | —                                  | —                       | 3,434      |
| Amortization of SBIP stock awards                                                               | —            | —                          | 64                                     | —                                             | —                                     | 5,738                              | —                                  | —                       | 5,802      |
| Cash dividends on common stock (\$0.53 per share)                                               | —            | —                          | (41,887)                               | —                                             | —                                     | —                                  | —                                  | —                       | (41,887)   |
| Common stock acquired, at cost                                                                  | —            | —                          | —                                      | —                                             | —                                     | (181)                              | (1,462)                            | (120,591)               | (122,234)  |
| Balance at December 31, 2002                                                                    | \$ 1,188     | \$509,053                  | \$ 682,853                             | \$ 4,047                                      | \$(43,044)                            | \$( 3,575)                         | \$(5,997)                          | \$(568,011)             | \$ 576,514 |

(1) Disclosure of reclassification amount, net of tax, for the years ended:

|                                                                                             | 2002     | 2001      | 2000      |
|---------------------------------------------------------------------------------------------|----------|-----------|-----------|
| Net unrealized appreciation arising during the year, net of tax                             | \$36,815 | \$ 20,047 | \$ 54,390 |
| Less: Reclassification adjustment for net gains (losses) included in net income, net of tax | 6,195    | 2,206     | (10,753)  |
| Net unrealized appreciation on securities, net of tax                                       | \$30,620 | \$ 17,841 | \$ 65,143 |

(2) The tax expense relating to the net unrealized appreciation on securities during the years ended December 31, 2002, 2001 and 2000 was \$21.8 million, \$12.7 million and \$47.3 million, respectively. The tax expense (benefit) relating to the reclassification adjustment for net gains (losses) was \$4.1 million, \$1.5 million and \$(7.8) million, for the years ended December 31, 2002, 2001 and 2000, respectively.

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years Ended December 31,                                                          | 2002        | 2001        | 2000      |
|-----------------------------------------------------------------------------------|-------------|-------------|-----------|
| <i>(In thousands)</i>                                                             |             |             |           |
| Cash flows from operating activities:                                             |             |             |           |
| Net income                                                                        | \$ 146,406  | \$ 111,243  | \$ 89,899 |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |             |           |
| Provision for loan losses                                                         | 3,000       | 850         | 1,000     |
| Provision for other real estate owned losses                                      | —           | —           | 18        |
| Amortization of intangible assets                                                 | 126         | 126         | 361       |
| Depreciation and amortization                                                     | 4,046       | 3,291       | 3,181     |
| Accretion of discounts in excess of amortization of premiums                      | (39,950)    | (18,114)    | (18,564)  |
| ESOP and SBIP expense, net                                                        | 9,236       | 9,366       | 7,258     |
| Originations of loans held-for-sale, net of sales                                 | (1,357)     | (8,114)     | 69,930    |
| Net gains on sales of loans                                                       | (915)       | (428)       | (8,225)   |
| Net (gains) losses on securities                                                  | (10,257)    | (3,727)     | 18,557    |
| Net gains on sales of fixed assets                                                | (6)         | (235)       | (3,266)   |
| Net gains on sales of real estate owned                                           | (95)        | (40)        | (33)      |
| Income from bank owned life insurance                                             | (7,479)     | (7,713)     | (4,741)   |
| Restructuring charges and merger related costs                                    | —           | —           | 7,110     |
| Income taxes deferred and tax benefits attributable to stock plans                | 7,418       | (3,624)     | 4,721     |
| Changes in assets and liabilities:                                                |             |             |           |
| Increase in accrued interest receivable                                           | (7,718)     | (1,609)     | (6,178)   |
| (Increase) decrease in other assets                                               | (14,031)    | (8,054)     | 15,928    |
| (Decrease) increase in official checks outstanding                                | (1,999)     | 15,772      | (1,181)   |
| Increase (decrease) in accrued interest payable and dividends                     | 592         | (6,492)     | 5,043     |
| (Decrease) increase in accrued taxes payable                                      | (2,891)     | 5,277       | 655       |
| Increase (decrease) in accrued expenses and other liabilities                     | 575         | (2,239)     | (10,396)  |
| Net decrease (increase) in deferred costs and fees                                | 2,427       | (780)       | (7,208)   |
| Net cash provided by operating activities                                         | 87,128      | 84,756      | 163,869   |
| Cash flows from investing activities:                                             |             |             |           |
| Proceeds from sales and repayments of securities available-for-sale               | 6,985,643   | 3,535,422   | 1,094,167 |
| Net redemption (purchase) of Federal Home Loan Bank stock                         | 12,830      | (34,624)    | (47,217)  |
| Purchases of securities available-for sale                                        | (9,259,536) | (4,871,373) | (627,624) |
| Purchases of securities held-to-maturity                                          | (371,546)   | —           | —         |
| Investment in real estate joint ventures                                          | (25,000)    | —           | (25,000)  |
| Principal repayments on real estate joint venture                                 | 21,071      | 3,929       | —         |
| Purchase of bank owned life insurance                                             | —           | —           | (100,000) |
| Net loan repayments (originations)                                                | 536,968     | 389,138     | (231,914) |
| Purchases of banking house and equipment, net                                     | (11,009)    | (6,226)     | (2,140)   |
| Proceeds from sales of other real estate owned                                    | 722         | 453         | 144       |
| Net cash (used in) provided by investing activities                               | (2,109,857) | (983,281)   | 60,416    |

*(Continued on next page)*

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(continued)

| Years Ended December 31,                                                                                        | 2002       | 2001       | 2000        |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|-------------|
| <i>(In thousands)</i>                                                                                           |            |            |             |
| Cash flows from financing activities:                                                                           |            |            |             |
| Increase (decrease) in demand deposit,<br>money market and savings accounts                                     | \$ 851,351 | \$ 301,116 | \$ (11,244) |
| Increase in certificates of deposit                                                                             | 372,732    | 108,870    | 42,413      |
| Increase in short-term reverse-repurchase<br>agreements and other borrowings                                    | 191,064    | 332,606    | 330,733     |
| Increase (decrease) in long-term reverse-repurchase<br>agreements and other borrowings                          | 693,029    | 257,664    | (320,249)   |
| Net proceeds from the issuance of senior notes                                                                  | 113,948    | 73,875     | —           |
| Net proceeds from the issuance of guaranteed preferred<br>beneficial interest in junior subordinated debentures | 62,335     | —          | —           |
| Decrease in mortgagors' escrow and security deposits                                                            | (6,319)    | (3,018)    | (25,832)    |
| Net cash used in exercise of stock options                                                                      | (23,126)   | (6,091)    | (7,795)     |
| Cash dividends paid on common stock                                                                             | (41,887)   | (39,785)   | (38,049)    |
| Cost to repurchase treasury stock                                                                               | (120,591)  | (106,571)  | (189,581)   |
| Cost to repurchase common stock for SBIP and SERP                                                               | (1,643)    | (265)      | (581)       |
| Net cash provided by (used in) financing activities                                                             | 2,090,893  | 918,401    | (220,185)   |
| Net increase in cash and cash equivalents                                                                       | 68,164     | 19,876     | 4,100       |
| Cash and cash equivalents at beginning of year                                                                  | 102,825    | 82,949     | 78,849      |
| Cash and cash equivalents at end of year                                                                        | \$ 170,989 | \$ 102,825 | \$ 82,949   |
| Supplemental disclosures of cash flow information:                                                              |            |            |             |
| Cash paid during the period for:                                                                                |            |            |             |
| Interest on deposits and borrowed funds                                                                         | \$ 323,624 | \$ 348,182 | \$ 337,088  |
| Income taxes                                                                                                    | \$ 75,737  | \$ 43,769  | \$ 26,566   |
| Non-cash investing activities:                                                                                  |            |            |             |
| Additions to real estate owned, net                                                                             | \$ 866     | \$ 598     | \$ 422      |

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(1) Summary of Significant Accounting Policies and Related Matters*

Roslyn Bancorp, Inc. (on a stand alone basis, the Holding Company) was organized under Delaware law as the savings and loan holding company for The Roslyn Savings Bank and its subsidiaries (collectively, the Bank) in connection with the Bank's conversion from a New York State chartered mutual savings bank to a New York State chartered stock savings bank on January 10, 1997 (the Conversion). The following is a summary of significant accounting policies of Roslyn Bancorp, Inc. and its wholly-owned subsidiaries (collectively, the Company). The Company's business consists primarily of the business activities of the Bank, which activities include attracting deposits from the general public, originating real property loans (residential mortgage, construction, commercial and multi-family property loans) and consumer loans and selling various financial products. Deposits at the Bank are insured up to applicable limits by the Bank Insurance Fund (BIF) of the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to comprehensive regulation, examination and supervision by the New York State Banking Department (NYSBD) and the FDIC.

*(a) Principles of Consolidation and Basis of Financial Statement Presentation*

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. When necessary, certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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 the consolidated financial statements and disclosure of contingent assets and liabilities and results of operations for the periods then ended. Actual results could differ from those estimates and assumptions. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, benefit plan expenses and provision for income taxes.

*(b) Cash and Cash Equivalents and Money Market Investments*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and money market investments, which includes federal funds sold and short-term repurchase agreements and are generally sold for one- to three-day periods. The Company is required to maintain reserves in accordance with the monetary policy of the Federal Reserve System. Such requirement requires the Company to hold reserves in the form of vault cash, in addition to deposits with the Federal Reserve Bank. As of December 31, 2002, the Company was in compliance with this requirement.

*(c) Debt, Equity, Mortgage-Backed and Mortgage Related Securities*

The Company classifies debt, readily-marketable equity, mortgage-backed and mortgage related securities in one of the following categories: (1) "held-to-maturity" (management has a positive intent and ability to hold to maturity) which are to be reported at amortized cost; (2) "trading" (held for current resale) which are to be reported at fair value, with unrealized gains and losses included in earnings; and (3) "available-for-sale" (all other debt, equity, mortgage-backed and mortgage related securities) which are to be reported at fair value, with unrealized gains and losses reported, net of tax, as accumulated other comprehensive income or loss, a separate component of stockholders' equity. The Company determines the appropriate classification of each security at the time of purchase.

Premiums and discounts on debt, mortgage-backed and mortgage related securities are amortized to expense and accreted to income over the estimated life of the respective security using the interest method. Premiums paid on certain callable preferred stock are amortized against income over the period to the call date. Gains and losses on the sales of securities are recognized on realization. Realized gains and losses on sales of securities are computed using the specific identification method. The Company conducts a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary.

*(d) Loans Receivable and Loans Held-for-Sale*

Loans receivable are stated at unpaid principal balances, including negative escrow, less unearned discounts, deferred mortgage interest and net deferred loan origination fees. Purchased loans are recorded at cost. Related premiums or discounts on mortgage and other loans purchased are amortized to expense or accreted to income using the interest method over the estimated life of the loans. The Company defers certain loan origination and commitment fees, net of certain origination costs, and amortizes them as an adjustment of the loan yield over the term of the related loan using the interest method. When a loan is sold or repays, the remaining net unamortized fee is taken into income.

Loans held-for-sale are carried at the aggregate lower of cost or market value as determined by outstanding commitments from investors or current investor yield requirements calculated on an aggregate loan basis.

Income from mortgage banking operations during the year ended December 31, 2000 was related to the company's mortgage banking subsidiary, Roslyn National Mortgage Corporation (RNMC) and was comprised of the gains or losses generated from the sale of mortgage loans by RNMC into the secondary market, including all fees and mortgage servicing rights related thereto. Due to the divestiture of RNMC, in late 2000, no income from mortgage banking operations was recorded during the years ended December 31, 2002 or 2001.

A substantial portion of the Company's loans are secured by real estate in the New York Metropolitan area. Accordingly, the ultimate collectibility of such a loan portfolio is susceptible to changes in market conditions in the New York Metropolitan area.

*(e) Allowance for Loan Losses*

The allowance for loan losses is based on a periodic analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for loan losses in the existing portfolio. In evaluating the portfolio, management takes into consideration numerous factors such as the Company's loan growth, prior loss experience, present and potential risks of the loan portfolio, risk ratings assigned by lending personnel, ratings assigned by the independent loan review function, present financial condition of borrower, current economic conditions and other portfolio risk characteristics. Provisions for loan losses are charged to operations. Loans, including impaired loans, are charged-off against the allowance for loan losses when the collectibility of loan principal is unlikely. Recoveries of loans previously charged-off are credited to the allowance for loan losses.

Management believes that the allowance for loan losses at December 31, 2002 is adequate. In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties. While management uses available information to determine losses on loans, future additions to the allowance may be necessary based on unanticipated changes in economic conditions, particularly in the New York Metropolitan area. In addition, the NYSBD and the FDIC, as part of their examination processes, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest, according to the contractual terms of the loan agreement. Loans individually reviewed for impairment by the Company are limited to loans modified in a troubled debt restructuring (TDR) and commercial and multi-family first mortgage loans. The smaller-balance homogeneous loans that are collectively evaluated for impairment by the Company include one- to four-family first mortgage loans, student loans and consumer loans, other than those modified in a TDR. The measurement value of the Company's impaired loans is based on the fair value of the underlying collateral. The Company identifies and measures impaired loans in conjunction with its review of the adequacy of its allowance for loan losses. Specific factors utilized in the identification of impaired loans include, but are not limited to, delinquency status, loan-to-value ratio, the condition of the underlying collateral, credit history and debt coverage.

It is the Bank's policy generally to discontinue accruing interest on all loans which are more than 90 days past due with contractual terms, or when, in the opinion of management, such suspension is warranted. When a loan is placed on non-accrual status and/or is considered to be impaired, the Bank ceases the accrual of interest owed and previously accrued interest is charged against interest income. Loans generally are returned to accrual status when the loan delinquency status is less than 90 days past due and the Bank has reasonable assurance that the loan will be fully collectible. Uncollectible amounts are charged-off to the allowance for loan losses when all collection efforts have been exhausted.

