

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

FORM 10-K

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

For the Year Ended December 31, 2003

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

Commission file number 0-27782
Dime Community Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

11-3297463
(I.R.S. employer identification number)

209 Havemeyer Street, Brooklyn, NY
(Address of principal executive offices)

11211
(Zip Code)

Registrant's telephone number, including area code: (718) 782-6200

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share
(Title of Class)
Preferred Stock Purchase Rights
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file reports) and (2) has been subject to such requirements for the past 90 days.

YES NO

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES NO

As of March 8, 2004, there were 25,088,079 shares of the registrant's common stock, \$0.01 par value, outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2003 was approximately \$518.0 million. This figure is based upon the closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2003, which was \$25.34 as reported in the Wall Street Journal on July 1, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the definitive Proxy Statement dated April 10, 2004 to be distributed on behalf of the Board of Directors of Registrant in connection with the Annual Meeting of Shareholders to be held on May 20, 2004 and any adjournment thereof and which is expected to be filed with the Securities and Exchange Commission on or about April 11, 2004, are incorporated by reference in Part III.

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This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may be identified by use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "outlook," "plan," "potential," "predict," "project," "should," "will," "would" and similar terms and phrases, including references to assumptions.

Forward-looking statements are based upon various assumptions and analyses made by the Company (as defined subsequently herein) in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins;
- changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry may be less favorable than the Company currently anticipates;
- legislation or regulatory changes may adversely affect the Company's business;
- technological changes may be more difficult or expensive than the Company anticipates;
- success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates; or
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates.

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

PART I

Item 1. Business

General

Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank.

The Holding Company is a unitary savings and loan holding company, which, under existing law, is generally not restricted as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender ("QTL"). The Holding Company's primary business is the operation of its wholly-owned subsidiary, the Bank. Under regulations of the Office of Thrift Supervision ("OTS"), the Bank is a QTL if its ratio of qualified thrift investments to portfolio assets ("QTL Ratio") was 65% or more, on a monthly average basis, in nine of the previous twelve months. At December 31, 2003, the Bank's QTL Ratio was 82.52%, and the Bank maintained more than 65% of its portfolio assets in qualified thrift investments throughout the year ended December 31, 2003.

On July 18, 2002, the Boards of Directors of the Holding Company and each of its direct and indirect subsidiaries other than DSBW Preferred Funding Corporation and DSBW Residential Preferred Funding Corporation, approved changes in the fiscal year end of each company from June 30th to December 31st.

The Holding Company neither owns nor leases any property but instead uses the premises and equipment of the Bank. The Holding Company does not employ any persons other than certain officers of the Bank who do not receive any additional compensation as officers of the Holding Company. The Holding Company utilizes the support staff of the Bank from time to time, as required. Additional employees may be hired as deemed appropriate by the Holding Company's management.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing those deposits primarily in multi-family residential mortgage loans, commercial real estate loans, one- to four-family residential mortgage loans, construction loans, consumer loans, mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities. The Bank's revenues are derived principally from interest on its loan and securities portfolios. The Bank's primary sources of funds are deposits; loan amortization, prepayments and maturities; MBS amortization, prepayments and maturities; investment securities maturities; advances ("Advances") from the Federal Home Loan Bank of New York ("FHLBNY"); securities sold under agreement to repurchase ("REPOS"); and, the sale of real estate loans to the secondary market.

The Company's website address is www.dsbwdirect.com. The Company makes available free of charge through its website, by clicking the Investor Relations tab and selecting "SEC Filings," its Annual and Transition Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC").

In order to further assist in the interpretive reading of the statistical data presented in Parts I and II of this Annual Report, management has elected to add information related to the unaudited 12-month period ended December 31, 2002 and the unaudited six-month period ended December 31, 2001.

Acquisitions

On January 21, 1999, the Holding Company completed the acquisition of Financial Bancorp, Inc., the holding company of Financial Federal Savings Bank, F.S.B (the "FIBC Acquisition"). The consolidated operating results for the twelve months ended June 30, 1999 reflected the addition of earnings from the FIBC Acquisition for the period January 21, 1999 through June 30, 1999. The FIBC Acquisition was accounted for as a purchase transaction, generating \$44.2 million of goodwill.

Market Area, Competition and Factors That May Affect Future Results

The Bank has been, and intends to remain, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York, and operates twenty full-service retail banking offices located in the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is the New York City metropolitan area, although its overall lending area is much larger, and extends approximately 150 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's mortgage loans are secured by properties located in its primary lending area, and approximately 75% of these loans are secured by real estate properties located in the New York City boroughs of Brooklyn, Queens and Manhattan.

The New York City banking environment is extremely competitive. The Bank's competition for loans exists principally from savings banks, commercial banks, mortgage banks and insurance companies. The Bank has faced sustained competition for the origination of multi-family residential and commercial real estate loans, which together comprised 92.0% of the Bank's loan portfolio at December 31, 2003. Management anticipates that the current level of competition for multi-family residential and commercial real estate loans will continue for the foreseeable future, and this competition may inhibit the Bank's ability to maintain its current level of such loans.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. In addition, it must also compete for deposit monies against the stock markets and mutual funds, especially during periods of strong performance in the U.S. equity markets. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has dramatically altered the deposit gathering landscape. Facing increasingly efficient and larger competitors, the Bank's strategy to attract depositors and originate loans has increasingly utilized targeted marketing and delivery of technology-enhanced, customer-friendly banking services while controlling operating expenses.

This competition occurs within an economic and financial framework that is largely beyond the control of financial institutions. The interest rates paid to depositors and charged to borrowers, while affected by marketplace competition, are generally a function of broader-based macroeconomic and financial factors, including the level of U.S. Gross Domestic Product, the supply of, and demand for, loanable funds, and the impact of global trade and international financial markets. Within this environment, the Federal Open Market Committee's ("FOMC's") monetary policy and governance of short-term rates also significantly influence the interest rates paid and charged by financial institutions.

The Bank's success is additionally impacted by the overall condition of the economy, particularly in the New York City metropolitan area. As home to many national companies in the financial and business services, and as a popular destination for domestic travelers, the New York City economy is particularly sensitive to the economic health of the U.S. Success in banking is more easily achieved when local income levels increase due to economic strength. The Bank has demonstrated that even in periods of intense competition, such as those that existed during 2003, it can succeed by effectively implementing its business strategies. However, if the local market for multi-family residential and commercial real estate declines, the Bank may experience greater delinquencies or be unable to originate the volume of loans that it otherwise anticipates.

Lending Activities

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of mortgage loans secured by multi-family residential apartment buildings, including buildings organized under cooperative form of ownership ("Underlying Cooperatives"); commercial properties; and one- to four-family residences, including condominiums and cooperative apartments. At December 31, 2003, the Bank's loan portfolio totaled \$2.19 billion. Within the loan portfolio, \$1.73 billion, or 79.1%, were multi-family residential loans, \$309.8 million, or 14.1%, were loans to finance commercial real estate, \$137.8 million, or 6.3%, were loans to finance one- to four-family properties, including condominium or cooperative apartments, \$4.6 million, or 0.2%, were loans to finance multi-family residential and one- to four-family residential properties with full or partial credit guarantees provided by either the Federal Housing Administration ("FHA") or the Veterans Administration ("VA"), and \$2.9 million, or 0.1%, were loans to finance real estate construction. Of the total mortgage loan portfolio outstanding at that date, \$1.67 billion, or 76.1%, were adjustable-rate loans ("ARMs") and \$524.5 million, or 23.9%, were fixed-rate loans. Of the Bank's multi-family residential and commercial real estate loans, \$1.62 billion, or 79.3%, were ARMs at December 31, 2003, the majority of which repriced no longer than 7 years from their origination date and carry a total amortization period of no longer than 30 years. At December 31, 2003, the Bank's loan portfolio additionally included \$4.1 million in consumer loans, composed of passbook loans, student loans, consumer installment loans, overdraft loans and mortgagor advances.

The types of loans the Bank may originate are subject to federal laws and regulations (See "Regulation – Regulation of Federal Savings Associations").

The following table sets forth the composition of the Bank's real estate and other loan portfolios (including loans held for sale) in dollar amounts and percentages at the dates indicated:

	At December 31,				At June 30,							
	2003	Percent of Total	2002	Percent of Total	2002	Percent of Total	2001	Percent of Total	2000	Percent of Total	1999(1)	Percent of Total
(Dollars in Thousands)												
Real Estate loans:												
Multi-family residential	\$1,734,904	79.07%	\$1,730,102	79.74%	\$1,694,422	79.92%	\$1,541,531	78.60%	\$1,349,854	78.33%	\$1,000,859	72.20%
Commercial real estate	309,810	14.12	265,485	12.23	243,694	11.49	196,503	10.02	118,576	6.88	88,837	6.41
One- to four-family	124,047	5.65	145,808	6.72	155,013	7.31	189,651	9.67	215,648	12.51	249,741	18.02
Cooperative apartment	13,798	0.63	16,451	0.76	17,766	0.84	22,936	1.17	27,465	1.59	32,893	2.37
FHA/VA insured	4,646	0.21	5,215	0.24	5,565	0.26	6,450	0.33	7,536	0.44	9,699	0.70
Construction	2,880	0.13	1,931	0.09	-	-	-	-	-	-	-	-
Total mortgage loans	2,190,085	99.81	2,164,992	99.78	2,116,460	99.82	1,957,071	99.79	1,719,079	99.75	1,382,029	99.70
Other loans:												
Student loans	295	0.01	420	0.02	502	0.03	827	0.04	990	0.06	794	0.06
Depositor loans	2,371	0.11	1,552	0.07	1,520	0.07	1,589	0.08	1,900	0.11	2,271	0.16
Consumer installment and other	1,406	0.07	2,781	0.13	1,715	0.08	1,729	0.09	1,348	0.08	1,100	0.08
Total other loans	4,072	0.19	4,753	0.22	3,737	0.18	4,145	0.21	4,238	0.25	4,165	0.30
Gross loans	2,194,157	100.00%	2,169,745	100.00%	2,120,197	100.00%	1,961,216	100.00%	1,723,317	100.00%	1,386,194	100.00%
Net unearned costs (fees)	(1,517)		332		57		(855)		(2,017)		(2,853)	
Allowance for loan losses	(15,018)		(15,458)		(15,370)		(15,459)		(14,785)		(15,081)	
Loans, net	<u>\$2,177,622</u>		<u>\$2,154,619</u>		<u>\$2,104,884</u>		<u>\$1,944,902</u>		<u>\$1,706,515</u>		<u>\$1,368,260</u>	
Loans serviced for others:												
One- to four-family and cooperative apartment	\$33,671		\$34,683		\$35,752		\$42,175		\$47,909		\$53,564	
Multi-family residential	157,774		73,384		-		63		281		293	
Total loans serviced for others	<u>\$191,445</u>		<u>\$108,067</u>		<u>\$35,752</u>		<u>\$42,238</u>		<u>\$48,190</u>		<u>\$53,857</u>	

(1) Includes acquisition of \$192.3 million in loans as a result of the FIBC Acquisition on January 21, 1999, which were composed primarily of one- to four-family loans.

Loan Originations, Purchases, Sales and Servicing. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. For the year ended December 31, 2003, total loan originations were \$1.10 billion. Originations of ARMs were approximately 80% of total loan originations during the year ended December 31, 2003. The majority of both ARM and fixed-rate originations were multi-family residential and commercial real estate loans. Multi-family residential real estate loans are either retained in the Bank's portfolio or sold in the secondary market to the Federal National Mortgage Association ("FNMA"). One- to four-family adjustable rate and fixed-rate mortgage loans with maturities up to 15 years are retained for the Bank's portfolio. Generally, the Bank sells its newly originated one- to four-family fixed-rate mortgage loans with maturities greater than fifteen years in the secondary market to FNMA or the State of New York Mortgage Agency ("SONYMA").

During the year ended December 31, 2003, sales of fixed-rate one- to four-family mortgage and student loans totaled \$15.8 million. During December 2002, the Bank entered into a multi-family seller/servicing agreement with FNMA. The agreement provides that the Bank will sell \$200 million of multi-family residential loans to FNMA over the 18-month period ending in May 2004. The majority of the loans sold have possessed, and will continue to possess, a minimum term to maturity or repricing of seven years. In December 2002, the Bank sold approximately \$73.4 million of multi-family residential loans to FNMA. During the year ended December 31, 2003, the Bank sold an additional \$87.1 million of such loans to FNMA. Currently, the Bank has no arrangement in which it sells commercial real estate loans to the secondary market.

The Bank generally retains the servicing rights in connection with loans it sells in the secondary market. As of December 31, 2003, the Bank was servicing \$191.4 million of loans for non-related institutions. On all loans other than multi-family residential loans sold to FNMA, the Bank generally receives a loan servicing fee equal to 0.25% of the outstanding principal balance. For the multi-family residential loans sold to FNMA, the loan servicing fees vary as they are derived based upon the difference between the actual origination rate and contractual pass-through rate of the loans sold at the time of sale. At December 31, 2003, the Bank had recorded mortgage servicing rights of \$2.3 million.

The following table sets forth the Bank's loan originations (including loans held for sale), loan sales and principal repayments for the periods indicated:

	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002	For the Six Months Ended December 31, 2002	For the Six Months Ended December 31, 2001	For the Year Ended June 30,			
	2003	2002	2002	2001	2002	2001	2000	1999
(Dollars in Thousands)								
Gross loans:								
At beginning of period	\$2,169,745	\$2,055,825	\$2,120,197	\$1,961,216	\$1,961,216	\$1,723,317	\$1,386,194	\$953,607
Real estate loans originated:								
Multi-family residential	917,904	616,276	358,137	242,433	504,770	355,804	453,682	424,276
Commercial real estate	126,185	56,063	39,542	15,280	27,900	37,591	28,824	28,253
One- to four-family (1)	28,259	18,846	19,969	3,608	16,343	2,346	3,165	16,657
Cooperative apartment	1,839	1,469	956	861	1,208	1,245	744	2,187
Equity lines of credit	21,469	19,535	4,961	690	1,676	-	-	-
Construction, net	4,549	805	805	-	620	1,339	24	130
Total mortgage loans originated	1,100,205	712,994	424,370	262,872	552,517	398,325	486,439	471,503
Other loans originated	3,866	3,997	2,159	2,593	3,410	8,585	8,937	6,567
Total loans originated	1,104,071	716,991	426,529	265,465	555,927	406,910	495,376	478,070
Loans acquired (2)	-	-	-	-	-	-	-	192,318
Less:								
Principal repayments	976,779	521,880	298,181	168,808	392,507	166,948	156,306	230,482
Loans sold (3)	102,880	81,191	78,800	1,914	4,305	1,835	1,518	6,977
Mortgage loans transferred to Other Real Estate Owned	-	-	-	134	134	228	429	342
Gross loans at end of period	\$2,194,157	\$2,169,745	\$2,169,745	\$2,055,825	\$2,120,197	\$1,961,216	1,723,317	1,386,194

(1) Includes Home Equity and Home Improvement Loans.

(2) Comprised primarily of one-to-four family mortgage loans received in the FIBC Acquisition.

(2) Includes multi-family residential sold to FNMA, fixed-rate one- to four-family mortgage loans and student loans.

Loan Maturity and Repricing. The following table shows the earlier of the maturity or the repricing period of the Bank's loan portfolio (including loans held for sale) at December 31, 2003. ARMs are shown as being due in the period during which the interest rates are next scheduled to adjust. The table does not include prepayments or scheduled principal amortization. Scheduled loan repricing and estimated prepayment and amortization information is presented on an aggregate basis for loans in "Item 7A. Quantitative and Qualitative Disclosure About Market Risk – Interest Sensitivity Gap."

At December 31, 2003

Real Estate Loans								
	Multi-family Residential	Commercial Real Estate	One- to Four-Family	Cooperative Apartment	FHA/VA Insured	Construction	Other Loans	Total Loans
(Dollars In Thousands)								
Amount due:								
One year or less	\$30,260	\$13,040	\$18,726	\$8,514	\$-	\$617	\$3,875	\$75,032
After one year:								
More than one year to three years	180,135	46,313	6,086	1,914	194	2,263	197	237,102
More than three years to seven years	1,206,148	186,092	35,365	182	-	-	-	1,427,787
More than seven years to ten years	232,997	40,719	22,838	977	3,060	-	-	300,591
More than ten years to twenty years	85,364	23,646	25,893	2,211	1,392	-	-	138,506
Over twenty years	-	-	15,139	-	-	-	-	15,139
Total due or repricing after one year	1,704,644	296,770	105,321	5,284	4,646	2,263	197	2,119,125
Total amounts due or repricing, gross	\$1,734,904	\$309,810	\$124,047	\$13,798	\$4,646	\$2,880	\$4,072	\$2,194,157

The following table sets forth the outstanding principal balances in each loan category (including loans held for sale) at December 31, 2003 that are due to mature or reprice after December 31, 2004, and whether such loans have fixed or adjustable interest rates:

Due after December 31, 2004			
	Fixed	Adjustable	Total
(Dollars in Thousands)			
Mortgage loans:			
Multi-family residential	\$343,842	\$1,360,802	\$1,704,644
Commercial real estate	67,038	229,732	296,770
One- to four-family	90,984	14,337	105,321
Cooperative apartment	3,243	2,041	5,284
Construction	2,263	-	2,263
FHA/VA insured	4,646	-	4,646
Other loans	-	197	197
Total loans	\$512,016	\$1,607,109	\$2,119,125

Multi-family Residential Lending and Commercial Real Estate Lending. The Bank originates adjustable-rate and fixed-rate multi-family residential (five or more residential units), underlying cooperative mortgages and commercial real estate loans. The properties underlying these loans are generally located in the Bank's primary lending area. At December 31, 2003, the Bank had multi-family residential loans totaling \$1.73 billion in its portfolio comprising 79.1% of the gross loan portfolio. Of the Bank's multi-family residential loans, \$1.54 billion, or 88.7%, were secured by apartment buildings and \$195.6 million, or 11.3%, were secured by Underlying Cooperatives at December 31, 2003. The Bank also had \$309.8 million of commercial real estate loans in its portfolio at December 31, 2003, representing 14.1% of its total loan portfolio.

The Bank originated multi-family residential, underlying cooperative mortgages and commercial real estate loans totaling \$1.04 billion during the year ended December 31, 2003 and \$397.7 million during the six months ended December 31, 2002. At December 31, 2003, the Bank had \$89.7 million of commitments accepted by borrowers to originate multi-family residential and commercial real estate loans, compared to \$109.9 million outstanding at December 31, 2002.