Cash receipts on non-accrual loans, including impaired loans, are generally applied to principal and interest in accordance with the contractual terms of the loan. If full payment of principal is not expected, the Company will either defer the recognition of interest until the loan performs according to its original terms or apply all of the principal and interest payments received as a reduction of the carrying value of the loan.

*(f) Banking House and Equipment*

Land is carried at cost and banking houses are carried at cost, less accumulated depreciation. Depreciation on banking houses is computed on the straight-line method over a twenty-five- to fifty-year period. Leasehold improvements are stated at cost, less accumulated amortization. Amortization of leasehold improvements is computed on the straight-line method over the terms of the respective lease or the life of the improvement, whichever is shorter. Furniture, fixtures and equipment are stated at cost, less accumulated depreciation. Depreciation on furniture, fixture and equipment is computed on the straight-line method over the estimated service lives, which is generally a three- to ten-year period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)*(g) Real Estate Owned*

Real estate owned (REO) properties acquired through foreclosure or deed-in-lieu of foreclosure are reported at the lower of cost or estimated fair value less estimated selling costs at the acquisition date. Cost represents the unpaid loan balance at the acquisition date plus expenses, when appropriate, incurred to bring the REO property to a salable condition. Any write-down of the recorded investment in a related loan is charged to the allowance for loan losses upon transfer of the property to REO. The Company will maintain an allowance, when necessary, for subsequent declines in an REO property's carrying value. Certain costs relating to holding such properties, and gains or losses resulting from the disposition of such properties, are recognized in the period they are incurred. At December 31, 2002 and 2001, the Company had \$717,000 and \$478,000 of real estate owned, respectively, which is included in other assets in the accompanying consolidated statements of financial condition.

*(h) Intangible Assets*

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead tested for impairment at least annually in accordance with the provision of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Prior to the adoption of SFAS No. 142 the Company amortized its intangible assets in accordance with Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets," which required the amortization of intangible assets over their estimated useful life. The Company's intangible assets, which consist of deposit intangibles, under SFAS No. 142, and previously under APB No. 17, are being fully amortized on a straight-line basis over the estimated useful life of ten years. Pursuant to SFAS No. 142, as of January 1, 2002, the Company assesses intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. During 2002, the Company determined that such intangible assets were not impaired.

*(i) Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. To the extent that current available evidence about the future realization of the deferred tax assets raises doubt about the recorded amount, a valuation allowance must be established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*(j) Summary of Retirement Benefits*

The Company's retirement plan is non-contributory and covers substantially all eligible employees. The plan conforms to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Company's policy is to accrue for all pension costs and to fund the maximum amount allowable for tax purposes. Actuarial gains and losses that arise from changes in assumptions concerning future events used in estimating pension costs are amortized over a period that reflects the long-range nature of pension expense. The Company accounts for post-retirement benefits whereby the cost of providing those benefits to an employee, and the employee's beneficiaries and covered dependents, are accrued during the years that the employee renders the necessary service.

*(k) Stock-Based Compensation*

As allowed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company adheres to the intrinsic-value-based method of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations to account for stock options granted under the Company's Stock-Based Incentive Plans (SBIP). Under this method no compensation expense is recognized as all options granted under the SBIP had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company adheres to the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the fair value based method of SFAS No. 123 had been applied for the years ended December 31, 2002, 2001 and 2000:

|                                                                                                                      | 2002      | 2001      | 2000     |
|----------------------------------------------------------------------------------------------------------------------|-----------|-----------|----------|
| <i>(In thousands, except per share data)</i>                                                                         |           |           |          |
| Net income, as reported                                                                                              | \$146,406 | \$111,243 | \$89,899 |
| Less: Total stock-based employee compensation expense determined under fair value method for all options, net of tax | (4,566)   | (4,407)   | (2,507)  |
| Pro forma net income                                                                                                 | \$141,840 | \$106,836 | \$87,392 |
| Basic earnings per share:                                                                                            |           |           |          |
| As reported                                                                                                          | \$ 1.85   | \$ 1.30   | \$ 0.96  |
| Pro forma                                                                                                            | 1.79      | 1.25      | 0.93     |
| Diluted earnings per share:                                                                                          |           |           |          |
| As reported                                                                                                          | \$ 1.82   | \$ 1.28   | \$ 0.95  |
| Pro forma                                                                                                            | 1.76      | 1.22      | 0.92     |

In accordance with SFAS No. 123, the Company used the Black-Scholes option pricing model with the following weighted average assumptions to value the options granted for the years ended December 31, 2002, 2001 and 2000:

|                                  | 2002   | 2001   | 2000   |
|----------------------------------|--------|--------|--------|
| Dividend yield                   | 3.11%  | 2.65%  | 2.25%  |
| Expected volatility              | 34.00% | 37.00% | 40.00% |
| Risk-free interest rate          | 1.97%  | 3.53%  | 6.11%  |
| Expected option lives (in years) | 3.03   | 3.19   | 3.03   |

The per share weighted average fair value (using the Black-Scholes option pricing model) of stock options granted during the years ended December 31, 2002, 2001 and 2000, was \$5.30, \$6.29 and \$4.41, respectively. The effects of applying SFAS No. 123, for either recognizing or disclosing compensation cost under such pronouncement, may not be representative of the effect on reported net income for future periods.

Deferred compensation for SBIP awards of the Company's common stock is recorded as a reduction of stockholders' equity and represents the cost of the Company's common stock purchased by the Company and contributed to the SBIP. Compensation expense is recognized over the vesting period of stock awards based upon the fair value of the Company's common stock at the measurement date. The difference between the cost of the Company's common stock as compared to their fair value at the measurement date is treated as an adjustment to stockholders' equity.

Compensation expense for the Employee Stock Ownership Plan (ESOP) is recorded at an amount equal to the number of shares of the Company's common stock allocated to the participants during each year multiplied by the average fair market value of these shares during such year. The Company recognizes compensation expense ratably over the year based upon the estimated number of ESOP shares to be allocated each December 31st. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in-capital.

*(l) Earnings Per Share (EPS)*

Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. The weighted average common shares outstanding includes the average number of shares of common stock outstanding adjusted for the weighted average number of unallocated shares held by the ESOP and SBIP. 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 shares in the earnings of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)*(m) Treasury Stock*

Common stock shares repurchased are recorded as treasury stock at cost.

*(n) Segment Reporting*

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company determined that all of its activities constitute only one reportable operating segment.

*(o) New Accounting Pronouncements*

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements. Most provisions of SFAS No. 148, including transition amendments, are effective for fiscal years ending after December 15, 2002, as such, certain of the disclosure modifications are included herein as Note 1(k) to the Notes to Consolidated Financial Statements. The Company is currently considering the adoption of fair value based method of accounting for stock-based employee compensation of stock options. The potential impact to the Company of adopting such accounting can be seen in Note 1(k) of the Notes to Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Such Interpretation elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this Interpretation apply to guarantees issued or modified after December 31, 2002. The Company will adopt these provisions on January 1, 2003. The disclosure provisions of this Interpretation are effective for financial statements with annual periods ending after December 15, 2002. The Company has applied the disclosure provisions of this Interpretation as of December 31, 2002, as required. See Note 19 of the Notes to Consolidated Financial Statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement updates, clarifies and simplifies existing accounting pronouncements. SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002. As encouraged by this pronouncement, the Company adopted the provisions of SFAS No. 145 related to the treatment of debt extinguishments as of October 1, 2002. Accordingly, the penalty resulting from the early extinguishment of repurchase agreements for the year ended December 31, 2002 in the amount of \$7.3 million is recorded as a component of non-interest expense. Similar penalties of \$8.3 million (\$5.0 million, net of tax) that were recorded as an extraordinary item during the year ended December 31, 2001 have been reclassified as components of non-interest expense and provision for income taxes. There will be no material impact on the Company's consolidated statements of financial condition or consolidated statements of income upon adoption of the remaining provisions of SFAS No. 145.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaced SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 established a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The provisions of SFAS No. 144 were effective for financial statements issued for fiscal years beginning after December 15, 2001. There was no impact on the Company's consolidated statements of financial condition or consolidated statements of income upon adoption of SFAS No. 144 on January 1, 2002.

*(2) Acquisition of T R Financial Corp.*

On February 16, 1999, a merger between T R Financial Corp., a Delaware company, and the Company was completed with the Company as the surviving corporation (the Merger). The transaction was treated as a tax-free reorganization and accounted for using the pooling-of-interests method of accounting, and accordingly, all historical financial information for the Company has been restated to include T R Financial Corp.'s historical information for the earliest period presented.

A pre-tax charge of \$89.2 million of merger related costs associated with the acquisition of T R Financial Corp. was recorded during the year ended December 31, 1999. At December 31, 2002, \$32,000 of such costs, which relate to certain employment benefits, remains in other liabilities in the accompanying consolidated statements of financial condition.



(3) Restructuring Charge

On August 28, 2000, the Company announced strategic initiatives and plans to discontinue the residential mortgage banking business through the divestiture of its mortgage banking subsidiary, RNMC. In connection with this strategy, the Bank sold a substantial part of the residential origination capabilities of RNMC to a third party mortgage company during the fourth quarter of 2000. Substantially all of RNMC's remaining residential loan production operations were divested during the fourth quarter of 2000.

The divestiture of RNMC included, among other things, the termination of employees, disposal of the net assets of the Company and the cancellation of various contracts. The Company recognized as liabilities only those items that qualify for recognition under the consensus reached in Issue No. 94-3 by the Emerging Issues Task Force, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit An Activity (including Certain Costs Incurred in a Restructuring)."

The Company recorded all direct costs related to the RNMC divestiture as liabilities and the total pre-tax charge of \$12.0 million was classified as a restructuring charge in the Company's consolidated statement of income for the year ended December 31, 2000. As of December 31, 2001 the Company had no remaining unpaid accrued restructuring charge balance related to the RNMC divestiture.

(4) Securities, net

Securities, net, at December 31, 2002 and 2001 are summarized as follows:

|                                                                                  | At December 31, 2002 |                              |                               |                            |
|----------------------------------------------------------------------------------|----------------------|------------------------------|-------------------------------|----------------------------|
|                                                                                  | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| <i>(In thousands)</i>                                                            |                      |                              |                               |                            |
| Held-to-maturity:                                                                |                      |                              |                               |                            |
| Debt securities, net:                                                            |                      |                              |                               |                            |
| United States Government agencies, net                                           | \$ 374,763           | \$ 2,630                     | \$ —                          | \$ 377,393                 |
| Total debt securities held-to-maturity, net                                      | \$ 374,763           | \$ 2,630                     | \$ —                          | \$ 377,393                 |
| Available-for-sale:                                                              |                      |                              |                               |                            |
| Debt securities, net:                                                            |                      |                              |                               |                            |
| United States Government agencies, net                                           | \$ 868,416           | \$ 2,989                     | \$ (11)                       | \$ 871,394                 |
| State, county and municipal                                                      | 4,478                | 381                          | —                             | 4,859                      |
| Other                                                                            | 1,000                | —                            | —                             | 1,000                      |
| Total debt securities available-for-sale, net                                    | 873,894              | 3,370                        | (11)                          | 877,253                    |
| Equity securities, net:                                                          |                      |                              |                               |                            |
| Preferred and common stock                                                       | 166,616              | 4,287                        | (16,571)                      | 154,332                    |
| Trust preferreds, net                                                            | 479,808              | 2,464                        | (6,170)                       | 476,102                    |
| Other                                                                            | 14,808               | 8                            | (2,316)                       | 12,500                     |
| Total equity securities available-for-sale, net                                  | 661,232              | 6,759                        | (25,057)                      | 642,934                    |
| Total debt and equity securities available-for-sale, net                         | 1,535,126            | 10,129                       | (25,068)                      | 1,520,187                  |
| Mortgage-backed and mortgage related securities, net:                            |                      |                              |                               |                            |
| GNMA pass-through securities, net                                                | 84,705               | 5,448                        | —                             | 90,153                     |
| FNMA pass-through securities, net                                                | 32,847               | 1,994                        | —                             | 34,841                     |
| FHLMC pass-through securities, net                                               | 67,901               | 5,042                        | —                             | 72,943                     |
| Whole loan private collateralized<br>mortgage obligations, net                   | 298,288              | 1,343                        | (53)                          | 299,578                    |
| Agency collateralized mortgage obligations, net                                  | 4,898,389            | 14,663                       | (6,624)                       | 4,906,428                  |
| Whole loan state agency mortgage-backed securities                               | 14,763               | —                            | —                             | 14,763                     |
| Total mortgage-backed and mortgage<br>related securities available-for-sale, net | 5,396,893            | 28,490                       | (6,677)                       | 5,418,706                  |
| Total securities available-for-sale, net                                         | \$6,932,019          | \$38,619                     | \$(31,745)                    | \$6,938,893                |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

|                                                                                  | At December 31, 2001 |                              |                               |                            |
|----------------------------------------------------------------------------------|----------------------|------------------------------|-------------------------------|----------------------------|
|                                                                                  | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| <i>(In thousands)</i>                                                            |                      |                              |                               |                            |
| Available-for-sale:                                                              |                      |                              |                               |                            |
| Debt securities, net:                                                            |                      |                              |                               |                            |
| United States Government—direct and guaranteed, net                              | \$ 1,000             | \$ 20                        | \$ —                          | \$ 1,020                   |
| United States Government agencies, net                                           | 355,255              | 235                          | (5,765)                       | 349,725                    |
| State, county and municipal                                                      | 4,470                | 480                          | —                             | 4,950                      |
| Total debt securities available-for-sale, net                                    | 360,725              | 735                          | (5,765)                       | 355,695                    |
| Equity securities, net:                                                          |                      |                              |                               |                            |
| Preferred and common stock                                                       | 135,998              | 2,574                        | (18,419)                      | 120,153                    |
| Trust preferreds, net                                                            | 533,823              | —                            | (19,010)                      | 514,813                    |
| Other                                                                            | 14,556               | 391                          | (880)                         | 14,067                     |
| Total equity securities available-for-sale, net                                  | 684,377              | 2,965                        | (38,309)                      | 649,033                    |
| Total debt and equity securities available-for-sale, net                         | 1,045,102            | 3,700                        | (44,074)                      | 1,004,728                  |
| Mortgage-backed and mortgage related securities, net:                            |                      |                              |                               |                            |
| GNMA pass-through securities, net                                                | 368,449              | 7,846                        | —                             | 376,295                    |
| FNMA pass-through securities, net                                                | 57,274               | 1,681                        | (7)                           | 58,948                     |
| FHLMC pass-through securities, net                                               | 353,911              | 5,311                        | (10)                          | 359,212                    |
| GNMA adjustable-rate mortgage<br>pass-through securities, net                    | 126,703              | 1,477                        | —                             | 128,180                    |
| Whole loan private collateralized<br>mortgage obligations, net                   | 1,065,924            | 6,430                        | (5,351)                       | 1,067,003                  |
| Agency collateralized mortgage obligations, net                                  | 1,593,767            | 311                          | (22,862)                      | 1,571,216                  |
| Total mortgage-backed and mortgage related<br>securities available-for-sale, net | 3,566,028            | 23,056                       | (28,230)                      | 3,560,854                  |
| Total securities available-for-sale, net                                         | \$4,611,130          | \$26,756                     | \$(72,304)                    | \$4,565,582                |

Sales of securities for the years ended December 31, 2002, 2001 and 2000 are summarized as follows:

|                                                 | 2002      | 2001      | 2000      |
|-------------------------------------------------|-----------|-----------|-----------|
| <i>(In thousands)</i>                           |           |           |           |
| Proceeds from sales:                            |           |           |           |
| Equity securities                               | \$128,923 | \$ 48,879 | \$ 56,227 |
| Debt securities                                 | 15,340    | —         | 29,165    |
| Mortgage-backed and mortgage related securities | 920,511   | 455,369   | 515,292   |
| Gross gains:                                    |           |           |           |
| Equity securities                               | \$ 58     | \$ 1,748  | \$ 6,811  |
| Debt securities                                 | —         | —         | 48        |
| Mortgage-backed and mortgage related securities | 10,279    | 2,175     | 4         |
| Gross losses:                                   |           |           |           |
| Equity securities                               | \$ 73     | \$ 185    | \$ 2,787  |
| Debt securities                                 | 7         | —         | 1,273     |
| Mortgage-backed and mortgage related securities | —         | 11        | 21,360    |

The contractual maturities of mortgage-backed, mortgage related and debt securities, net, at December 31, 2002 are as follows:

|                                | Available-for-Sale |                      | Held-to-Maturity |                      |
|--------------------------------|--------------------|----------------------|------------------|----------------------|
|                                | Amortized Cost     | Estimated Fair Value | Amortized Cost   | Estimated Fair Value |
| <i>(In thousands)</i>          |                    |                      |                  |                      |
| Within 1 year                  | \$ —               | \$ —                 | \$ —             | \$ —                 |
| After 1 year through 5 years   | 1,482              | 1,514                | —                | —                    |
| After 5 years through 10 years | 1,884              | 2,100                | —                | —                    |
| Over 10 years                  | 6,267,421          | 6,292,345            | 374,763          | 377,393              |
|                                | \$6,270,787        | \$6,295,959          | \$374,763        | \$377,393            |

Contractual maturities may differ from expected maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(5) Loans Held-for-Sale and Loans Receivable Held for Investment, net

Loans held-for-sale at December 31, 2002 and 2001 are summarized as follows:

|                           | 2002     | 2001    |
|---------------------------|----------|---------|
| <i>(In thousands)</i>     |          |         |
| One- to four-family loans | \$10,972 | \$8,590 |
| Student loans             | 664      | 774     |
| Total loans held-for-sale | \$11,636 | \$9,364 |

Student loans generally are sold to the Student Loan Marketing Association during the grace period of the loan, before principal repayment begins. During the years ended December 31, 2002, 2001 and 2000, the Company recorded aggregate net gains of \$37,000, \$42,000 and \$63,000, respectively, on sales of student loans. The Company originates fixed-rate and adjustable-rate one- to four-family loans through a third party for immediate sale back to the same third party. During the years ended December 31, 2002, 2001, 2000 the Company recorded aggregate net gains of \$878,000, \$386,000 and \$8.2 million, respectively, on sales of one- to four-family loans.

Loans receivable held for investment, net, at December 31, 2002 and 2001 are summarized as follows:

|                                                                              | 2002        | 2001        |
|------------------------------------------------------------------------------|-------------|-------------|
| <i>(In thousands)</i>                                                        |             |             |
| Real estate loans:                                                           |             |             |
| One- to four-family                                                          | \$1,289,603 | \$2,281,477 |
| Multi-family                                                                 | 337,244     | 173,780     |
| Commercial real estate                                                       | 800,099     | 629,663     |
| Construction and development                                                 | 423,119     | 312,630     |
| Total real estate loans                                                      | 2,850,065   | 3,397,550   |
| Net unamortized discount and deferred income                                 | (532)       | (1,081)     |
| Net deferred loan origination costs                                          | 11,567      | 15,679      |
| Total real estate loans, net                                                 | 2,861,100   | 3,412,148   |
| Consumer and other loans, net:                                               |             |             |
| Consumer and other                                                           | 97,834      | 67,587      |
| Home equity and second mortgage                                              | 192,780     | 175,192     |
| Automobile leases                                                            | 3,166       | 40,481      |
| Total consumer and other loans                                               | 293,780     | 283,260     |
| Net deferred loan origination costs                                          | 1,806       | 1,752       |
| Total consumer and other loans, net                                          | 295,586     | 285,012     |
| Total loans receivable held for investment, net                              | 3,156,686   | 3,697,160   |
| Allowance for loan losses                                                    | (43,421)    | (40,634)    |
| Total loans receivable held for investment, net of allowance for loan losses | \$3,113,265 | \$3,656,526 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The outstanding principal balance of non-accrual loans was \$38.3 million, \$39.6 million and \$9.8 million at December 31, 2002, 2001 and 2000, respectively. Interest income on non-accrual loans that would have been recorded if the loans had been performing in accordance with their original terms aggregated \$3.0 million, \$1.6 million and \$596,000 during the years ended December 31, 2002, 2001 and 2000, respectively. Actual interest income recorded on non-accrual loans was \$65,000, \$1.2 million and \$490,000 for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002 and 2001 there was \$3.6 million and \$5.9 million, respectively, of Federal Housing Administration (FHA) and Veterans Administration (VA) government guaranteed loans that were past due 90 days or more and still accruing.

The Company's recorded investment in impaired loans at December 31, 2002 and 2001 was \$37.2 million and \$37.3 million, respectively. The Company did not maintain a related allowance for these loans. The Company's average recorded investment in impaired loans for the years ended December 31, 2002, 2001 and 2000 was \$37.3 million, \$6.4 million and \$3.5 million, respectively. Interest income recognized on impaired loans, which was not materially different from cash-basis interest income for such loans, amounted to \$379,000, \$200,000 and \$54,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

The Company has entered into various agreements to service loans for others. At December 31, 2002 and 2001, the Company serviced for others loans with total balances of \$71.7 million and \$104.1 million, respectively. The Company has not retained a participation in these loans. The right to service loans for others is generally obtained by either the sale of loans with servicing retained or through the open market purchase of MSRs.

During the years ended December 31, 2002 and 2001 the Company sold, without recourse, \$146.7 million and \$70.5 million of loans with servicing released, respectively. During the year ended December 31, 2000 the Company sold, without recourse, \$387.2 million of loans principally with servicing retained. Servicing fee income of \$1.1 million, \$1.2 million and \$3.6 million is included in other non-interest income in the accompanying consolidated statements of income for the years ended December 31, 2002, 2001 and 2000, respectively.

Fees earned for servicing loans are reported as income when the related mortgage loan payments are collected. For the years ended December 31, 2002, 2001 and 2000 there was no valuation allowance for impairment of MSRs.

MSR activity as of and for the years ended December 31, 2002, 2001 and 2000 is summarized as follows:

|                                      | 2002    | 2001    | 2000      |
|--------------------------------------|---------|---------|-----------|
| <i>(In thousands)</i>                |         |         |           |
| Balance at beginning of year         | \$1,422 | \$1,680 | \$ 18,070 |
| Originated mortgage servicing rights | —       | —       | 4,374     |
| Less:                                |         |         |           |
| Mortgage servicing rights sold       | —       | —       | (19,115)  |
| Amortization                         | (336)   | (258)   | (1,649)   |
| Balance at end of year               | \$1,086 | \$1,422 | \$ 1,680  |

During 2000, the Company sold the rights to service \$1.23 billion of loans, resulting in a gain of \$3.3 million. No such transactions occurred during the years ended December 31, 2002 and 2001.

## (6) Allowance for Loan Losses

Impaired loans and related allowances for loan losses are identified and calculated in accordance with the provisions of SFAS No. 114, "Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15." The remainder of the allowance for loan losses is determined in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies." As such, the Company has provided amounts that exceed the immediately identified losses associated with loans that have been deemed impaired. Provisions have been made and 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 generally subject to the provisions of SFAS No. 114.

The following is a summary of the activity in the allowance for loan losses account for the years ended December 31, 2002, 2001 and 2000:

|                              | 2002     | 2001     | 2000     |
|------------------------------|----------|----------|----------|
| <i>(In thousands)</i>        |          |          |          |
| Balance at beginning of year | \$40,634 | \$40,524 | \$40,155 |
| Provision for loan losses    | 3,000    | 850      | 1,000    |
| Charge-offs                  | (277)    | (821)    | (893)    |
| Recoveries                   | 64       | 81       | 262      |
| Balance at end of year       | \$43,421 | \$40,634 | \$40,524 |

(7) Banking House and Equipment, net

A summary of banking house and equipment, at cost, net of accumulated depreciation and amortization, and land, at cost, at December 31, 2002 and 2001 is as follows:

|                                           | 2002      | 2001      |
|-------------------------------------------|-----------|-----------|
| <i>(In thousands)</i>                     |           |           |
| Land                                      | \$ 3,227  | \$ 3,227  |
| Banking house                             | 39,698    | 32,644    |
| Furniture, fixtures and equipment         | 22,296    | 18,183    |
|                                           | 65,221    | 54,054    |
| Accumulated depreciation and amortization | (25,663)  | (21,465)  |
|                                           | \$ 39,558 | \$ 32,589 |

Depreciation and amortization of banking house and equipment of \$4.0 million, \$3.3 million and \$3.2 million was included in occupancy and equipment expense for the years ended December 31, 2002, 2001 and 2000, respectively.

(8) Accrued Interest Receivable

Accrued interest receivable at December 31, 2002 and 2001 is summarized as follows:

|                                                 | 2002      | 2001      |
|-------------------------------------------------|-----------|-----------|
| <i>(In thousands)</i>                           |           |           |
| Loans                                           | \$ 16,032 | \$ 22,596 |
| Mortgage-backed and mortgage related securities | 25,544    | 18,355    |
| Debt and equity securities                      | 16,692    | 9,599     |
|                                                 | \$ 58,268 | \$ 50,550 |

(9) Intangible Assets

The following table sets forth information regarding intangible assets at December 31, 2002 and 2001:

|                          | 2002     | 2001     |
|--------------------------|----------|----------|
| <i>(In thousands)</i>    |          |          |
| Deposit intangibles:     |          |          |
| Gross carrying amount    | \$ 1,259 | \$ 1,259 |
| Accumulated amortization | (399)    | (273)    |
| Carrying amount, net     | \$ 860   | \$ 986   |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

The following table sets forth the anticipated amortization expense, as of December 31, 2002, for the years indicated:

| Deposit intangibles:                                | Amount |
|-----------------------------------------------------|--------|
| <i>(In thousands)</i>                               |        |
| Estimated amortization expense for the years ended: |        |
| December 31, 2003                                   | \$126  |
| December 31, 2004                                   | 126    |
| December 31, 2005                                   | 126    |
| December 31, 2006                                   | 126    |
| December 31, 2007                                   | 126    |

The weighted average amortization period for the deposit intangibles is ten years. The Company incurred amortization expense of \$126,000 for the year ended December 31, 2002 related to deposit intangibles.