Multi-family residential, underlying cooperative mortgages and commercial real estate loans originated by the Bank were secured by three distinct property types: (1) fully residential apartment buildings; (2) "mixed-use" properties that feature a combination of residential units and commercial units within the same building; and (3) fully commercial real estate buildings. The underwriting procedures for each of these property types are substantially similar. Loans secured by fully residential apartment buildings are classified by the Bank as multi-family residential loans in all instances. Loans secured by fully commercial real estate buildings are classified as commercial real estate loans in all instances. Loans secured by mixed-use properties may be classified as either multi-family residential or commercial real estate loans. The classification of loans secured by mixed-use properties is determined based upon the percentage of the property's rental income that is received from its residential tenants compared to its commercial tenants. If more than 50% of the rental income earned on a mixed-use property is received from residential tenants, the full balance of the loan is classified as a multi-family residential loan. Conversely, if less than 50% of the rental income earned on a mixed-use property is received from residential tenants, the full balance of the loan is classified as a commercial real estate loan. In the event that the rental income earned is divided exactly 50% each between residential and commercial tenants, the entire loan balance is classified as either a multi-family residential or commercial real estate loan based upon a comparison of the physical space within the property allocated to residential tenants and commercial tenants. At December 31, 2003, mixed use properties that are classified as one- to four-family residential, multi-family residential or commercial real estate loans totaled \$704.4 million.

Multi-family residential loans are generally viewed as exposing the Bank to a greater risk of loss than one- to four-family residential loans and typically involve higher loan principal amounts. Multi-family residential and commercial real estate loans in the Bank's portfolio generally range in amount from \$250,000 to \$4.0 million, and have an average loan size of approximately \$1.0 million and a median loan balance of \$698,571. Multi-family residential loans in this range are generally secured by buildings that possess between 5 and 100 apartments. The Bank had a total of \$1.65 billion of multi-family residential loans in its portfolio secured by buildings with under 100 units as of December 31, 2003. Principally as a result of rent control and rent stabilization laws that limit the amount of rent that may be charged to tenants, the associated rent rolls for buildings of this type indicate a rent range that would be considered affordable for low- to moderate-income households, regardless of the household income profiles of the associated census tracts.

At December 31, 2003, the Bank had 238 multi-family residential and commercial real estate loans with principal balances greater than \$2.0 million, totaling \$841.2 million. These loans, while underwritten to the same standards as all other multi-family residential and commercial real estate loans, tend to expose the Bank to a higher degree of risk due to the potential impact of losses from any one loan relative to the size of the Bank's capital position.

The typical adjustable-rate multi-family residential and commercial real estate loan carries a final maturity of 10 or 12 years, and an amortization period not exceeding 30 years. These loans generally have an interest rate that adjusts once after the fifth or seventh year indexed to the 5-year FHLBNY advance rate (plus a spread typically approximating 225 basis points), but may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the life of the loans. The Bank also offers fixed-rate, self-amortizing, multi-family residential and commercial real estate loans with maturities of up to fifteen years.

It is the Bank's policy to require appropriate insurance protection, including title and hazard insurance, on all real estate mortgage loans at closing. Borrowers generally are required to advance funds for certain expenses such as real estate taxes, hazard insurance and flood insurance.

The underwriting standards for new multi-family residential loans generally require (1) a maximum loan-to-value ratio of 75% based upon an appraisal performed by an independent, state licensed appraiser, and (2) sufficient cash flow from the underlying property to adequately service the debt, represented by a minimum debt service ratio of 120%. In certain cases, the Bank may additionally require environmental hazard reports on multi-family residential properties. As part of the underwriting process for multi-family residential real estate loans, the Bank considers the borrower's experience in owning or managing similar properties, the value of the property based upon the income approach, and the Bank's lending experience with the borrower. The Bank utilizes, where appropriate, rent or lease income, the borrower's credit history and business experience, and valuation determined under the income approach when underwriting multi-family real estate applications.

Repayment of multi-family residential loans is dependent, in large part, on cash flow from the collateral property sufficient to satisfy operating expenses and debt service. Economic events and government regulations, such as rent control and rent stabilization laws, which are outside the control of the borrower or the Bank, could impair the future cash flow of such properties. As a result, rental income might not rise sufficiently over time to satisfy increases in the loan rate at repricing or in overhead expenses (e.g., utilities, taxes, insurance).

During the period July 1, 1998 through December 31, 2003, the Bank's charge-offs related to its multi-family residential loan portfolio totaled \$211,000. As of December 31, 2003, the Bank had no non-performing multi-family residential loans. (See "Asset Quality" and "Allowance for Loan Losses." See "Lending Activities - Loan Approval Authority and Underwriting" for discussions of the Bank's underwriting procedures utilized in originating multi-family residential loans).

The Bank's three largest multi-family residential loans at December 31, 2003 were a \$15.0 million loan originated in December 2003 secured by a nine story building in Manhattan, New York, consisting of 159 loft cooperative apartments; a \$12.0 million loan originated in June 2003 secured by an eighteen story apartment building located in Manhattan, New York containing 265 apartment units and eleven retail stores, and a \$10.0 million loan originated in December 2002 secured by a nine story apartment building located in Manhattan, New York containing 87 apartment units and one office unit.

The underwriting standards for new commercial real estate loans generally require that the loan-to-value ratio not exceed 65% and that sufficient cash flow from the underlying property exist to adequately service the debt, represented by a minimum debt service ratio of 120%. To originate commercial real estate loans, the Bank requires a security interest in personal property and standby assignments of rents and leases in addition to the security interest in the underlying property. The maximum dollar amount of any individual commercial real estate loan conforms to the Bank's general policies on lending limits.

Commercial real estate loans are generally viewed as exposing the Bank to a greater risk of loss than both one- to four-family and multi-family residential mortgage loans. Because payment of loans secured by commercial real estate often is dependent upon successful operation and management of the collateral properties, repayment of such loans may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks by: 1) limiting the number of such loans, 2) lending only to established customers and borrowers otherwise known or recommended, 3) generally restricting such loans to the New York metropolitan area, and 4) obtaining personal guarantees, if possible. The Bank utilizes, where appropriate, rent or lease income, the borrower's credit history and business experience, and valuation determined under the income approach when underwriting commercial real estate loan applications.

During the period July 1, 1998 through December 31, 2003, the Bank's charge-offs related to its commercial real estate loan portfolio totaled \$6,000. As of December 31, 2003, the Bank had no non-performing commercial real estate loans (See "Asset Quality" and "Allowance for Loan Losses." See "Lending Activities - Loan Approval Authority and Underwriting" for a discussion of the Bank's underwriting procedures utilized in originating commercial real estate loans).

The Bank's three largest commercial real estate loans at December 31, 2003 were an \$11.4 million loan originated in December 2001 and secured by a building in Manhattan, New York containing 10 commercial stores and 34 loft apartments; a \$9.0 million loan originated in July 2003, and secured by three commercial properties with a total of 14 retail stores and 20 offices located in Rego Park, New York; and an \$8.9 million loan originated in January 2003 and secured by a 17-story loft building in Manhattan, New York containing 63 commercial tenants.

One- to Four-Family Mortgage and Cooperative Apartment Lending. The Bank offers residential first and second mortgage loans secured primarily by owner-occupied, one- to four-family residences, including condominium and cooperative apartments. The majority of one- to four-family loans in the Bank's loan portfolio were obtained through the FIBC Acquisition and the acquisition of Pioneer Savings Bank, F.S.B. in 1996. The Bank originated \$30.1 million of one- to four-family mortgages during the year ended December 31, 2003, the majority of which were home equity and home improvement loans. At December 31, 2003, \$137.8 million, or 6.3%, of the Bank's loans, consisted of one- to four-family mortgage and cooperative apartment loans. The Bank is a participating seller/servicer with two government-sponsored mortgage agencies: FNMA and SONYMA, and generally underwrites its one- to four-family residential mortgage loans to conform with standards required by these agencies.

Although the collateral for cooperative apartment loans is composed of shares in a cooperative corporation (*i.e.*, a corporation whose primary asset is the underlying real estate) and a proprietary lease in the borrower's apartment, cooperative apartment loans are treated as one- to four-family loans. The Bank's portfolio of cooperative apartment loans was \$13.8 million, or 0.6% of total loans, as of December 31, 2003. Adjustable-rate cooperative apartment loans continue to be originated for portfolio.

For all one- to four-family loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower: (1) a credit report is reviewed, (2) income, assets and certain other information are verified by an independent credit agency, and, (3) if necessary, additional financial information is required to be submitted by the borrower. An appraisal of the real estate intended to secure the proposed loan is obtained, which is performed by an independent appraiser designated and approved by the Board of Directors.

During the period July 1, 1998 through December 31, 2003, the Bank's charge-offs related to its one- to four-family and cooperative apartment loan portfolio totaled \$815,000. As of December 31, 2003, the Bank had non-performing one- to four-family loans totaling \$346,000 (See "Asset Quality" and "Allowance for Loan Losses").

The Bank generally sells its newly originated conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years in the secondary market to FNMA and SONYMA, and its non-conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years to various private sector secondary market purchasers. With few exceptions, such as SONYMA, the Bank retains the servicing rights on all such loans sold. During the year ended December 31, 2003, the Bank sold one- to four-family mortgage loans totaling \$15.4 million to non-affiliates. As of December 31, 2003, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled \$33.7 million.

Home Equity and Home Improvement Loans. Home equity loans and home improvement loans, the majority of which are included in one- to four-family loans, are originated to a maximum of \$250,000. At the time of origination, the combined balance of the first mortgage and home equity or home improvement loan may not exceed the following limitations: 1) 89% of the appraised value of the collateral property at origination of the home equity or home improvement loan in the event that the Bank holds the first mortgage on the collateral property; or 2) 85% of the appraised value of the collateral property at origination of the home equity or home improvement loan in the event that the Bank does not hold the first mortgage on the collateral property. On home equity and home improvement loans, the borrower pays an initial interest rate that may be as low as 200 basis points below the prime rate of interest in effect at origination. After six months, the interest rate adjusts and ranges from the prime interest rate in effect at the time to 100 basis points above the prime interest rate in effect at the time. The combined outstanding balance of the Bank's home equity and home improvement loans was \$32.8 million at December 31, 2003.