## (10) Deposits

Deposit account balances at December 31, 2002 and 2001 are summarized as follows:

|                               | 2002                        |                    | 2001                        |                    |
|-------------------------------|-----------------------------|--------------------|-----------------------------|--------------------|
|                               | Weighted<br>Average<br>Rate | Amount             | Weighted<br>Average<br>Rate | Amount             |
| <i>(Dollars in thousands)</i> |                             |                    |                             |                    |
| Type of account:              |                             |                    |                             |                    |
| Savings                       | 1.09%                       | \$1,194,836        | 1.24%                       | \$ 920,507         |
| Certificates of deposit       | 3.12                        | 3,129,469          | 3.88                        | 2,756,737          |
| Money market                  | 2.22                        | 863,457            | 1.45                        | 371,007            |
| Super NOW and NOW             | 0.47                        | 309,724            | 0.64                        | 256,145            |
| Demand deposit                | —                           | 213,364            | —                           | 182,371            |
|                               |                             | <u>\$5,710,850</u> |                             | <u>\$4,486,767</u> |

Scheduled maturities of certificates of deposit at December 31, 2002 and 2001 are as follows:

|                                      | 2002                        |                    |                | 2001                        |                    |                |
|--------------------------------------|-----------------------------|--------------------|----------------|-----------------------------|--------------------|----------------|
|                                      | Weighted<br>Average<br>Rate | Amount             | Percent        | Weighted<br>Average<br>Rate | Amount             | Percent        |
| <i>(Dollars in thousands)</i>        |                             |                    |                |                             |                    |                |
| 1 year or less                       | 2.36%                       | \$1,775,405        | 56.74%         | 3.69%                       | \$2,201,406        | 79.85%         |
| Greater than 1 year through 2 years  | 3.47                        | 687,311            | 21.96          | 4.16                        | 309,781            | 11.24          |
| Greater than 2 years through 3 years | 3.96                        | 212,417            | 6.79           | 5.20                        | 130,673            | 4.74           |
| Greater than 3 years through 4 years | 4.67                        | 125,934            | 4.02           | 5.40                        | 20,284             | 0.74           |
| Greater than 4 years through 5 years | 4.89                        | 252,383            | 8.06           | 4.93                        | 73,120             | 2.65           |
| Over 5 years                         | 5.23                        | 76,019             | 2.43           | 5.55                        | 21,473             | 0.78           |
|                                      |                             | <u>\$3,129,469</u> | <u>100.00%</u> |                             | <u>\$2,756,737</u> | <u>100.00%</u> |

Additionally, included in certificates of deposit at December 31, 2002 and 2001 were brokered deposits totaling \$226.4 million and \$59.1 million, respectively. Certificates of deposit in excess of \$100,000 were \$756.2 million and \$595.9 million at December 31, 2002 and 2001, respectively.

The FDIC insures deposits of account holders up to \$100,000 per insured depositor. To provide for this insurance, the Company must pay a risk-based annual assessment, which considers the financial soundness of the institution and its capitalization level (see Note 20). At December 31, 2002, 2001 and 2000, the Company was assessed at the FDIC's lowest assessment level, as a "well capitalized" institution. For the years ended December 31, 2002, 2001 and 2000, the Company paid \$881,000, \$840,000 and \$952,000, respectively, in FDIC insurance premiums.

Interest expense on deposit balances for the years ended December 31, 2002, 2001 and 2000 is summarized as follows:

|                            | 2002             | 2001             | 2000             |
|----------------------------|------------------|------------------|------------------|
| <i>(In thousands)</i>      |                  |                  |                  |
| Savings accounts           | \$ 11,551        | \$ 14,604        | \$ 17,571        |
| Certificates of deposit    | 105,239          | 142,169          | 143,799          |
| Money market accounts      | 12,413           | 10,046           | 10,512           |
| Super NOW and NOW accounts | 1,747            | 2,916            | 3,130            |
|                            | <u>\$130,950</u> | <u>\$169,735</u> | <u>\$175,012</u> |

(11) Borrowed Funds

Borrowed funds at December 31, 2002 and 2001 are summarized as follows:

|                               | 2002               |                       | 2001               |                       |
|-------------------------------|--------------------|-----------------------|--------------------|-----------------------|
|                               | Balance            | Weighted Average Rate | Balance            | Weighted Average Rate |
| <i>(Dollars in thousands)</i> |                    |                       |                    |                       |
| Reverse-repurchase agreements | \$2,948,587        | 3.56%                 | \$1,757,489        | 4.60%                 |
| Senior notes                  | 189,759            | 6.44                  | 75,000             | 7.50                  |
| Other borrowings              | 1,380,801          | 5.01                  | 1,687,806          | 4.94                  |
|                               | <u>\$4,519,147</u> |                       | <u>\$3,520,295</u> |                       |

From time to time, the Company enters into sales of securities under agreements to repurchase (reverse-repurchase agreements). Fixed-coupon reverse-repurchase agreements are treated as financing transactions since the Company maintains effective control over the transferred securities and the obligations to repurchase are reflected as a liability in the consolidated statements of financial condition. The dollar amount of securities underlying the agreements remains in the asset account. The securities underlying the agreements are delivered to the dealer with whom each transaction is executed. The dealers, who may sell, loan or otherwise dispose of such securities to other parties in the normal course of their business, agree to resell to the Company the same securities at the maturities of the agreements. The Company retains the right to substitute alternate collateral throughout the terms of the agreements.

At December 31, 2002, all outstanding reverse-repurchase agreements had original contractual maturities ranging from nineteen days to 15 years. The following table summarizes the carrying and market value of collateral, including accrued interest thereon, as they relate to the outstanding reverse-repurchase agreements at December 31, 2002 and 2001:

|                               | 2002                         |                            |                      |               |
|-------------------------------|------------------------------|----------------------------|----------------------|---------------|
|                               | Carrying Value of Collateral | Market Value of Collateral | Repurchase Liability | Interest Rate |
| <i>(Dollars in thousands)</i> |                              |                            |                      |               |
| Available-for-sale:           |                              |                            |                      |               |
| Mortgage-backed securities:   |                              |                            |                      |               |
| Overnight                     | \$ —                         | \$ —                       | \$ —                 | —%            |
| Up to 30 days                 | 647,390                      | 647,390                    | 600,000              | 1.38          |
| 30 days to 90 days            | —                            | —                          | —                    | —             |
| Over 90 days                  | 2,534,084                    | 2,534,084                  | 2,348,587            | 4.11          |
|                               | <u>\$3,181,474</u>           | <u>\$3,181,474</u>         | <u>\$2,948,587</u>   | <u>3.56</u>   |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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|                               | 2001                               |                                  |                         |                  |
|-------------------------------|------------------------------------|----------------------------------|-------------------------|------------------|
|                               | Carrying<br>Value of<br>Collateral | Market<br>Value of<br>Collateral | Repurchase<br>Liability | Interest<br>Rate |
| <i>(Dollars in thousands)</i> |                                    |                                  |                         |                  |
| Available-for-sale:           |                                    |                                  |                         |                  |
| Mortgage-backed securities:   |                                    |                                  |                         |                  |
| Overnight                     | \$ —                               | \$ —                             | \$ —                    | —%               |
| Up to 30 days                 | 410,128                            | 410,128                          | 407,650                 | 2.24             |
| 30 days to 90 days            | 52,073                             | 52,073                           | 50,000                  | 4.58             |
| Over 90 days                  | 1,253,137                          | 1,253,137                        | 1,190,000               | 5.26             |
|                               | 1,715,338                          | 1,715,338                        | 1,647,650               | 4.49             |
| Trust preferreds:             |                                    |                                  |                         |                  |
| Overnight                     | —                                  | —                                | —                       | —                |
| Up to 30 days                 | 13,549                             | 13,549                           | 8,936                   | 2.68             |
| 30 days to 90 days            | —                                  | —                                | —                       | —                |
| Over 90 days                  | —                                  | —                                | —                       | —                |
|                               | 13,549                             | 13,549                           | 8,936                   | 2.68             |
| U.S. Government agency:       |                                    |                                  |                         |                  |
| Overnight                     | —                                  | —                                | —                       | —                |
| Up to 30 days                 | —                                  | —                                | —                       | —                |
| 30 days to 90 days            | —                                  | —                                | —                       | —                |
| Over 90 days                  | 100,721                            | 100,721                          | 100,903                 | 6.58             |
|                               | 100,721                            | 100,721                          | 100,903                 | 6.58             |
|                               | \$1,829,608                        | \$1,829,608                      | \$1,757,489             | 4.60             |

The following is a summary of information, at or for the years ended December 31, 2002, 2001 and 2000 relating to reverse-repurchase agreements:

|                                                                               | 2002        | 2001        | 2000        |
|-------------------------------------------------------------------------------|-------------|-------------|-------------|
| <i>(Dollars in thousands)</i>                                                 |             |             |             |
| Average balance of outstanding agreements during the year                     | \$2,451,118 | \$1,580,050 | \$2,078,967 |
| Maximum balance of outstanding agreements<br>at any month end during the year | \$3,995,299 | \$1,856,284 | \$2,226,662 |
| Average interest rate for the year                                            | 4.36%       | 5.74%       | 5.95%       |

The contractual maturities of the outstanding reverse-repurchase agreements at December 31, 2002 were as follows:

| Year                  | Amount      |
|-----------------------|-------------|
| <i>(In thousands)</i> |             |
| 2003                  | \$ 600,000  |
| 2004                  | 238,288     |
| 2005                  | 875,299     |
| 2006                  | 300,000     |
| 2007                  | 200,000     |
| 2008                  | 60,000      |
| 2010                  | 200,000     |
| 2011                  | 250,000     |
| 2016                  | 225,000     |
|                       | \$2,948,587 |



At December 31, 2002, of the \$2.95 billion of reverse-repurchase agreements held, \$1.72 billion are callable in 2003, \$600.0 million are callable in 2004. Accrued interest payable on reverse-repurchase agreements at December 31, 2002 and 2001 was \$13.8 million and \$11.0 million, respectively.

During 2002 and 2001 the Company prepaid \$286.7 million and \$258.9 million, respectively, of reverse-repurchase agreements with a weighted average rate of 4.85% and 6.44%, respectively. As a result, for the years ended December 31, 2002 and 2001, the Company incurred a prepayment penalty of \$7.3 million (\$4.4 million, net of tax) and \$8.3 million (\$5.0 million, net of tax), respectively.

On November 13, 2002 the Company issued \$115.0 million of 5.75% unsecured senior notes at a price of 99.785%. The notes have a maturity date of November 15, 2007. Interest on such notes is paid semi-annually on May 15 and November 15 of each year, beginning May 15, 2003. On November 21, 2001, the Company had previously issued \$75.0 million of 7.50% unsecured senior notes at par and a maturity date of December 1, 2008. Interest on such notes is paid semi-annually on June 1 and December 1 of each year, beginning June 1, 2002. In connection with these unsecured senior note offerings the Company capitalized a total of \$3.1 million of debt issuance costs to be amortized on a straight-line basis, generally over the life of the borrowing. For the years ended December 31, 2002 and 2001, \$344,000, and \$33,000, respectively, of debt issuance costs have been amortized and are reflected as interest expense on borrowings in the accompanying consolidated statements of income. Accrued interest payable on senior notes at December 31, 2002 and 2001 was \$1.4 million and \$625,000, respectively.

Other borrowings in the accompanying consolidated statements of financial condition are comprised of FHLB advances. At December 31, 2002 and 2001, all outstanding FHLB advances had original contractual maturities ranging from five to 22 years and from seven days to 30 years, respectively. The Bank maintained, during the years ended December 31, 2002 and 2001, a \$100.0 million overnight line of credit with the FHLB. At December 31, 2002 and 2001, there were no borrowings drawn under this line. In addition, the Bank, during the years ended December 31, 2002 and 2001, had access to funds through a \$50.0 million one-month facility from the FHLB. At December 31, 2002 and 2001 there were no borrowings outstanding under this facility. FHLB advances and FHLB overnight line of credit borrowings are secured by a pledge of certain eligible collateral, one- to four-family mortgage loans and/or mortgage-backed securities, in an amount equal to 110% of outstanding advances. Accrued interest payable on FHLB advances at December 31, 2002 and 2001 was \$9.2 million and \$10.3 million, respectively.

Interest expense on borrowings for the years ended December 31, 2002, 2001 and 2000 is summarized as follows:

|                               | 2002      | 2001      | 2000      |
|-------------------------------|-----------|-----------|-----------|
| <i>(In thousands)</i>         |           |           |           |
| Reverse-repurchase agreements | \$106,810 | \$ 90,624 | \$123,781 |
| Senior notes                  | 6,857     | 658       | —         |
| Other borrowings              | 79,599    | 80,673    | 43,338    |
|                               | \$193,266 | \$171,955 | \$167,119 |

(12) Guaranteed Preferred Beneficial Interest in Junior Subordinated Debentures

On March 20, 2002 Roslyn Preferred Trust I (RPT I), a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$63.0 million aggregate liquidation amount of floating rate guaranteed preferred beneficial interests in Junior Subordinated Debentures (the Capital Securities) due April 1, 2032, at a distribution rate equal to the 6-month LIBOR plus 360 basis points, resetting on a semi-annual basis. The maximum distribution rate on the Capital Securities is 12.0% through April 1, 2007, with no maximum thereafter. The Company may redeem the Capital Securities, in whole or in part, at any time on or after April 1, 2007. At December 31, 2002 the distribution rate was 5.36%. Distributions on the Capital Securities are payable semi-annually on April 1 and October 1 of each year, which began on October 1, 2002, and are reported in the accompanying consolidated statements of income as a component of non-interest expense under the caption "Capital trust securities."

The Holding Company made an initial capital contribution of \$1.9 million to RPT I in exchange for all of its common securities. RPT I was formed for the exclusive purpose of issuing the Capital Securities and using the proceeds to acquire \$64.9 million in Junior Subordinated Debentures due April 1, 2032 issued by the Holding Company. The Company has fully and unconditionally guaranteed the Capital Securities along with all obligations of RPT I related thereto.

The costs associated with the Capital Securities issuance totaled \$850,000 and have been capitalized and are being amortized over the life of the securities. The amortization expense relating to such capitalized costs was \$22,000 for the year ended December 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## (13) Stockholders' Equity

The Bank established a liquidation account, as of the date of Conversion, in the amount of \$222.2 million, equal to its retained earnings as of the date of the latest consolidated statement of financial condition appearing in the final prospectus. The liquidation account is maintained for the benefit of eligible pre-Conversion account holders who continue to maintain their accounts at the Bank after the date of Conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases in account balances will not restore an eligible account holder's interest in the liquidation account. As of December 31, 2002, the balance in the liquidation account was \$24.6 million, which includes the eligible account holders' interest from T R Financial Corp.'s initial public offering on June 29, 1993. In the event of a complete liquidation, each eligible account holder will be entitled, under New York State Law, to receive a distribution from the liquidation account in an amount equal to their current adjusted account balances relative to such balances for all such depositors then holding qualifying deposits in the Bank.

Subsequent to the Conversion, the Bank (including T R Financial Corp.'s conversion on June 29, 1993) may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements or would reduce the Bank's capital level below the then aggregate balance required for the liquidation account. The Company, unlike the Bank, is not subject to the same restrictions regarding the declaration or payment of dividends to its shareholders, although the source of the Company's dividends may depend upon the Bank's ability to pay dividends. The Company, however is subject to the requirements of Delaware law, which generally limit dividends to an amount equal to the excess of its net assets over its stated capital or, if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year.

In 2000, the Company adopted a stockholder rights plan and declared a dividend of one preferred share purchase right (Right) for each outstanding share of common stock of the Company. Each Right, which adheres to each share of outstanding common stock of the Company, entitles a stockholder to buy a one one-thousandth interest in a share of a new series of preferred stock of the Company at an exercise price of \$75.00 per share if the Company determines that certain events have occurred. The Rights are designed to ensure that all of the stockholders of the Company receive fair and equal treatment in the event of any proposed takeover of the Company and to guard against partial tender offers, squeeze-outs and other abusive tactics to gain control of the Company without paying all stockholders a fair price. The Rights will expire ten years after the distribution date on October 10, 2010. The distribution of the Rights is not taxable to stockholders.

## (14) Income Taxes

Total provision for income taxes differed from the amounts computed by applying the U.S. federal income tax rate of 35% to income before provision for income taxes for the years ended December 31, 2002, 2001 and 2000 as a result of the following:

|                                                           | 2002            | 2001            | 2000            |
|-----------------------------------------------------------|-----------------|-----------------|-----------------|
| <i>(In thousands)</i>                                     |                 |                 |                 |
| Expected income tax expense at statutory federal tax rate | \$79,362        | \$57,191        | \$42,451        |
| State and local taxes, net of federal income tax benefit  | 6,609           | 3,350           | 2,380           |
| Merger related benefit                                    | —               | —               | (3,961)         |
| Dividends received deduction                              | (2,168)         | (2,628)         | (3,161)         |
| Bank owned life insurance                                 | (2,617)         | (2,700)         | (1,659)         |
| Charitable contribution                                   | —               | —               | (2,224)         |
| Other, net                                                | (844)           | (3,052)         | (2,438)         |
|                                                           | <u>\$80,342</u> | <u>\$52,161</u> | <u>\$31,388</u> |

Provisions for income taxes for the years ended December 31, 2002, 2001 and 2000 are comprised of the following amounts:

|                       | 2002     | 2001     | 2000     |
|-----------------------|----------|----------|----------|
| <i>(In thousands)</i> |          |          |          |
| Current:              |          |          |          |
| Federal               | \$72,935 | \$50,540 | \$29,418 |
| State and local       | 10,518   | 5,961    | 3,852    |
|                       | 83,453   | 56,501   | 33,270   |
| Deferred:             |          |          |          |
| Federal               | (2,762)  | (3,533)  | (1,691)  |
| State and local       | (349)    | (807)    | (191)    |
|                       | (3,111)  | (4,340)  | (1,882)  |
|                       | \$80,342 | \$52,161 | \$31,388 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are presented below:

|                                                      | 2002      | 2001      |
|------------------------------------------------------|-----------|-----------|
| <i>(In thousands)</i>                                |           |           |
| Deferred tax assets:                                 |           |           |
| Allowance for loan losses                            | \$ 17,992 | \$ 16,824 |
| Post-retirement benefits                             | 3,931     | 4,097     |
| Non-qualified deferred compensation                  | 2,696     | 4,606     |
| Qualified retirement plans                           | 5,171     | 4,628     |
| Amortization of intangibles                          | 1,208     | 1,085     |
| Depreciation and amortization of fixed assets        | 1,063     | 1,539     |
| Net unrealized loss on available-for-sale securities | —         | 18,975    |
| Other                                                | 2,635     | 870       |
| Total gross deferred tax assets                      | 34,696    | 52,624    |
| Deferred tax liabilities:                            |           |           |
| Originated mortgage servicing rights                 | (442)     | (543)     |
| Real estate investment trust dividends               | (3,910)   | (5,514)   |
| Net deferred origination costs                       | (6,386)   | (5,290)   |
| Net unrealized gain on available-for-sale securities | (2,827)   | —         |
| Other                                                | (1,607)   | (1,064)   |
| Total gross deferred tax liabilities                 | (15,172)  | (12,411)  |
| Deferred tax assets, net                             | \$ 19,524 | \$ 40,213 |

At December 31, 2002, management believed that it is more likely than not that the consolidated results of future operations of the Company will generate sufficient taxable income to realize the deferred tax assets of the Company. Therefore, a valuation allowance against the gross deferred tax assets is not considered necessary.

The Federal tax law was changed to eliminate the reserve method for calculating a bad debt deduction for tax years beginning after 1995. The Bank can continue to compute its New York State and New York City bad debt deduction using the reserve method (either the experience method (based on actual loss experience) or the percentage of taxable income method (32% of taxable income computed without regard to this deduction and with additional modifications and subject to an overall limitation)). The Bank's retained earnings at December 31, 2002 and December 31, 2001, included federal bad debt reserves of approximately \$17.8 million, for which no federal income tax liability has been recognized, approximately \$117.7 million and \$88.8 million, respectively, for which no New York State income tax liability has been recognized and approximately \$113.5 million and \$84.2 million, respectively, for which no New York City income tax liability has been recognized. These amounts are subject to recapture if the Bank either makes distributions in excess of earnings and profits; redeems its common stock; or no longer qualifies as a banking institution. In addition, the New York State and New York City bad debt reserve are subject to recapture if the Bank fails to meet certain definitional tests. The Bank does not expect such reserves to be recaptured into taxable income.

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## (15) Employee Benefit Plans

*Pension Plan*—The Bank's non-contributory pension plan with the RSI Retirement Trust covers substantially all full-time employees. The following table provides details of the changes in the actuarial present value of the benefit obligation and fair value of plan assets for the non-contributory plan for each of the years shown and a reconciliation, at the end of each year shown, of the funded status of the non-contributory plan with the net amount recognized in the consolidated statement of financial condition. The Bank uses a measurement date of September 30 for plan accounting purposes and, accordingly changes in benefit obligations and plan assets are shown for the twelve-month periods ended September 30, 2002 and 2001.

|                                                          | 2002     | 2001     |
|----------------------------------------------------------|----------|----------|
| <i>(In thousands)</i>                                    |          |          |
| Change in benefit obligation during the period:          |          |          |
| Benefit obligation at the beginning of the period        | \$40,940 | \$37,219 |
| Service cost                                             | 1,357    | 1,327    |
| Interest cost                                            | 3,060    | 2,969    |
| Actuarial loss                                           | 5,488    | 1,906    |
| Annuity payments                                         | (2,425)  | (2,186)  |
| Settlements                                              | (557)    | (295)    |
| Plan amendments                                          | 264      | —        |
| Benefit obligation at the end of the period              | 48,127   | 40,940   |
| Change in fair value of plan assets during the period:   |          |          |
| Fair value of plan assets at the beginning of the period | 36,880   | 43,792   |
| Actual return on plan assets                             | (4,323)  | (5,439)  |
| Employer contributions                                   | 16,280   | 1,008    |
| Annuity payments                                         | (2,425)  | (2,186)  |
| Settlements                                              | (557)    | (295)    |
| Fair value of plan assets at the end of the period       | 45,855   | 36,880   |
| Funded status at the end of the period                   | (2,272)  | (4,060)  |
| Unrecognized net actuarial loss                          | 20,331   | 7,259    |
| Unamortized prior service cost                           | 247      | (4)      |
| Net prepaid pension expense at the end of the period     | \$18,306 | \$ 3,195 |

The following table depicts the components of the net periodic pension expense for the years ended December 31, 2002, 2001 and 2000:

|                                         | 2002     | 2001     | 2000     |
|-----------------------------------------|----------|----------|----------|
| <i>(In thousands)</i>                   |          |          |          |
| Service cost                            | \$ 1,357 | \$ 1,327 | \$ 1,434 |
| Interest cost                           | 3,060    | 2,969    | 2,659    |
| Expected return on plan assets          | (3,641)  | (4,057)  | (3,628)  |
| Recognized loss                         | 381      | —        | —        |
| Amortization of prior service cost      | 12       | (3)      | (3)      |
| Curtailement credit                     | —        | —        | (476)    |
| Total periodic pension expense (credit) | \$ 1,169 | \$ 236   | \$ (14)  |

The assumptions used by the Company, as of each measurement date, relating to the plan during the years ended December 31, 2002, 2001 and 2000 were as follows:

|                                       | 2002  | 2001   | 2000  |
|---------------------------------------|-------|--------|-------|
| Assumed rate of return on assets      | 9.00% | 10.25% | 9.50% |
| Assumed rate of compensation increase | 4.00% | 4.00%  | 5.50% |
| Assumed discount rate                 | 6.75% | 7.50%  | 8.00% |

*Supplemental Plan*—Pursuant to the Merger in 1999, the Company assumed a non-qualified Supplemental Executive Retirement Plan (SERP) for certain former executives of T R Financial Corp. The actuarial present value of the accumulated benefit obligation at December 31, 2002 and 2001 was \$513,000 and \$2.0 million, respectively. At December 31, 2002 and 2001, the non-qualified SERP maintains \$477,000 and \$1.7 million, respectively, of trust held assets. In addition to the trust held assets at December 31, 2002 and 2001 the non-qualified SERP also holds \$6.0 million and \$4.5 million of the Company's common stock, respectively, at cost. This represents 548,800 shares and 553,080 shares of the Company's shares of common stock at December 31, 2002 and 2001, respectively, the cost of which is reflected as contra-equity in the accompanying consolidated statements of financial condition. Included in the employee benefit expense for the years ended December 31, 2002, 2001 and 2000 was \$211,000, \$219,000 and \$243,000, respectively, related to this obligation.

*401(k) Plan*—The Bank has a defined contribution and thrift savings plan (401(k) Plan) under Section 401(k) of the Internal Revenue Code. All regular, full-time employees are eligible for voluntary participation after one or more years of continuous service. The 401(k) Plan is effectuated through a trust established by the Bank. Commencing on January 10, 1997, the Bank makes matching contributions, of up to 6% of certain participants' eligible compensation, in the form of ESOP stock. Cash contributions under the 401(k) plan fully ceased, concurrent with the 2000 divestiture of RNMC. During the year ended December 31, 2000, the Bank made cash contributions of \$108,000.

*Employee Stock Ownership Plan*—The Bank maintains an ESOP which is a tax qualified retirement plan designed to invest primarily in the Company's common stock. All full-time employees of the Company who have completed one year of service with the Bank are eligible to participate in the ESOP. The ESOP borrowed funds from the Company to purchase approximately 8%, or 5,237,096 shares, of the Company's common stock. The Company makes contributions to the ESOP sufficient to cover all payments of principal and interest as they become due. For the years ended December 31, 2002, 2001 and 2000, the Company made contributions of \$1.3 million, \$3.3 million and \$3.0 million, respectively, to the ESOP. The ESOP utilized the contributions, along with the dividends received on the unallocated ESOP shares, which totaled \$2.3 million, \$2.1 million and \$1.4 million, to repay \$1.0 million, \$513,000 and \$552,000 of principal and \$2.6 million, \$4.9 million and \$4.4 million of interest on the loan during the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002 and 2001, the loan had an outstanding balance of \$50.2 million and \$51.2 million, respectively. The interest rate on the loan for the years ended December 31, 2002 and 2001 was 5.00% and 9.50%, respectively.

The remaining unallocated shares purchased with the ESOP loan proceeds are held in a suspense account by the trustee of the plan for future allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants on the basis of compensation as described in the ESOP. The number of shares released to participants is determined based upon the percentage of principal and interest payments made during the year divided by the total remaining principal and interest payments including the current year's payment. Participants will vest in the shares allocated to their respective accounts over a period not to exceed five years. Any forfeited shares are allocated to the then remaining participants in the same proportion as contributions. As of December 31, 2002, 2001 and 2000, 1,123,866 shares, 952,481 shares and 781,096 shares, respectively, have been allocated to participants and 4,113,229 shares, 4,284,614 shares and 4,455,999 shares, respectively remained unallocated. Included in the shares allocated to participants during the years ended December 31, 2002, 2001 and 2000, were approximately 43,000 shares, 45,000 shares and 55,500 shares, respectively, allocated utilizing the matching contribution formula under the 401(k) Plan. For the years ended December 31, 2002, 2001, and 2000, the Company recognized \$3.4 million, \$3.0 million and \$2.2 million, respectively, as compensation expense. At December 31, 2002, the fair value of the unallocated ESOP shares totaled \$74.2 million.

*Stock-Based Incentive Plans*—In prior years, the Company received shareholder approval for the granting of options to purchase the Company's common stock and option-related awards (collectively, Options) and awards of the Company's common stock (Restricted Stock Awards, and, together with Options, Awards) under The Roslyn Bancorp, Inc. 2001 Stock-Based Incentive Plan (the 2001 Incentive Plan) and The Roslyn Bancorp, Inc. 1997 Stock-Based Incentive Plan (the 1997 Incentive Plan, and, together with the 2001 Incentive Plan, the Incentive Plans). All officers, other employees and outside directors of the Company and its affiliates, including the Bank and its subsidiaries, are eligible to receive Awards under the Incentive Plans.