Equity credit is also available on multi-family residential and commercial real estate loans. These loans are underwritten in the same manner as first mortgage loans on these properties, except that the combined loan-to-value ratio of the first mortgage and the equity line cannot exceed 75%. On equity loans, the borrower pays an interest rate ranging from 100 to 200 basis points above the prime rate. The outstanding balance of these equity loans was less than \$5.0 million at December 31, 2003, on outstanding total lines of \$19.8 million.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authorities for individual officers as to the various types of loan products. In addition, the Bank maintains a Loan Operating Committee that has collective loan approval authority. The Loan Operating Committee is composed of, at a minimum, the Chief Executive Officer, the President, the Chief Financial Officer, and a credit officer overseeing the underwriting function for the respective type of loan being originated. The Loan Operating Committee has authority to approve loan originations in amounts up to \$3.0 million. Both the Loan Operating Committee and the Board of Directors must approve all loan originations exceeding \$3.0 million. All loans approved by the Loan Operating Committee are presented to the Board of Directors for its review. In addition, regulatory restrictions imposed on the Bank's lending activities limit the amount of credit that can be extended to any one borrower to 15% of unimpaired capital and unimpaired surplus (See "Regulation - Regulation of Federal Savings Associations - Loans to One Borrower").

Asset Quality

Non-performing loans (*i.e.*, delinquent loans for which interest accruals have ceased in accordance with the Bank's policy - typically loans 90 days or more past due) totaled \$525,000 and \$2.1 million at December 31, 2003 and 2002, respectively. Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, any interest accrued to income in the current year is reversed. Payments on nonaccrual loans are generally applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to cover the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions. The Bank had no loans that were 90 days past due and still accruing interest at December 31, 2003, or 2002 or at June 30, 2002, 2001, 2000 or 1999.

The Bank had a total of 30 real estate and consumer loans, totaling \$1.4 million, delinquent 60-89 days at December 31, 2003, compared to a total of 37 such delinquent loans, totaling \$1.0 million, at December 31, 2002. The majority of the dollar amount of both non-performing loans and loans delinquent 60-89 days was composed of real estate loans. The majority of the count of both non-performing loans and loans delinquent 60-89 days was composed of consumer loans (primarily depositor loans). The increase in the amount delinquent 60-89 days from December 31, 2002 to December 31, 2003, resulted from a net increase of \$437,000 of delinquent real estate loans during the period. The 60-89 day delinquency levels fluctuate monthly, and are generally considered a less accurate indicator of credit quality trends than non-performing loans.

Under accounting principles generally accepted in the United States of America ("GAAP"), the Bank is required to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a loan constitutes a troubled-debt restructuring if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Current regulations of the OTS require that troubled-debt restructurings remain classified as such until either the loan is repaid or returns to its original terms. The Bank had no loans classified as troubled-debt restructurings at December 31, 2003 or December 31, 2002.

Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting By Creditors for Impairment of a Loan," as amended by Statement of Financial Accounting Standards ("SFAS") No. 118 "Accounting by Creditors for Impairment of a Loan- Income Recognition and Disclosures an amendment of FASB Statement No. 114," ("Amended SFAS 114") provides guidelines for determining and measuring impairment in loans. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimate of its fair value. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. Generally, the Bank considers non-performing and troubled-debt restructured multi-family residential and commercial real estate loans, along with non-performing one- to four-family loans exceeding \$333,700, to be impaired. Non-performing one-to four-family loans of \$333,700 or less are considered homogeneous loan pools and are not required to be evaluated for impairment. There were no loans considered impaired by the Bank under Amended SFAS 114 as of December 31, 2003. The recorded investment in loans deemed impaired was approximately \$690,000, consisting of one loan, at December 31, 2002. The average total balance of impaired loans was approximately \$314,000 during the year ended December 31, 2003, \$684,000 during the six months ended December 31, 2002, and \$3.2 million and \$3.7 million during the years ended June 30, 2002 and 2001, respectively. The decrease in both the current and average balance of impaired loans resulted primarily from the repayment in June 2002 of an impaired \$2.9 million troubled-debt restructured loan. At both December 31, 2003 and 2002, there were no reserves allocated within the allowance for loan losses for impaired loans. At June 30, 2002, reserves totaling \$88,000 were allocated within the allowance for loan losses for impaired loans. At December 31, 2003, non-performing loans exceeded impaired loans by \$525,000, due to \$525,000 of one- to four-family and consumer loans, which, while on non-performing status, were not deemed impaired since they had individual outstanding balances less than \$333,700.

Other Real Estate Owned ("OREO"). Property acquired by the Bank as a result of a foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO and is recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses. The Bank obtains a current appraisal on an OREO property as soon as practicable after it takes possession of the real property. The Bank will generally reassess the value of OREO at least annually thereafter. There were no OREO properties as of December 31, 2003. The balance of OREO was \$134,000 at December 31, 2002 and \$114,000 at June 30, 2002, consisting of one property in both instances. During the six months ended December 31, 2002, a reserve of \$20,000 was reversed on the OREO property. This property was sold in January 2003 and no loss was recognized on the sale.

The following table sets forth information regarding non-performing loans, non-performing assets, impaired loans and troubled-debt restructurings at the dates indicated:

	At December 31,		At June 30,			
	2003	2002	2002	2001	2000	1999
(Dollars in Thousands)						
Non-performing loans						
One- to four-family	\$346	\$1,232	\$1,077	\$1,572	\$1,769	\$1,577
Multi-family residential	-	690	878	1,131	2,591	1,248
Cooperative apartment	-	70	71	200	54	133
Other	179	124	97	155	7	43
Total non-performing loans	525	2,116	2,123	3,058	4,421	3,001
Other Real Estate Owned	-	134	114	370	381	866
Total non-performing assets	525	2,250	2,237	3,428	4,802	3,867
Troubled-debt restructurings	-	-	-	2,924	700	1,290
Total non-performing assets and troubled-debt restructurings	\$525	\$2,250	\$2,237	\$6,352	\$5,502	\$5,157
Impaired loans	\$-	\$690	\$878	\$4,054	\$2,591	\$1,563
Ratios:						
Total non-performing loans to total loans	0.02%	0.10%	0.10%	0.16%	0.26%	0.22%
Total non-performing loans and troubled-debt restructurings to total loans	0.02	0.10	0.10	0.30	0.30	0.31
Total non-performing assets to total assets	0.02	0.08	0.08	0.13	0.19	0.17
Total non-performing assets and troubled-debt restructurings to total assets	0.02	0.08	0.08	0.23	0.22	0.23

Monitoring of Delinquent Loans. Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors regarding the status of all delinquent and non-performing loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of a multi-family residential or commercial real estate loan, or fifteen days late in the event of a one- to four-family or consumer loan. A second letter is sent to the borrower if payment has not been received within 30 days of the due date. Thereafter, periodic letters are mailed and phone calls are placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Generally, the Bank initiates foreclosure proceedings when a loan is 90 days past due. The Bank retains outside counsel experienced in foreclosure and bankruptcy procedures to institute foreclosure and other actions on non-performing loans. As soon as practicable after initiating foreclosure proceedings on a loan, the Bank hires an independent appraiser to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is generally sold. It is the Bank's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating conditions.

Classified Assets. Federal regulations and Bank policy require that loans and other assets possessing certain characteristics be classified as "Substandard," "Doubtful" or "Loss" assets. An asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets have a well-defined weakness or weaknesses and are characterized by the distinct possibility that the Bank will sustain "some loss" if deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified "Substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of current existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "Loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess potential weaknesses that deserve management's attention are designated "Special Mention."

The Bank's Loan Loss Reserve Committee reviews all loans in the Bank's portfolio quarterly, with particular emphasis on problem loans, in order to determine whether any loans require reclassification in accordance with applicable regulatory guidelines. The Loan Loss Reserve Committee reports its recommendations to the Bank's Board of Directors on a quarterly basis. The Loan Loss Reserve Committee, subject to approval of the Bank's Board of Directors, establishes policies relating to the internal classification of loans. The Bank believes that its classification policies are consistent with regulatory policies. All non-performing loans, troubled-debt restructurings and OREO are considered to be classified assets. In addition, the Bank maintains a "watch list," composed of loans that, while performing, are characterized by weaknesses requiring special attention from management and are considered to be potential problem loans. All loans on the watch list are considered to be classified assets or are otherwise categorized as "Special Mention." As a result of its review of the loan portfolio, the Loan Loss Reserve Committee may decide to reclassify one or more of the loans on the watch list.

The year ended December 31, 2003 saw the continuation of a strong real estate market throughout the New York metropolitan area. As a result, the Bank's level of classified assets continued their historic low levels.

At December 31, 2003, the Bank had 13 loans totaling \$935,000 designated Special Mention, compared to 19 loans totaling \$1.3 million at December 31, 2002.

At December 31, 2003, the Bank had \$494,000 of assets classified Substandard, consisting of five loans. At December 31, 2002, the Bank had \$1.9 million of assets classified Substandard, consisting of eighteen loans and one OREO property.

At both December 31, 2003 and 2002, the Bank had no assets classified as either Doubtful or Loss. The watch list contained 15 loans totaling \$1.1 million at December 31, 2003, compared to 25 loans totaling \$1.8 million at December 31, 2002.