The Incentive Plans are administered by a committee of non-employee directors of the Company. Authorized but unissued shares, or shares previously issued and reacquired by the Company, may be used to satisfy Awards under either of the Incentive Plans. Options granted under the Incentive Plans must be exercised no more than ten years from the date of grant. Options may become fully exercisable and Restricted Stock Awards may become fully vested upon the occurrence of a change in control of the Company, or upon death, disability or retirement of the recipient.

Subject to certain adjustments to prevent dilution of Awards to participants, the 2001 Incentive Plan authorized the Company to grant Awards of up to 3,750,000 shares. The maximum number of shares reserved for grants of Restricted Stock Awards is 750,000 shares, and maximum number of shares that may be granted as Options is 3,000,000 shares, plus any or all of the remaining 750,000 shares that are not used for Restricted Stock Awards.

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Subject to certain adjustments to prevent dilution of Awards to participants, the 1997 Incentive Plan authorized the Company to grant Awards of up to 9,162,666 shares. The maximum number of shares that may be granted as Restricted Stock Awards is 2,616,297 shares, and the maximum number of the shares that may be granted as Options is 6,546,369 shares.

The Company contributed \$181,000 and \$265,000 during the years ended December 31, 2002 and 2001, respectively, to the 2001 Incentive Plan to enable the plan to purchase 10,000 shares and 15,000 shares, respectively, of the Company's common stock to be awarded.

During the years ended December 31, 2002 and 2001, the Company granted, under the Incentive Plans, Restricted Stock Awards in amounts equal to 30,734 shares and 15,000 shares, respectively, of the Company's common stock. These Restricted Stock Awards included 22,500 shares and 15,000 shares that immediately vested. The remaining Restricted Stock Awards issued during the year ended December 31, 2002 vest over a one- to four-year period. The prices at which these Awards were granted ranged from \$16.79 to \$20.36 per share for the year ended December 31, 2002 and were \$17.68 per share for the year ended December 31, 2001.

During the year ended December 31, 2002, plan participants in the Incentive Plans vested in 504,155 shares, and forfeited 12,851 shares, under previous Restricted Stock Awards, which included 11,241 shares that related to Awards with vesting based on the achievement of certain defined performance targets. For the years ended December 31, 2002, 2001 and 2000, compensation expense attributable to Restricted Stock Awards under the Incentive Plans was \$5.8 million, \$6.3 million and \$5.1 million, respectively.

The number of Options granted under the Incentive Plans totaled 507,860 shares and 3,253,525 shares, respectively, for the years ended December 31, 2002 and 2001, all of which will generally vest over a four- to five-year period. Options granted under both the 2001 and 1997 Incentive Plans are either non-statutory or incentive stock options. Each option entitles the holder to purchase one share of the Company's common stock at an exercise price equal to the fair market value on the date of grant. All options expire no later than ten years following the date of grant. Option transactions for the years ended December 31, 2002, 2001 and 2000 are shown below:

|                                          | Number of<br>Options | Weighted Average<br>Exercise Price |
|------------------------------------------|----------------------|------------------------------------|
| Options outstanding at December 31, 1999 | 9,329,734            | \$11.05                            |
| Granted                                  | 237,750              | 11.59                              |
| Exercised                                | (1,007,967)          | 4.71                               |
| Forfeited                                | (488,198)            | 13.22                              |
| Expired                                  | —                    | —                                  |
| Options outstanding at December 31, 2000 | 8,071,319            | 11.72                              |
| Granted                                  | 3,253,525            | 18.38                              |
| Exercised                                | (632,382)            | 9.20                               |
| Forfeited                                | (60,573)             | 15.66                              |
| Expired                                  | —                    | —                                  |
| Options outstanding at December 31, 2001 | 10,631,889           | 13.89                              |
| Granted                                  | 507,860              | 19.89                              |
| Exercised                                | (1,747,944)          | 8.05                               |
| Forfeited                                | (41,933)             | 15.36                              |
| Expired                                  | —                    | —                                  |
| Options outstanding at December 31, 2002 | 9,349,872            | 15.30                              |

The following table summarizes information related to stock options outstanding under the 2001 and 1997 Incentive Plans at December 31, 2002:

| Options Outstanding      |                                 |                   |                                                        |                     |
|--------------------------|---------------------------------|-------------------|--------------------------------------------------------|---------------------|
| Range of Exercise Prices | Weighted Average Exercise Price | Number of Options | Weighted Average Remaining Contractual Life (In years) | Options Exercisable |
| \$ 1.47- 1.47            | \$ 1.47                         | 471,499           | 0.49                                                   | 471,499             |
| 5.50- 5.61               | 5.51                            | 253,995           | 4.08                                                   | 253,995             |
| 9.60-10.75               | 9.63                            | 245,851           | 5.12                                                   | 241,351             |
| 11.21-12.00              | 11.73                           | 138,220           | 6.22                                                   | 87,220              |
| 13.30-14.67              | 14.66                           | 278,000           | 5.15                                                   | 197,750             |
| 15.00-15.00              | 15.00                           | 4,215,977         | 4.67                                                   | 4,215,977           |
| 15.71-16.79              | 16.46                           | 28,115            | 8.40                                                   | 6,000               |
| 17.17-17.71              | 17.64                           | 214,750           | 9.08                                                   | 4,000               |
| 18.40-18.40              | 18.40                           | 3,195,970         | 8.48                                                   | 826,334             |
| 21.35-21.87              | 21.36                           | 307,495           | 9.48                                                   | —                   |
|                          |                                 | <u>9,349,872</u>  |                                                        | <u>6,304,126</u>    |

Exercisable stock options outstanding at December 31, 2002 and 2001 were 6,304,126 shares and 6,023,994 shares, respectively, with weighted average exercisable prices of \$13.79 per share and \$11.27 per share, respectively.

(16) Post-retirement Health Care and Life Insurance Benefits

The Bank currently provides health care and life insurance benefits for retirees and their eligible dependents. The coverage provided depends upon an eligible individuals date of retirement. The cost of the Bank's post-retirement health care and life insurance benefits is recognized in the consolidated financial statements during the employee's active working career. The following table provides details of the changes in the benefit obligation and fair value of plan assets for the plans and a reconciliation of the funded status of the plans with the net amount recognized in the consolidated statement of financial condition at or as of December 31, 2002 and 2001:

|                                                             | 2002             | 2001              |
|-------------------------------------------------------------|------------------|-------------------|
| <i>(In thousands)</i>                                       |                  |                   |
| Change in benefit obligation during the year:               |                  |                   |
| Benefit obligation at beginning of the year                 | \$ 8,794         | \$10,031          |
| Service cost                                                | 9                | 26                |
| Interest cost                                               | 639              | 669               |
| Actuarial gain                                              | (471)            | (27)              |
| Premiums/claims paid                                        | (502)            | (490)             |
| Plan amendments                                             | —                | (1,372)           |
| Curtailments                                                | —                | (43)              |
| Benefit obligation at end of year                           | 8,469            | 8,794             |
| Change in fair value of plan assets during the year:        |                  |                   |
| Fair value of plan assets at beginning of the year          | —                | —                 |
| Employer contributions                                      | 502              | 490               |
| Premiums/claims paid                                        | (502)            | (490)             |
| Fair value of plan assets at the end of the year            | —                | —                 |
| Funded status at the end of the year                        | (8,469)          | (8,794)           |
| Unrecognized net actuarial gain                             | (901)            | (430)             |
| Unamortized prior service cost                              | (122)            | (611)             |
| Accrued post-retirement benefit cost at the end of the year | <u>\$(9,492)</u> | <u>\$ (9,835)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

The assumptions used by the Company relating to the plans for the years ended December 31, 2002, 2001 and 2000 were as follows:

|                                         | 2002  | 2001  | 2000  |
|-----------------------------------------|-------|-------|-------|
| Assumed ultimate medical trend          | 4.50% | 4.50% | 5.00% |
| Assumed current medical trend           | 9.00% | 9.00% | 6.00% |
| Assumed salary scale for life insurance | 4.00% | 4.00% | 5.50% |
| Assumed discount rate                   | 6.75% | 7.50% | 8.00% |

Net periodic post-retirement benefit cost included in compensation and employee benefits in the accompanying consolidated statements of income for the years ended December 31, 2002, 2001 and 2000 is comprised of the following components:

|                                    | 2002   | 2001   | 2000  |
|------------------------------------|--------|--------|-------|
| <i>(In thousands)</i>              |        |        |       |
| Service cost                       | \$ 9   | \$ 26  | \$197 |
| Interest cost                      | 639    | 669    | 648   |
| Recognized gain                    | —      | —      | (48)  |
| Amortization of prior service cost | (488)  | (488)  | 31    |
| Net periodic benefit cost          | \$ 160 | \$ 207 | \$828 |

For measurement purposes, the annual rate of increase in the per capita cost of covered benefits (health care cost trend rates) will have a significant effect on the estimate of the accumulated post-retirement benefit obligation and the aggregate service and interest cost components of the net periodic post-retirement benefit cost. Increasing the annual health care trend rates by 1.0% in each year would increase both the accumulated post-retirement benefit obligation by \$437,000 and the aggregated related service and interest cost by \$40,000 at December 31, 2002. A 1.0% decrease in the assumed health care trend rates would decrease both the accumulated post-retirement benefit obligation by \$417,000 and the aggregate related service and interest cost by \$38,000 at December 31, 2002.

(17) Disclosures About Fair Value of Financial Instruments

The Company, under SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," is required to disclose the fair value of its on- and off-balance sheet financial instruments. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from a second entity on potentially favorable or unfavorable terms. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.



The following table at December 31, 2002 and 2001 represents the carrying amounts and estimated fair values of the Company's financial instruments:

|                                                                         | 2002            |                      | 2001            |                      |
|-------------------------------------------------------------------------|-----------------|----------------------|-----------------|----------------------|
|                                                                         | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| <i>(In thousands)</i>                                                   |                 |                      |                 |                      |
| Financial assets:                                                       |                 |                      |                 |                      |
| Cash and cash equivalents and money market investments                  | \$ 170,989      | \$ 170,989           | \$ 102,825      | \$ 102,825           |
| Debt securities held-to-maturity, net                                   | 374,763         | 377,393              | —               | —                    |
| Debt and equity securities available-for-sale, net                      | 1,520,187       | 1,520,187            | 1,004,728       | 1,004,728            |
| Mortgage-backed and mortgage related securities available-for-sale, net | 5,418,706       | 5,418,706            | 3,560,854       | 3,560,854            |
| Federal Home Loan Bank of New York stock                                | 97,040          | 97,040               | 109,870         | 109,870              |
| Loans held-for-sale                                                     | 11,636          | 11,602               | 9,364           | 9,405                |
| Loans receivable held for investment, net                               | 3,113,265       | 3,181,369            | 3,656,526       | 3,762,135            |
| Accrued interest receivable                                             | 58,268          | 58,268               | 50,550          | 50,550               |
| Financial liabilities:                                                  |                 |                      |                 |                      |
| Deposit liabilities:                                                    |                 |                      |                 |                      |
| Certificates of deposit (CDs)                                           | 3,129,469       | 3,176,626            | 2,756,737       | 2,781,312            |
| Deposits, excluding CDs                                                 | 2,581,381       | 2,581,381            | 1,730,030       | 1,730,030            |
| Borrowed funds                                                          | 4,519,147       | 4,624,561            | 3,520,295       | 3,458,039            |
| Accrued interest payable and dividends                                  | 28,067          | 28,067               | 27,475          | 27,475               |

The carrying amounts in the table are included in the consolidated statements of condition under the indicated captions. The following summarizes the major methods and assumptions used in estimating the fair values of the financial instruments:

*Cash and cash equivalents and money market investments*—The carrying amounts for cash and cash equivalents and money market investments approximate fair value as they mature in 30 days or less and do not present unanticipated credit concerns.

*Securities*—The fair values of debt, equity, mortgage-backed and mortgage related securities are estimated based on bid quotations received from security dealers or from prices obtained from firms specializing in providing security pricing services.

*Federal Home Loan Bank of New York stock*—The fair value of Federal Home Loan Bank of New York stock approximates the carrying amount, which is at cost.

*Loans held-for-sale*—Fair value is estimated based on current prices established for those loans committed to be sold based upon the prices established in the applicable commitments.

*Loans receivable held for investment, net*—Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, such as commercial real estate and residential mortgage. Each loan category is further segmented into fixed- and adjustable-rate interest terms and by performing and non-performing categories. For performing residential mortgage loans, fair values are estimated by discounting contractual cash flows through the estimated maturity using discount rates and prepayment estimates based on secondary market sources adjusted to reflect differences in servicing and credit costs. The estimated fair value of remaining performing loans is calculated by discounting scheduled cash flows using estimated market discount rates that reflect the credit and interest rate risks inherent in the loan. Fair values for non-performing real estate loans are based on recent appraisals.

*Accrued interest receivable*—The fair value of the accrued interest receivable is estimated to be the book value since it is currently due.

*Deposit liabilities*—All deposits, except certificates of deposit, are subject to rate changes at any time, and, therefore, are considered to be carried at estimated fair value. The fair value of certificates of deposit is estimated by computing the present value of contractual future cash flows for each certificate. The present value rate utilized is the rate offered by the Company at each date presented on certificates with an initial maturity equal to the remaining term to maturity of the existing certificates.