The following table sets forth at December 31, 2003 the Bank's aggregate carrying value of the assets classified as either Substandard or Special Mention:

	Special Mention		Substandard	
	Number	Amount	Number	Amount
(Dollars in Thousands)				
Mortgage Loans:				
Multi-family residential	1	\$244	1	\$147
One- to four-family	3	468	4	347
Cooperative apartment	9	223	-	-
Commercial real estate	-	-	-	-
Total Mortgage Loans	13	935	5	494
Other Real Estate Owned	-	-	-	-
Total	13	\$935	5	\$494

Allowance for Loan Losses

The allowance for loan losses was determined in accordance with GAAP, under which the Bank is required to maintain an appropriate allowance for loan losses. The Loan Loss Reserve Committee is charged with, among other functions, specific responsibility for monitoring the appropriateness of the loan loss reserve. The Loan Loss Reserve Committee's findings, along with recommendations for changes to loan loss reserve provisions, if any, are reported directly to the Bank's senior management and the Board of Directors.

The following table sets forth activity in the Bank's allowance for loan losses at or for the dates indicated:

	At or for the	At or for the Year Ended June 30,						
	Year Ended	Year Ended	Six Months	Six Months	2002	2001	2000	1999 ⁽²⁾
	December 31,	December 31,	Ended	Ended				
	2003	2002	December 31,	December 31,				
			2002	2001				
(Dollars in Thousands)								
Total loans outstanding at end of period ⁽¹⁾	\$2,192,640	\$2,170,077	\$2,170,077	\$2,055,562	\$2,120,254	\$1,960,361	\$1,721,200	\$1,383,341
Average total loans outstanding ⁽¹⁾	\$2,206,003	\$2,128,297	\$2,169,442	\$1,998,694	\$2,042,923	\$1,819,336	\$1,563,656	\$1,164,982
Allowance for loan losses:								
Balance at beginning of period	\$15,458	\$15,492	\$15,370	\$15,459	\$15,459	\$14,785	\$15,081	\$12,075
Provision for loan losses	288	240	120	120	240	740	240	240
Charge-offs								
Multi-family residential	-	(42)	-	(71)	(113)	-	-	(98)
Commercial real estate	-	-	-	-	-	(6)	-	-
One- to four-family	(2)	(169)	(33)	(20)	(156)	(13)	(500)	(10)
FHA/VA insured	-	-	-	-	-	-	-	-
Cooperative apartment	(1)	(79)	-	-	-	(14)	(24)	(62)
Other	(60)	-	(11)	(12)	(80)	(48)	(21)	(38)
Total charge-offs	(63)	(290)	(44)	(103)	(349)	(81)	(545)	(208)
Recoveries	34	16	12	16	20	15	9	7
Reserve for loan commitments transferred to other liabilities	(699)	-	-	-	-	-	-	-
Reserve acquired in purchase acquisition	-	-	-	-	-	-	-	2,967
Balance at end of period	\$15,018	\$15,458	\$15,458	\$15,492	\$15,370	\$15,459	\$14,785	\$15,081
Allowance for loan losses to total loans at end of period	0.68%	0.71%	0.71%	0.75%	0.72%	0.79%	0.86%	1.09%
Allowance for loan losses to total non-performing loans at end of period	2,860.57	730.53	730.53	815.80	723.98	505.53	334.43	502.53
Allowance for loan losses to total non-performing loans and troubled-debt restructurings at end of period	2,860.57	730.53	730.53	321.21	723.98	258.43	288.71	351.46
Ratio of net charge-offs to average loans outstanding during the period	-	-	-	-	0.02%	-	0.03%	0.02%

(1) Total loans represents gross loans, net of deferred loan fees and discounts.

(2) On January 21, 1999, the Bank acquired \$192.3 million of loans as a result of the FIBC Acquisition, which added \$84.4 million to the average balance of loans during the twelve months ended June 30, 1999.

Based upon its evaluation of the loan portfolio, management believes that the Bank has maintained its allowance for loan losses at a level which management believes is appropriate to absorb losses inherent within the Bank's loan portfolio as of the balance sheet dates. The allowance for loan losses was \$15.0 million at December 31, 2003 compared to \$15.4 million at December 31, 2002. During the year ended December 31, 2003, the Bank reclassified \$699,000 of its existing allowance for loan losses balance to other liabilities in order to separately account for reserves related to loan origination commitments. In addition, during the year ended December 31, 2003, the Bank recorded a provision of \$288,000 to the allowance for loan losses to provide for growth in its loan portfolio balances. The Bank also recorded net charge-offs of \$29,000 during the year ended December 31, 2003, virtually all of which related to consumer loans.

Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. While management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions beyond management's control. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to, or reductions in, the allowance based on judgments different from those of management. Management believes, based upon all relevant and available information, that the allowance for loan losses is appropriate to absorb losses inherent in the portfolio.

The following table sets forth the Bank's allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated:

	At December 31,			
	2003		2002	
	Allocated Amount	Percent of Loans in Each Category to Total Loans ⁽¹⁾	Allocated Amount	Percent of Loans in Each Category to Total Loans ⁽¹⁾
(Dollars in Thousands)				
Impaired loans	-	-	-	0.03%
Multi-family residential	11,391	79.24%	11,831	79.90
Commercial real estate	2,742	14.15	2,416	12.26
One-to four- family	686	5.67	1,051	6.74
Cooperative apartment	124	0.63	151	0.76
Construction	-	0.13	-	0.09
Other	75	0.18	9	0.22
Total	\$15,018	100.00%	\$15,458	100.00%

At June 30,

	2002		2001		2000		1999	
	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)
(Dollars in Thousands)								
Impaired loans	\$88	0.01%	\$775	0.21%	\$130	0.15%	\$62	0.11%
Multi-family residential	11,843	80.12	10,190	80.98	10,000	78.65	9,652	72.63
Commercial real estate	2,167	11.52	1,214	7.78	1,095	6.92	699	6.45
One-to four- family	1,094	7.33	3,005	9.48	3,176	12.23	4,112	17.86
Cooperative apartment	162	0.84	184	1.17	254	1.60	414	2.39
Construction	-	-	-	-	-	-	-	-
Other	16	0.18	91	0.38	130	0.45	142	0.56
Total	\$15,370	100.00%	\$15,459	100.00%	\$14,785	100.00%	\$15,081	100.00%

(1) Total loans represent gross loans less FHA and VA guaranteed loans.

Investment Activities

Investment Strategies of the Holding Company. The Holding Company's principal asset is its investment in the Bank's common stock, which amounted to \$286.9 million at December 31, 2003. All of the Holding Company's other investments were intended primarily to provide future liquidity which may be utilized for general business activities, which may include, but are not limited to: (1) purchases of the Holding Company's common stock into treasury; (2) repayment of principal and interest on the Holding Company's \$25.0 million subordinated note obligation; (3) subject to applicable limitations, the payment of dividends on the Holding Company's common stock; and/or (4) investments in the equity securities of other financial institutions and other investments not permitted to the Bank. The Holding Company cannot assure that it will engage in any of these activities in the future.

The Holding Company's investment policy calls for investments in relatively short-term, liquid securities similar to the securities defined in the securities investment policy of the Bank.

Investment Policy of the Bank. The investment policy of the Bank, which is established by its Board of Directors, is designed to help the Bank achieve its overall asset/liability management objectives and to comply with the applicable regulations of the OTS. Generally, when selecting new investments for the Bank's portfolio, the policy calls for management to emphasize principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment. The policy permits investments in various types of liquid assets, including obligations of the U.S. Treasury and federal agencies, investment grade corporate obligations, various types of MBS, commercial paper, certificates of deposit ("CDs") and overnight federal funds sold to financial institutions. The Bank's Board of Directors periodically approves all financial institutions that buy federal funds from the Bank.

Investment strategies are implemented by the Asset and Liability Management Committee ("ALCO"), composed of the Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer, and other senior management officers. The strategies take into account the overall composition of the Bank's balance sheet, including loans and deposits, and are intended to protect and enhance the Bank's earnings and market value. The strategies are reviewed monthly by the ALCO and reported regularly to the Board of Directors.

During the year ended December 31, 2003, the six months ended December 31, 2002 and the twelve months ended June 30, 2002 and 2001, neither the Holding Company nor the Bank held any derivative instruments or any embedded derivative instruments that require bifurcation. The Holding Company or the Bank may, with respective Board approval, engage in hedging transactions utilizing derivative instruments.

Mortgage-Backed Securities. MBS provide the portfolio with investments offering desirable repricing, cash flow and credit quality characteristics. MBS yield less than the loans that underlie the securities because of the cost of payment guarantees and credit enhancements that reduce credit risk to the investor. Although MBS guaranteed by federally sponsored agencies carry a reduced credit risk compared to whole loans, such securities remain subject to the risk that fluctuating interest rates, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and thus affect both the prepayment speed and value of such securities. However, MBS are more liquid than individual mortgage loans and may readily be used to collateralize borrowings. The MBS portfolio also provides the Holding Company and the Bank with important interest rate risk management features, as the entire portfolio provides monthly cash flow for re-investment at current market interest rates. None of the Bank's MBS as of December 31, 2003 possess call features.

The Company's consolidated investment in MBS totaled \$462.7 million, or 15.6% of total assets, at December 31, 2003, the majority of which was owned by the Bank. At December 31, 2003, the Bank had \$426.0 million in Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs"), which comprised the largest component of its MBS portfolio. All of these CMOs and REMICs were either U.S. agency guaranteed obligations or issued by private financial institutions. All of the non-agency guaranteed obligations were rated in the highest ratings category by at least one nationally recognized rating agency at the time of purchase. None of the CMOs and REMICs had stripped principal and interest components and all occupied priority tranches within their respective issues. As of December 31, 2003, the fair value of CMOs and REMICs was approximately \$2.8 million below their cost basis.

The remaining MBS portfolio was composed of pass-through securities guaranteed by the Government National Mortgage Agency ("GNMA"), The Federal Home Loan Mortgage Corporation ("FHLMC") or FNMA. These securities approximated 7.9% of the total MBS portfolio at December 31, 2003. This portfolio is further composed of a \$23.5 million investment in ARM MBS pass-through securities with a weighted average term to next rate adjustment of less than one year, a \$9.2 million investment in seasoned fixed-rate GNMA, FNMA and FHLMC pass-through securities with an estimated remaining life of less than three years, and a \$4.0 million investment in balloon MBS (the "Balloon Payment Securities"), which provide a return of principal and interest on a monthly basis, and have original maturities of between five and seven years, at which point the entire remaining principal balance is repaid.

GAAP requires investments in equity securities that have readily determinable fair values and all investments in debt securities to be classified in one of the following three categories and accounted for accordingly: trading securities, securities available for sale or securities held to maturity. Neither the Company nor the Bank had any securities classified as trading securities during the twelve months ended December 31, 2003, nor do they presently anticipate establishing a trading portfolio. Unrealized gains and losses on available for sale securities are reported as a separate component of stockholders' equity referred to as accumulated other comprehensive income, net of deferred taxes. At December 31, 2003, the Holding Company and the Bank had, on a combined basis, \$499.1 million of securities classified as available for sale, which represented 16.8% of total assets at December 31, 2003. Based upon the size of the available for sale portfolio, future variations in market values of the available for sale portfolio could result in fluctuations in the Company's consolidated stockholders' equity.

The Company typically classifies purchased MBS as available for sale, in recognition of the greater prepayment uncertainty associated with these securities, and carries these securities at fair market value. The amortized cost of MBS available for sale exceeded their fair value by \$1.9 million at December 31, 2003.

The following table sets forth activity in the MBS portfolio for the periods indicated:

	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002	For the Six Months Ended December 31, 2002	For the Six Months Ended December 31, 2001	For the Year Ended June 30, 2002 2001	
(Dollars In Thousands)						
Amortized cost at beginning of period	\$359,304	358,115	\$285,201	\$433,097	\$433,097	\$451,489
Purchases, net	473,389	251,613	224,579	10,184	37,218	81,520
Principal repayments	(364,208)	(249,317)	(149,556)	(85,074)	(184,835)	(99,896)
Premium amortization, net	(3,814)	(1,108)	(920)	(92)	(279)	(16)
Amortized cost at end of period	\$464,671	359,304	\$359,304	\$358,115	\$285,201	\$433,097

U. S. Treasury and Agency Obligations. At December 31, 2003, the Company's consolidated investment in U. S. Treasury and agency securities totaled \$5.0 million. Virtually all of these investments were agency obligations issued either by the Federal Home Loan Bank ("FHLB"), FHLMC, or FNMA.

Corporate Debt Obligations. Both the Holding Company and the Bank invest in the short-term investment-grade debt obligations of various corporations. Corporate debt obligations generally carry both a higher rate of return and a higher degree of credit risk than U.S. Treasury and agency securities with comparable maturities. In addition, corporate securities are generally less liquid than comparable U.S. Treasury and agency securities. In recognition of the additional risks associated with these securities, the Bank's investment policy limits new investments in corporate debt obligations to companies rated single "A" or better by one of the nationally recognized rating agencies, and limits investments in any one corporate entity to the lesser of 1% of total assets or 15% of the Bank's equity. At December 31, 2003, the Company's consolidated portfolio of corporate debt obligations totaled \$22.0 million. The majority of these investments are held by the Bank.

Equity Investments. The Company's consolidated investment in equity securities totaled \$10.1 million at December 31, 2003. The largest single investment in this category was a \$5.0 million investment in preferred stock issued by FNMA. The remaining investment was composed primarily of various equity mutual fund investments.

The following table sets forth the amortized cost and fair value of the total portfolio of investment securities and MBS at the dates indicated:

	At December 31,				At June 30,			
	2003		2002		2002		2001	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in Thousands)								
Mortgage-backed securities:								
CMOs and REMICs	\$428,847	\$426,017	\$292,541	\$293,928	\$209,476	\$213,579	\$301,412	\$304,439
FHLMC	7,509	7,680	15,896	16,289	10,069	10,351	19,560	19,798
FNMA	3,381	3,510	8,122	8,435	11,681	12,005	19,862	20,269
GNMA	24,934	25,582	42,745	44,388	53,975	55,686	92,263	94,107
Total mortgage-backed securities	464,671	462,789	359,304	363,040	285,201	291,621	433,097	438,613
Investment securities:								
U.S. Treasury and agency	5,011	5,026	52,741	53,289	85,050	85,823	35,705	35,996
Other	32,442	32,799	52,463	52,110	53,136	53,639	57,302	59,180
Total investment securities	37,453	37,825	105,204	105,399	138,186	139,462	93,007	95,176
Net unrealized gain (loss) (1)	(1,570)	-	3,833	-	7,553	-	7,484	-
Total securities, net	\$500,554	\$500,614	\$468,341	\$468,439	\$430,940	\$431,083	\$533,588	\$533,789

(1) The net unrealized gain (loss) at December 31, 2003 and 2002 and June 30, 2002 and 2001 relates to available for sale securities in accordance with SFAS 115, "Accounting for Investments in Debt and Equity Securities." The net unrealized gain (loss) is presented in order to reconcile the "Amortized Cost" of the securities portfolio to the recorded value reflected in the Company's Consolidated Statements of Condition.

The following table sets forth the amortized cost and fair value of the total portfolio of investment securities and MBS, by accounting classification and type of security, at the dates indicated:

	At December 31,				At June 30,			
	2003		2002		2002		2001	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in Thousands)								
Held-to-Maturity:								
Mortgage-backed securities (1)	\$770	\$822	\$2,249	\$2,337	\$3,275	\$3,409	\$8,160	\$8,326
Investment securities (2)	710	718	825	835	875	884	3,784	3,819
Total Held-to-Maturity	\$1,480	\$1,540	\$3,074	\$3,172	\$4,150	\$4,293	\$11,944	\$12,145
Available-for-Sale:								
Mortgage-backed securities:								
Pass-through securities	\$35,054	\$35,950	\$64,514	\$66,775	\$72,450	\$74,633	\$123,525	\$125,848
CMOs and REMICs	428,847	426,017	292,541	293,928	209,476	213,579	301,412	304,439
Total mortgage-backed securities available for sale	463,901	461,967	357,055	360,703	281,926	288,212	424,937	430,287
Investment securities (2)	36,743	37,107	104,379	104,564	137,311	138,578	89,223	91,357
Net unrealized gain (loss) (3)	(1,570)	-	3,833	-	7,553	-	7,484	-
Total Available-for-Sale	\$499,074	\$499,074	\$465,267	\$465,267	\$426,790	\$426,790	\$521,644	\$521,644
Total securities, net	\$500,554	\$500,614	\$468,341	\$468,439	\$430,940	\$431,083	\$533,588	\$533,789

(1) MBS include both pass-through securities and investments in CMOs and REMICs.

(2) Includes corporate debt obligations.

(3) The net unrealized gain (loss) at December 31, 2003 and 2002, and June 30, 2002 and 2001 relates to available for sale securities in accordance with SFAS No. 115. The net unrealized gain (loss) is presented in order to reconcile the "Amortized Cost" of the securities portfolio to the recorded value reflected in the Company's Consolidated Statements of Condition.

The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of investment securities and MBS at December 31, 2003, by remaining period to contractual maturity. With respect to MBS, the entire carrying amount of the security at December 31, 2003 is reflected in the maturity period that includes the final security payment date and, accordingly, no effect has been given to periodic repayments or possible prepayments. The investment policies of both the Holding Company and the Bank call for the purchase of only priority tranches when investing in MBS. As a result, the weighted average duration of the Company's MBS approximates 2.1 years as of December 31, 2003, when giving consideration to anticipated repayments or possible prepayments, which is far less than their calculated average maturity in the table below. Other than obligations of federal agencies and GSEs, neither the Holding Company nor the Bank had a combined investment in securities issued by any one entity in excess of 15% of stockholders' equity at December 31, 2003.

At December 31, 2003						
Held to Maturity				Available for Sale		
Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Weighted Average Yield		
				Fair Value	Weighted Average Yield	
(Dollars in Thousands)						
Mortgage-backed securities:						
Due within 1 year	-	-	-	-	-	-
Due after 1 year but within 5 years	\$770	\$822	7.96%	\$4,508	\$4,595	4.72%
Due after 5 years but within 10 years	-	-	-	7,439	7,469	4.25
Due after ten years	-	-	-	451,954	449,903	4.13
Total	770	822	7.96	463,901	461,967	4.13
U.S. Treasury and agency:						
Due within 1 year	-	-	-	5,011	5,026	5.13
Due after 1 year but within 5 years	-	-	-	-	-	-
Due after 5 years but within 10 years	-	-	-	-	-	-
Due after ten years	-	-	-	-	-	-
Total	-	-	-	5,011	5,026	5.13
Corporate and other:						
Due within 1 year	-	-	-	-	-	-
Due after 1 year but within 5 years	710	718	7.32	-	-	-
Due after 5 years but within 10 years	-	-	-	2,000	2,111	6.55
Due after ten years	-	-	-	29,732	29,970	3.24
Total	710	718	7.35	31,732	32,081	3.45
Total:						
Due within 1 year	-	-	-	5,011	5,026	5.13
Due after 1 year but within 5 years	1,480	1,540	7.65	4,508	4,595	4.72
Due after 5 years but within 10 years	-	-	-	9,439	9,580	4.74
Due after ten years	-	-	-	481,686	479,873	4.07
Total	\$1,480	\$1,540	7.65%	\$500,644	\$499,074	4.10%

Sources of Funds

General. The Bank's primary sources of funding for its lending and investment activities include deposits, repayments of loans and MBS, investment security maturities and redemptions, Advances from the FHLBNY, and borrowing in the form of REPOS made with various financial institutions, including the FHLBNY. The Bank also sells selected multi-family residential and commercial real estate loans to FNMA, and long-term, one- to four-family residential real estate loans to either FNMA or SONYMA.