*Borrowed funds*—The estimated fair value of borrowed funds is based on the discounted value of contractual cash flows using interest rates currently in effect for borrowings with similar maturities and collateral requirements.

*Accrued interest payable and dividends*—The fair value of the accrued interest and dividends on deposit balances are estimated to be their book value since they are currently payable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

*Limitations*—SFAS No. 107 requires disclosures of the estimated fair value of financial instruments. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering a one-time sale of the Company's entire holdings of a particular financial instrument nor the resultant tax ramifications or transaction costs. Since no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing 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. For example, the Company conducts mortgage servicing activities that contributed fee income annually. Mortgage servicing activities are not considered financial instruments and as such their value has not been incorporated into the fair value estimates. Other significant assets of the Company that are not considered financial assets include banking house and equipment and deferred tax assets. In addition, the tax ramifications related to the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered.

*Commitments*—The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and commitments to sell loans at specified prices, fair value also considers the difference between current levels of interest rates and the committed rates. The estimated fair value of commitments did not result in an unrealized gain or loss at December 31, 2002 and 2001.

## (18) Earnings Per Share

The following table is the reconciliation of basic and diluted EPS for the years ended December 31, 2002, 2001 and 2000:

|                                                           | 2002       |             | 2001       |             | 2000       |             |
|-----------------------------------------------------------|------------|-------------|------------|-------------|------------|-------------|
|                                                           | Basic EPS  | Diluted EPS | Basic EPS  | Diluted EPS | Basic EPS  | Diluted EPS |
| <i>(In thousands, except share and per share amounts)</i> |            |             |            |             |            |             |
| Income available to common stockholders                   | \$ 146,406 | \$ 146,406  | \$ 111,243 | \$ 111,243  | \$ 89,899  | \$ 89,899   |
| Total weighted average basic common shares outstanding    | 79,024,610 | 79,024,610  | 85,703,714 | 85,703,714  | 93,746,786 | 93,746,786  |
| Effect of dilutive securities:                            |            |             |            |             |            |             |
| Options                                                   | —          | 1,497,077   | —          | 1,531,250   | —          | 1,047,115   |
| Total weighted average diluted common shares outstanding  | 79,024,610 | 80,521,687  | 85,703,714 | 87,234,964  | 93,746,786 | 94,793,901  |
| Net income per common share                               | \$ 1.85    | \$ 1.82     | \$ 1.30    | \$ 1.28     | \$ 0.96    | \$ 0.95     |

Options to purchase 307,497 shares, 3,200,472 shares and 3,817,796 shares of the Company's common stock as of December 31, 2002, 2001 and 2000, respectively, were not included in the computation of diluted EPS as those options' exercise prices exceeded the average market price of the Company's common stock for the respective year ended.

## (19) Commitments and Contingencies

In the normal course of the Company's business, there are outstanding various commitments and contingent liabilities that have not been reflected in the consolidated statements of financial condition. In the opinion of management, the financial condition of the Company will not be affected materially as a result of such commitments and contingent liabilities.

In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the financial condition, results of operations and liquidity of the Company will not be affected materially by the outcome of such legal proceedings.

The Bank's outstanding loan and standby letters of credit commitments as of December 31, 2002 are as follows:

| Type                                | Amount           |
|-------------------------------------|------------------|
| <i>(In thousands)</i>               |                  |
| One- to four-family                 | \$ 79,794        |
| Commercial real estate/multi-family | 115,893          |
| Construction and development        | 135,739          |
| Consumer                            | 17,650           |
| Home equity lines of credit         | 79,817           |
| Standby letters of credit           | 19,866           |
|                                     | <u>\$448,759</u> |

Included in outstanding loan commitments at December 31, 2002 are \$8.0 million of performance standby letters of credit with approximate terms of one year. These performance standby letters of credit were issued primarily for the benefit of local municipalities on behalf of certain of the Bank's borrowers. These borrowers have a current relationship with the Bank and are primarily residential subdivision borrowers. Performance standby letters of credit obligate the Bank to make payments in the event a specified third party fails to perform under non-financial contractual obligations. Also included in outstanding loan commitments at December 31, 2002 were \$11.9 million of financial standby letters of credit with approximate terms of one- to three-years. These financial standby letters of credit were issued primarily for the benefit of other financial institutions, on behalf of certain of the Bank's current borrowers. Financial standby letters of credit obligate the Bank to guarantee payment of a specified financial obligation. The Bank collects a fee upon the issuance of performance and financial standby letters of credit.

At December 31, 2002, the Company had no outstanding commitments to sell loans.

In the normal course of business, the Company enters into commitments to purchase securities. As of December 31, 2002, the Company had \$809.3 million in commitments to purchase mortgage-backed securities.

At December 31, 2002 and 2001, the Company had no available lines of credit with banks or any other institutions, except as disclosed in Note 11 to Notes to Consolidated Financial Statements.

The Company's future minimum rental payments required under non-cancelable operating leases for office space and equipment as of December 31, 2002 are as follows:

| Years Ending December 31, | Amount           |
|---------------------------|------------------|
| <i>(In thousands)</i>     |                  |
| 2003                      | \$ 5,777         |
| 2004                      | 5,910            |
| 2005                      | 6,074            |
| 2006                      | 6,106            |
| 2007                      | 6,109            |
| Thereafter                | 40,639           |
|                           | <u>\$ 70,615</u> |

Total rent expense for the years ended December 31, 2002, 2001 and 2000 was \$4.6 million, \$4.2 million and \$4.1 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

## (20) Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the institutions' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), the institution must meet specific capital guidelines that involve quantitative measures of the institution's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The institution's capital amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the institution to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, at December 31, 2002, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2002, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for PCA. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios of 10.0%, 6.0% and 5.0%, respectively. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual capital amounts and ratios are presented for the Bank in the following table for the years ended December 31, 2002 and 2001:

|                                                         | 2002      |                   | 2001      |                   |
|---------------------------------------------------------|-----------|-------------------|-----------|-------------------|
|                                                         | Amount    | Percent of Assets | Amount    | Percent of Assets |
| <i>(Dollars in thousands)</i>                           |           |                   |           |                   |
| GAAP capital (to total assets)                          | \$592,734 | 5.50%             | \$444,635 | 5.23%             |
| Leverage capital (to adjusted average assets):          |           |                   |           |                   |
| Actual level                                            | \$575,374 | 5.28%             | \$449,371 | 5.46%             |
| Capital adequacy requirement                            | \$326,614 | 3.00%             | \$246,896 | 3.00%             |
| Requirement to be well capitalized under PCA provisions | \$544,356 | 5.00%             | \$411,493 | 5.00%             |
| Tier I capital (to risk-weighted assets):               |           |                   |           |                   |
| Actual level                                            | \$575,374 | 12.21%            | \$449,371 | 10.25%            |
| Capital adequacy requirement                            | \$188,551 | 4.00%             | \$175,373 | 4.00%             |
| Requirement to be well capitalized under PCA provisions | \$282,826 | 6.00%             | \$263,060 | 6.00%             |
| Total capital (to risk-weighted assets):                |           |                   |           |                   |
| Actual level                                            | \$619,644 | 13.15%            | \$490,005 | 11.18%            |
| Capital adequacy requirement                            | \$377,101 | 8.00%             | \$350,746 | 8.00%             |
| Requirement to be well capitalized under PCA provision  | \$471,377 | 10.00%            | \$438,433 | 10.00%            |

(21) Parent-Only Financial Information

The earnings of the subsidiaries, primarily the Bank, are recognized by the Holding Company using the equity method of accounting. Accordingly, the earnings of the subsidiaries are recorded as increases in the Holding Company's investment in subsidiaries.

The condensed statements of financial condition at December 31, 2002 and 2001 are as follows:

|                                                                              | 2002      | 2001      |
|------------------------------------------------------------------------------|-----------|-----------|
| <i>(In thousands)</i>                                                        |           |           |
| Assets:                                                                      |           |           |
| Cash and cash equivalents                                                    | \$ 14,694 | \$ 1,973  |
| Securities available-for-sale, net:                                          |           |           |
| Mortgage-backed and mortgage related securities, net                         | 137       | 235       |
| Equity securities, net (securities pledged of \$13,450 at December 31, 2001) | 168,026   | 201,989   |
| Total securities available-for-sale                                          | 168,163   | 202,224   |
| Investment in subsidiaries                                                   | 638,941   | 476,578   |
| ESOP loan receivable                                                         | 50,165    | 51,238    |
| Deferred tax asset, net                                                      | 8,695     | 15,633    |
| Accrued interest receivable                                                  | 8,879     | 6,645     |
| Income taxes receivable                                                      | 3,660     | 3,364     |
| Receivable from subsidiary                                                   | 1,833     | —         |
| Other assets                                                                 | 6,831     | 6,244     |
| Total assets                                                                 | \$901,861 | \$763,899 |
| Liabilities and Stockholders' Equity:                                        |           |           |
| Reverse-repurchase agreements                                                | \$ —      | \$ 8,936  |
| Senior notes                                                                 | 189,759   | 75,000    |
| Junior subordinated debentures                                               | 64,949    | —         |
| Accrued interest payable                                                     | 2,240     | 673       |
| Payable to subsidiary                                                        | —         | 37,233    |
| Other liabilities                                                            | 68,399    | 73,089    |
| Total stockholders' equity                                                   | 576,514   | 568,968   |
| Total liabilities and stockholders' equity                                   | \$901,861 | \$763,899 |

The condensed statements of income for the years ended December 31, 2002, 2001 and 2000 are as follows:

|                                                                                                   | 2002      | 2001      | 2000       |
|---------------------------------------------------------------------------------------------------|-----------|-----------|------------|
| <i>(In thousands)</i>                                                                             |           |           |            |
| Dividends received from subsidiaries                                                              | \$ 31,500 | \$140,965 | \$ 186,518 |
| Interest income                                                                                   | 22,769    | 22,693    | 20,314     |
| Net losses on securities                                                                          | (1,133)   | (2,909)   | (2,024)    |
| Other income                                                                                      | 106       | 37        | 443        |
|                                                                                                   | 53,242    | 160,786   | 205,251    |
| Interest expense                                                                                  | 10,785    | 2,393     | 5,310      |
| Junior subordinated debt                                                                          | 2,958     | —         | —          |
| Employee benefit plan settlement gain                                                             | —         | —         | 3,518      |
| Other operating expenses                                                                          | 5,279     | 3,237     | 1,154      |
| Income before income taxes and equity in undistributed (overdistributed) earnings of subsidiaries | 34,220    | 155,156   | 202,305    |
| Income tax expense                                                                                | 860       | 5,956     | 1,020      |
| Income before equity in undistributed (overdistributed) earnings of subsidiaries                  | 33,360    | 149,200   | 201,285    |
| Equity in undistributed (overdistributed) earnings of subsidiaries                                | 113,046   | (37,957)  | (111,386)  |
| Net income                                                                                        | \$146,406 | \$111,243 | \$ 89,899  |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

The condensed statements of cash flows for the years ended December 31, 2002, 2001 and 2000 are as follows:

|                                                                                   | 2002       | 2001       | 2000      |
|-----------------------------------------------------------------------------------|------------|------------|-----------|
| <i>(In thousands)</i>                                                             |            |            |           |
| Operating activities:                                                             |            |            |           |
| Net income                                                                        | \$ 146,406 | \$ 111,243 | \$ 89,899 |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |           |
| Equity in (undistributed) overdistributed earnings of subsidiaries                | (113,046)  | 37,957     | 111,386   |
| Amortization of premiums and accretion of discounts, net                          | 1,239      | 339        | 776       |
| Decrease (increase) in deferred taxes                                             | 1,027      | 3,088      | (2,222)   |
| Decrease (increase) in other assets                                               | 413        | (5,193)    | 1,576     |
| Increase in accrued interest receivable                                           | (2,234)    | (1,644)    | (1,722)   |
| Net losses on securities                                                          | 1,133      | 2,909      | 2,024     |
| Increase (decrease) in accrued interest payable                                   | 1,567      | (3,426)    | 3,712     |
| (Decrease) increase in accrued taxes payable                                      | —          | (1,936)    | 1,936     |
| Decrease in other liabilities                                                     | (4,690)    | (3,246)    | (12,822)  |
| Other                                                                             | 1,510      | —          | —         |
| Net cash provided by operating activities                                         | 33,325     | 140,091    | 194,543   |
| Investing activities:                                                             |            |            |           |
| Purchases of securities of securities available-for-sale                          | (292)      | (41,863)   | (25,332)  |
| Proceeds from sales and repayments of securities available-for-sale               | 44,867     | 30,772     | 38,035    |
| Principal and interest from mortgage-backed securities                            | 77         | —          | —         |
| Investment in subsidiaries                                                        | (27,079)   | (61)       | (25,823)  |
| Principal payment on ESOP loan receivable                                         | 1,073      | 513        | 552       |
| Net cash provided by (used in) investing activities                               | 18,646     | (10,639)   | (12,568)  |
| Financing activities:                                                             |            |            |           |
| Cost to repurchase treasury, SERP and SBIP stock                                  | (122,234)  | (106,571)  | (190,162) |
| (Decrease) increase in reverse-repurchase agreements                              | (8,936)    | (57,394)   | 66,330    |
| Net proceeds from issuance of senior notes                                        | 113,948    | 73,875     | —         |
| Net proceeds from issuance junior subordinated debentures                         | 64,284     | —          | —         |
| (Decrease) increase in payable to subsidiary                                      | (21,299)   | 4,159      | (8,326)   |
| Net cash used in exercise of stock options                                        | (23,126)   | (6,091)    | (7,795)   |
| Cash dividends paid on common stock                                               | (41,887)   | (39,785)   | (38,049)  |
| Net cash used in financing activities                                             | (39,250)   | (131,807)  | (178,002) |
| Net increase (decrease) in cash and cash equivalents                              | 12,721     | (2,355)    | 3,973     |
| Cash and cash equivalents at beginning of year                                    | 1,973      | 4,328      | 355       |
| Cash and cash equivalents at end of year                                          | \$ 14,694  | \$ 1,973   | \$ 4,328  |

## QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

|                                                      | For the Year Ended December 31, 2002 |           |           |           | For the Year Ended December 31, 2001 |           |           |           |
|------------------------------------------------------|--------------------------------------|-----------|-----------|-----------|--------------------------------------|-----------|-----------|-----------|
|                                                      | 12/31/02                             | 9/30/02   | 6/30/02   | 3/31/02   | 12/31/01                             | 9/30/01   | 6/30/01   | 3/31/01   |
| <i>(In thousands, except per share data)</i>         |                                      |           |           |           |                                      |           |           |           |
| Interest income                                      | \$156,695                            | \$153,150 | \$151,513 | \$140,932 | \$135,361                            | \$143,465 | \$143,624 | \$139,465 |
| Interest expense                                     | 82,395                               | 83,878    | 81,510    | 76,433    | 77,042                               | 86,622    | 89,747    | 88,279    |
| Net interest income before provision for loan losses | 74,300                               | 69,272    | 70,003    | 64,499    | 58,319                               | 56,843    | 53,877    | 51,186    |
| Provision for loan losses                            | 750                                  | 750       | 750       | 750       | 500                                  | 250       | 100       | —         |
| Net interest income after provision for loan losses  | 73,550                               | 68,522    | 69,253    | 63,749    | 57,819                               | 56,593    | 53,777    | 51,186    |
| Non-interest income:                                 |                                      |           |           |           |                                      |           |           |           |
| Fees and service charges                             | 4,460                                | 4,167     | 4,497     | 3,767     | 3,609                                | 2,928     | 3,453     | 2,099     |
| Net gains (losses) on securities                     | 10,140                               | 52        | 15        | 50        | (11)                                 | 2,051     | 1,687     | —         |
| Income from bank owned life insurance                | 1,812                                | 1,813     | 1,883     | 1,971     | 1,974                                | 1,971     | 1,916     | 1,852     |
| Joint venture income                                 | 3,636                                | 3,661     | 5,234     | 4,963     | 4,984                                | 1,274     | —         | —         |
| Other non-interest income                            | 493                                  | 496       | 414       | 181       | 807                                  | 553       | 497       | 516       |
| Total non-interest income                            | 20,541                               | 10,189    | 12,043    | 10,932    | 11,363                               | 8,777     | 7,553     | 4,467     |
| Non-interest expense:                                |                                      |           |           |           |                                      |           |           |           |
| General and administrative expenses                  | 23,496                               | 21,867    | 23,184    | 23,201    | 22,363                               | 20,052    | 19,226    | 18,018    |
| Amortization of intangible assets                    | 31                                   | 32        | 32        | 31        | 32                                   | 31        | 32        | 31        |
| Capital trust securities                             | 870                                  | 954       | 943       | 124       | —                                    | —         | —         | —         |
| Prepayment penalties on debt extinguishments         | 7,331                                | —         | —         | —         | 1,199                                | 3,118     | 4,020     | —         |
| Real estate operations, net                          | 10                                   | 8         | (9)       | (74)      | 25                                   | 3         | (28)      | 9         |
| Total non-interest expense                           | 31,738                               | 22,861    | 24,150    | 23,282    | 23,619                               | 23,204    | 23,250    | 18,058    |
| Income before provision for income taxes             | 62,353                               | 55,850    | 57,146    | 51,399    | 45,563                               | 42,166    | 38,080    | 37,595    |
| Provision for income taxes                           | 22,264                               | 19,858    | 20,405    | 17,815    | 15,126                               | 13,672    | 11,095    | 12,268    |
| Net income                                           | \$ 40,089                            | \$ 35,992 | \$ 36,741 | \$ 33,584 | \$ 30,437                            | \$ 28,494 | \$ 26,985 | \$ 25,327 |
| Basic earnings per share                             | \$ 0.52                              | \$ 0.46   | \$ 0.46   | \$ 0.42   | \$ 0.37                              | \$ 0.33   | \$ 0.31   | \$ 0.29   |
| Diluted earnings per share                           | \$ 0.51                              | \$ 0.45   | \$ 0.45   | \$ 0.41   | \$ 0.36                              | \$ 0.33   | \$ 0.31   | \$ 0.28   |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Roslyn Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Roslyn Bancorp, Inc. and subsidiaries as of December 31, 2002 and 2001 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, 2002. 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 auditing standards generally accepted in the United States of America. 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 Roslyn Bancorp, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York  
January 22, 2003



Roslyn Bancorp, Inc. 2002 Annual Report  
**MARKET PRICE OF COMMON STOCK**

Roslyn Bancorp, Inc. common stock is traded on the NASDAQ national market under the symbol "RSLN." The following table shows the reported high, low and closing sales price of the Company's common stock during the periods indicated in 2002 and 2001, as reported by Bloomberg L.P.:

|             | 2002    |         |         | 2001    |         |         |
|-------------|---------|---------|---------|---------|---------|---------|
|             | High    | Low     | Closing | High    | Low     | Closing |
| 1st Quarter | \$20.70 | \$17.66 | \$20.70 | \$17.67 | \$14.67 | \$15.00 |
| 2nd Quarter | 24.01   | 20.75   | 21.83   | 18.61   | 14.50   | 17.53   |
| 3rd Quarter | 22.93   | 16.86   | 17.41   | 22.38   | 15.92   | 18.51   |
| 4th Quarter | 18.81   | 15.46   | 18.03   | 19.88   | 16.50   | 17.50   |

As of February 25, 2003, the Company had 7,946 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. There were 80,752,923 shares of common stock outstanding at December 31, 2002.

The following schedule summarizes the cash dividends paid per common share for the years ended December 31, 2002 and 2001:

| Record Date      | Dividend Payment Date | Dividend Paid Per Share |
|------------------|-----------------------|-------------------------|
| March 11, 2002   | March 20, 2002        | \$0.1250                |
| May 30, 2002     | June 11, 2002         | 0.1300                  |
| August 30, 2002  | September 12, 2002    | 0.1350                  |
| December 6, 2002 | December 19, 2002     | 0.1400                  |
| March 5, 2001    | March 13, 2001        | \$0.1100                |
| June 4, 2001     | June 15, 2001         | 0.1133                  |
| August 31, 2001  | September 12, 2001    | 0.1167                  |
| December 7, 2001 | December 18, 2001     | 0.1200                  |

See Note 13 to Notes to Consolidated Financial Statements for a discussion of the restrictions that apply to the Company's ability to pay dividends.

CORPORATE INFORMATION

Roslyn Bancorp, Inc.

Executive Offices  
One Jericho Plaza  
Jericho, NY 11753

Directors

Victor C. McCuaig  
Formerly Of Counsel  
Farrell Fritz, P.C.

James E. Swiggett  
Retired Chairman, President and  
Chief Executive Officer  
Kollmorgen Corp.

Joseph L. Mancino  
Vice Chairman, President and  
Chief Executive Officer  
Roslyn Bancorp, Inc.

Thomas J. Calabrese, Jr.  
Vice President  
Daniel Gale Agency

Dr. Edwin W. Martin, Jr.  
Former Assistant United States  
Secretary of Education  
Former President and Chief Executive  
Officer—National Center for Disability  
Services

Richard C. Webel  
Chairman and President,  
Environmental News Network  
Managing Director, Innocenti & Webel

John R. Bransfield, Jr.  
Vice Chairman  
Roslyn Bancorp, Inc.

Thomas A. Doherty  
Chief Administrative Officer  
First Quality Enterprises, Inc.

John M. Tsimbinos  
Chairman  
Roslyn Bancorp, Inc.

Maureen E. Clancy  
Secretary-Treasurer  
Clancy & Clancy Brokerage

Leonard Genovese  
Former President and  
Chief Executive Officer  
Genovese Drug Stores, Inc.

Spiros J. Voutsinas  
President  
Omega Capital, Inc.

Directors Emeritus

Floyd N. York  
John P. Nicholson

Officers of Roslyn Bancorp, Inc.

John M. Tsimbinos  
Chairman

Joseph L. Mancino  
Vice Chairman, President and  
Chief Executive Officer

John R. Bransfield, Jr.  
Vice Chairman

Michael P. Puorro  
Treasurer and Chief Financial Officer

R. Patrick Quinn  
Corporate Secretary

Richard F. Schneider  
Assistant Secretary

Officers of The Roslyn Savings Bank

Joseph L. Mancino  
Chairman and Chief Executive Officer

John R. Bransfield, Jr.  
President and Chief Operating Officer

John L. Klag  
Executive Vice President and  
Investment Officer

Nancy C. MaKenzie  
Executive Vice President and  
Chief Information Officer

Mary Ellen McKinley  
Executive Vice President and  
Human Resources Officer

Daniel L. Murphy  
Executive Vice President and  
Retail Banking Officer

Michael P. Puorro  
Executive Vice President and  
Chief Financial Officer

R. Patrick Quinn  
Executive Vice President,  
General Counsel and  
Corporate Secretary

Annual Meeting

The Annual Meeting of shareholders will be held May 20, 2003 at 9:30 a.m. at the Huntington Town House located at 124 East Jericho Turnpike, Huntington Station, New York 11746. Notice of the meeting, a proxy statement and proxy form is included with this mailing to shareholders of record as of April 2, 2003.

Independent Auditor

KPMG LLP  
757 Third Avenue  
New York, NY 10017

Shareholder Services

Shareholder inquiries regarding stock transfer, the Company's Dividend Reinvestment Plan, dividends, address changes, name changes, etc. should be addressed to:

Registrar and Transfer Company  
Investor Relations  
10 Commerce Drive  
Cranford, NJ 07016  
1-800-368-5948

General transfer instructions, dividend reinvestment information and frequently asked questions and answers may be accessed via the Internet at [www.rtc.com](http://www.rtc.com).

Investor Information

Shareholders, analysts and others interested in additional information, including the annual report on Form 10-K, may contact:

Mary M. Feder  
Vice President and  
Investor Relations Director  
Roslyn Bancorp, Inc.  
One Jericho Plaza  
Jericho, NY 11753  
516-942-6150

Securities Counsel

Muldoon Murphy & Faucette LLP  
5101 Wisconsin Avenue, N.W.  
Washington, D.C. 20016

World Wide Web Site

Visit our web site at [www.roslyn.com](http://www.roslyn.com) for stock quotes, press releases, frequently asked questions, or recent SEC filings.

## OFFICES OF THE ROSLYN SAVINGS BANK

Roslyn Bancorp, Inc. 2002 Annual Report

### Administrative Office:

Jericho

One Jericho Plaza  
Jericho, NY 11753

### Roslyn – Main Office

1400 Old Northern Boulevard  
Roslyn, NY 11576

### Astoria

30-75 Steinway Street  
Astoria, NY 11103

### Bay Shore

130 East Main Street  
Bay Shore, NY 11706

### Bayside

224-04 Union Turnpike  
Bayside, NY 11364

### Bellerose

247-53 Jamaica Avenue  
Bellerose, NY 11426

### Bellmore

2641 Merrick Road  
Bellmore, NY 11710  
2267 Bellmore Avenue  
Bellmore, NY 11710

### Brooklyn

1024 Gates Avenue  
Brooklyn, NY 11221  
2925 Avenue U  
Brooklyn, NY 11229  
8110-8112 Fifth Avenue  
Brooklyn, NY 11209

### Bronx

3681-83 East Tremont Avenue  
Bronx, NY 10465

### East Meadow

1900 Hempstead Turnpike  
East Meadow, NY 11554

### East Northport

580 Larkfield Road  
East Northport, NY 11731

### Farmingdale

14 Conklin Street  
Farmingdale, NY 11735

### Forest Hills

107-40 Queens Boulevard  
Forest Hills, NY 11375

### Freeport

160 South Main Street  
Freeport, NY 11520

### Garden City

108 Seventh Street  
Garden City, NY 11530

### Hewlett

1280 Broadway  
Hewlett, NY 11557

### Howard Beach

156-02 Cross Bay Boulevard  
Howard Beach, NY 11414

### Huntington Station

693 East Jericho Turnpike  
Huntington Station, NY 11746

### Lake Success

1280 Union Turnpike  
New Hyde Park, NY 11040

### Lawrence

333 Central Avenue  
Lawrence, NY 11559

### Little Neck

254-09 Horace Harding Expressway  
Little Neck, NY 11362

### Massapequa

6199 Sunrise Highway  
Massapequa, NY 11758

### Massapequa Park

4848 Merrick Road  
Massapequa Park, NY 11762

### Merrick

2111 Merrick Avenue  
Merrick, NY 11566

### New Hyde Park

1114 Jericho Turnpike  
New Hyde Park, NY 11040

### North Babylon

1501 Deer Park Avenue  
North Babylon, NY 11703

### Oceanside

3140 Long Beach Road  
Oceanside, NY 11572

### Plainview

509 Old Country Road  
Plainview, NY 11803

### Ridgewood

66-77 Fresh Pond Road  
Ridgewood, NY 11385

### Saint James

556-02 North Country Road  
Saint James, NY 11780

### Smithtown

719 Smithtown Bypass  
Smithtown, NY 11787

### Syosset

2 Muttontown Road  
Syosset, NY 11791

### West Babylon

653 Montauk Highway  
West Babylon, NY 11704

### West Hempstead

50 Hempstead Turnpike  
West Hempstead, NY 11552

### Woodbury

8081 Jericho Turnpike  
Woodbury, NY 11797