Deposits. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank, at December 31, 2003 and presently, offers savings accounts, money market accounts, checking accounts, NOW and Super NOW accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. Traditionally, the Bank has relied upon direct marketing, customer service, convenience and long-standing relationships with customers to generate deposits. The communities in which the Bank maintains branch offices have historically provided the Bank with nearly all of its deposits. At December 31, 2003, the Bank had deposit liabilities of \$2.04 billion, up \$114.5 million from December 31, 2002 (See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources"). Within total deposits at December 31, 2003, \$175.7 million, or 8.6%, consisted of CDs with balances over \$100,000. Individual Retirement Accounts totaled \$122.9 million, or 6.0% of total deposits.

In June 2000, the Bank's Board of Directors approved the acceptance of brokered CDs up to an aggregate limit of \$120.0 million. At December 31, 2003 and 2002, the Bank had no brokered CDs.

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

	Year Ended	Year Ended	Six Months	Six Months	Year Ended June 30,	
	December 31,	December 31,	Ended	Ended	2002	2001
	2003	2002	December 31,	December 31,		
	(Dollars in Thousands)					
Deposits	\$3,055,095	\$3,012,112	\$1,556,645	\$1,332,182	\$2,787,649	\$2,620,203
Withdrawals	2,978,932	2,728,969	1,435,740	1,191,845	2,485,046	2,461,159
Deposits greater than Withdrawals	76,163	283,143	120,905	140,337	302,603	159,044
Interest credited	38,340	48,670	26,236	26,565	48,999	50,240
Total increase in deposits	\$114,503	\$331,813	\$147,141	\$166,902	\$351,602	\$209,284

At December 31, 2003, the Bank had \$175.7 million in CDs over \$100,000 maturing as follows:

Maturity Period	Amount	Weighted Average Rate
(Dollars in Thousands)		
Within three months	\$43,137	2.30%
After three but within six months	45,877	2.79
After six but within twelve months	37,674	2.49
After 12 months	49,023	3.54
Total	\$175,711	2.81%

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

	At December 31, 2003			At December 31, 2002			At June 30, 2002		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
(Dollars in Thousands)									
Savings accounts	\$366,592	17.96%	0.55%	\$362,400	18.80%	0.78%	\$363,732	20.43%	1.25%

CDs	800,350	39.20	2.64	830,140	43.08	3.21	748,005	42.02	3.73
Money market accounts	745,387	36.51	1.35	616,762	32.00	1.90	556,376	31.26	2.39
NOW and Super NOW accounts	37,043	1.81	1.02	31,822	1.65	1.24	29,005	1.63	1.23
Checking accounts	92,306	4.52	-	86,051	4.47	-	82,916	4.66	-
Totals	\$2,041,678	100.00%	1.65%	\$1,927,175	100.00%	2.16%	\$1,780,034	100.00%	2.59%

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The following table presents, by interest rate ranges, the amount of CDs outstanding at the dates indicated and the period to maturity of the CDs outstanding at December 31, 2003:

Interest Rate Range	Period to Maturity at December 31, 2003					Total at December 31, 2003	Total at December 31, 2002	Total at June 30, 2002
	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total at December 31, 2003			
(Dollars in Thousands)								
4.00% and below	\$519,041	\$147,115	\$31,622	\$3	\$697,781	\$647,333	\$483,285	
4.01% to 5.00%	5,478	15,718	28,913	-	50,109	95,512	134,704	
5.01% to 6.00%	24,039	4,238	8,668	-	36,945	65,491	80,097	
6.01% to 7.00%	4,366	11,149	-	-	15,515	21,804	49,825	
7.01% and above	-	-	-	-	-	-	94	
Total	\$552,924	\$178,220	\$69,203	\$3	\$800,350	\$830,140	\$748,005	

Borrowings. The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges given to FHLBNY shareholders is the ability to secure Advances under various lending programs at competitive interest rates. The Bank, as a member of the FHLBNY, is provided with a borrowing line that equaled \$886.2 million at December 31, 2003.

The Bank had Advances from the FHLBNY totaling \$534.0 million and \$555.0 million at December 31, 2003 and 2002, respectively. At December 31, 2003, the Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such Advances.

REPOS totaled \$12.7 million and \$95.5 million, respectively, at December 31, 2003 and 2002. REPOS involve the delivery of securities to broker-dealers as collateral for borrowing transactions. The securities remain registered in the name of the Bank, and are returned upon the maturities of the agreements. Funds to repay the Bank's REPOS at maturity will be provided primarily by cash received from the maturing securities.

Presented below is information concerning REPOS and FHLBNY Advances for the periods presented:

	At or for the Fiscal Year Ended December 31,	At or for the Six Months Ended December 31,	At or for the Fiscal Year Ended June 30,	
	2003	2002	2002	2001
Balance outstanding at end of period	\$12,675	\$95,541	\$97,717	\$427,788
Average interest cost at end of period (1)	4.96%	5.68%	5.61%	4.73%
Average balance outstanding during the period	\$71,302	\$97,941	\$260,988	\$437,153
Average interest cost during the period	8.86%	5.35%	4.47%	6.26%
Carrying value of underlying collateral at end of period	\$12,967	\$85,226	\$95,994	\$425,450
Estimated fair value of underlying collateral	\$13,045	\$87,479	\$96,093	\$430,803
Maximum balance outstanding at month end during the year	\$86,020	\$98,728	\$395,444	\$455,603

(1) Excluding prepayment expenses of \$2,555 on securities sold under agreements to repurchase recorded during the year ended December 31, 2003, the average interest cost of securities sold under agreement to repurchase was 5.29% during the year ended December 31, 2003. Excluding prepayment expenses of \$339 on securities sold under agreements to repurchase recorded during the year ended June 30, 2002, the average interest cost of securities sold under agreement to repurchase was 4.31% during the year ended June 30, 2002. There were no prepayments of securities sold under agreements to repurchase during the six months ended December 31, 2002 or the year ended June 30, 2001.

FHLBNY Advances:	At or for the Twelve Months Ended December 31,	At or for the Six Months Ended December 31,	At or for the Twelve Months Ended June 30,
	2003	2002	2002
	(Dollars in Thousands)		
Balance outstanding at end of period	\$534,000	\$555,000	\$575,000
Average interest cost at end of period	3.85%	4.11%	5.07%
Weighted average balance outstanding during the period	\$559,726	\$572,024	\$565,520
Average interest cost during the period (1)	3.98%	4.90%	5.90%
Maximum balance outstanding at month end during period	\$574,000	\$590,000	\$582,500

(1) Amounts in the above table exclude the effects of prepayment expenses paid on FHLBNY Advances. Including prepayment expenses paid on FHLBNY Advances of \$1.6 million during the year ended December 31, 2003, \$3.6 million during the six months ended December 31, 2002 and \$5.9 million during the twelve months ended June 30, 2002, the average interest cost on FHLBNY Advances was 4.30% during the year ended December 31, 2003, 6.18% during the six months ended December 31, 2002 and 6.94% during the twelve months ended June 30, 2002.

During the year ended December 31, 2003, the Bank prepaid a total of \$30.0 million in FHLBNY Advances and \$52.0 million in REPOS. The prepaid FHLBNY Advances possessed a combined average interest rate of 5.89% and an average remaining term to maturity of 1.1 years on their respective prepayment dates. The Bank did not replace these prepaid FHLBNY Advances and REPOS. The prepayments on borrowings were made in order to take advantage of reductions in interest rates.

During the six months ended December 31, 2002, the Bank prepaid a total of \$152.5 million in FHLBNY Advances. The prepaid FHLBNY Advances possessed a combined average interest rate of 6.62% and an average remaining term to maturity of less than one year on their respective prepayment dates. The majority of these prepaid FHLBNY Advances were replaced with new FHLBNY Advances. During the six months ended December 31, 2002, the average rate on the replacement FHLBNY Advances was 3.26%. These FHLBNY Advances possessed an average remaining term to their next maturity, call or repricing of approximately 5.0 years at December 31, 2002. The remainder of the prepaid FHLBNY Advances were not replaced with borrowed funds as liquidity generated from deposit inflows and loan and MBS amortization replaced their need as a source of funding.

During the twelve months ended June 30, 2002, the Bank prepaid a total of \$254.0 million in FHLBNY Advances and REPOS. The prepaid FHLBNY Advances and REPOS possessed a combined average interest rate of 5.43% and an average remaining term to maturity of less than one year on their respective prepayment dates. The majority of these prepaid FHLBNY Advances and REPOS were replaced with new FHLBNY Advances. During the twelve months ended June 30, 2002, the average rate on new FHLBNY Advances was 3.91%. These FHLBNY Advances possessed an average remaining term to maturity of approximately 5 years at June 30, 2002. The remainder of the prepaid FHLBNY Advances and REPOS were not replaced with borrowed funds as liquidity generated from deposit inflows and loan and MBS amortization replaced their need as a source of funding.

Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of six wholly-owned corporations, one of which is directly owned by the Holding Company and five of which are directly or indirectly owned by the Bank. DSBW Preferred Funding Corp. is a direct subsidiary of Havemeyer Equities, Inc., which is a direct subsidiary of the Bank. The following table presents an overview of the Holding Company's subsidiaries as of December 31, 2003:

Subsidiary	Year/ State of Incorporation	Primary Business Activities
Havemeyer Equities, Inc.	1977 / New York	Ownership of DSBW Preferred Funding Corp.
Boulevard Funding Corp.	1981 / New York	Currently inactive
Havemeyer Investments, Inc.	1997 / New York	Sale of annuity products
DSBW Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in multi-family residential and commercial real estate loans
DSBW Residential Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in one- to four-family real estate loans
842 Manhattan Avenue Corp.	1995/ New York	Management and ownership of real estate

Personnel

As of December 31, 2003, the Company had 318 full-time employees and 93 part-time employees. The employees are not represented by a collective bargaining unit, and both the Holding Company and all of its subsidiaries consider their relationships with their employees to be good.

Federal, State and Local Taxation

Federal Taxation

The following is a discussion of material tax matters and does not purport to be a comprehensive description of the tax rules applicable to the Company.

General. The Bank was last audited by the Internal Revenue Service ("IRS") for its taxable year ended December 31, 1988. For federal income tax purposes, the Company files consolidated income tax returns on a June 30 fiscal year basis using the accrual method of accounting and will be subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's tax reserve for bad debts, discussed below.

Tax Bad Debt Reserves. The Bank, as a "large bank" under IRS classifications (*i.e.*, one with assets having an adjusted basis of more than \$500 million), is unable to make additions to its tax bad debt reserve, is permitted to deduct bad debts only as they occur and is required to recapture (*i.e.*, take into income), over a multi-year period, a portion of the balance of its tax bad debt reserves as of June 30, 1997. Since the Bank has already provided a deferred income tax liability for this tax for financial reporting purposes, there was no adverse impact to the Bank's financial condition or results of operations from the enactment of the federal legislation that imposed such recapture.

Distributions. To the extent that the Bank makes "non-dividend distributions" to shareholders, such distributions are considered distributions from the Bank's "base year reserve" (*i.e.*, its reserve as of December 31, 1987, to the extent thereof), and then from its supplemental reserve for losses on loans. An amount based on the amount distributed will be included in the Bank's taxable income in the year of distribution. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's income.

The amount of additional taxable income created from a non-dividend distribution is the amount that, when reduced by the amount of the tax attributable to this income, is equal to the amount of the distribution. Thus, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. (See "Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions" for limits on the payment of dividends by the Bank). The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserves.

Corporate Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the "Code") imposes a tax ("AMT") on alternative minimum taxable income ("AMTI") at a rate of 20%. AMTI is adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the customary tax treatment of those items. Thus, the Bank's AMTI is increased by 75% of the amount by which the Bank's adjusted current earnings exceed its AMTI (determined without regard to this adjustment and prior to reduction for net operating losses).

State and Local Taxation

State of New York. The Company is subject to New York State ("NYS") franchise tax on one of several alternative bases, whichever results in the highest tax, and files combined returns for purposes of this tax. The basic tax is measured by "entire net income," which is federal taxable income with adjustments. For NYS tax purposes, as long as the Bank continues to satisfy certain definitional tests relating to its assets and the nature of its business, it will be permitted deductions, within specified formula limits, for additions to its bad debt reserves for purposes of computing its entire net income.

The Bank's deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property, may be computed using an amount based on the Bank's actual loss experience (the "Experience Method") or 32% of the Bank's entire net income, computed without regard to this deduction and reduced by the amount of any permitted addition to the Bank's reserve for non-qualifying loans. The Bank's deduction with respect to non-qualifying loans must be computed pursuant to the Experience Method which is based on the Bank's actual charge-offs. Each year the Bank will review the most appropriate method of calculating the deduction attributable to an addition to the tax bad debt reserves.

The portion of the NYS bad debt reserve in excess of a reserve amount computed pursuant to the Experience Method is subject to recapture upon a non-dividend distribution in a manner similar to the recapture of the federal bad debt reserves for such distributions. In addition, the reserve is subject to recapture in the event that the Bank fails to satisfy a thrift definitional test relating to the composition of its assets or fails to maintain a thrift charter.

The NYS tax rate for the year ended December 31, 2003 was 9.03% of taxable income. This rate includes a commuter transportation surcharge. In general, the Holding Company is not required to pay NYS tax on dividends and interest received from the Bank.

City of New York. The Holding Company and the Bank are also both subject to a New York City banking corporation tax of 9% on taxable income allocated to New York City.

New York City generally conforms its tax law to NYS tax law in the determination of taxable income (including the laws relating to bad debt reserves). However, New York City tax law does not allow a deduction for the carryover of a net operating loss of a banking company.

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

Regulation

General

The Bank is subject to extensive regulation, examination, and supervision by the OTS, as its chartering agency, and the Federal Deposit Insurance Corporation ("FDIC"), as its deposit insurer. The Bank's deposit accounts are insured up to applicable limits by the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF"), which are administered by the FDIC. The Bank must file reports with the OTS concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OTS conducts periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings association may engage and is intended primarily for the protection of the insurance fund and depositors. As a publicly-held unitary savings and loan holding company, the Holding Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the SEC under the federal securities laws and of the OTS.

The OTS and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OTS, the FDIC or the United States Congress, could have a material adverse impact on the operations of the Company.

The following discussion is intended to be a summary of the material statutes and regulations applicable to savings associations and savings and loan holding companies, and does not purport to be a comprehensive description of all such statutes and regulations.

Regulation of Federal Savings Associations

Business Activities. The Bank derives its lending and investment powers from the Home Owner's Loan Act, as amended ("HOLA"), and the regulations of the OTS enacted thereunder. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities, and certain other assets. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage. These investment powers are subject to various limitations, including (a) a prohibition against the acquisition of any corporate debt security not rated in one of the four highest rating categories; (b) a limit of 400% of capital on the aggregate amount of loans secured by commercial property; (c) a limit of 20% of assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (d) a limit of 35% of assets on the aggregate amount of consumer loans and acquisitions of certain debt securities; (e) a limit of 5% of assets on non-conforming loans (i.e., loans in excess of the specific limitations of HOLA); and (f) a limit of the greater of 5% of assets or capital on certain construction loans made for the purpose of financing property which is, or is expected to become, residential.

Loans to One Borrower. Under HOLA, savings associations are generally subject to the same limits on loans to one borrower as are imposed on national banks. Generally, under these limits, a savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of the association's unimpaired capital and surplus. Additional amounts may be lent, not in excess of 10% of unimpaired capital and surplus, if such loans or extensions of credit are fully secured by readily-marketable collateral. Such collateral is defined to include certain debt and equity securities and bullion, but generally does not include real estate. At December 31, 2003, the Bank's limit on loans to one borrower was \$61.5 million. The Bank's largest aggregate amount of loans to one borrower was \$33.5 million and the second largest borrower had an aggregate balance of \$22.7 million.

QTL Test. HOLA requires a savings association to satisfy a QTL test. A savings association may satisfy the QTL test by maintaining at least 65% of its "portfolio assets" in certain "qualified thrift investments" during at least nine months of the most recent twelve-month period. "Portfolio assets" means, in general, an association's total assets less the sum of (a) specified liquid assets up to 20% of total assets, (b) certain intangibles, including goodwill, credit card relationships and purchased mortgage servicing rights, and (c) the value of property used to conduct the association's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, small business loans, education loans, and credit card loans. A savings association may additionally satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Code. At December 31, 2003, the Bank maintained 82.5% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each of the prior 12 months and, therefore, was a QTL.

A savings association that fails the QTL test must either operate under certain restrictions on its activities or convert to a bank charter. The initial restrictions include prohibitions against (a) engaging in any new activity not permissible for a national bank, (b) paying dividends not permissible under national bank regulations, and (c) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, within one year of the date a savings association ceases to satisfy the QTL test, any company controlling the association must register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended. A savings association that has failed the QTL test may requalify under the QTL test and be free of such limitations, however, may do so only once. If the savings association does not requalify under the QTL test within three years after failing the QTL test, it would be required to terminate any activity, and dispose of any investment, not permissible for a national bank and repay as promptly as possible any outstanding Advances from the FHLBNY.

Capital Requirements. OTS regulations require savings associations to satisfy three minimum capital standards: (1) a tangible capital ratio of 1.5% of total assets as adjusted under OTS regulations; (2) a risk-based capital ratio of 8% of risk-based capital (as defined under OTS regulations) to total risk-based assets (also as defined under OTS regulations); and (3) a leverage capital ratio (as defined under OTS regulations). For a depository institution that has been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating, the minimum leverage capital required ratio is 3%. For any other depository institution, the minimum leverage capital required ratio is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution.

In determining the amount of risk-based assets for purposes of the risk-based capital requirement, a savings association must compute its risk-based assets by multiplying its assets and certain off-balance sheet items by risk-weights, which range from 0% for cash and obligations issued by the United States government or its agencies, to 100% for consumer and commercial loans, as assigned by the OTS capital regulations based on the risks the OTS believes are inherent in the type of asset.

Tangible capital is defined, generally, as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related earnings, and minority interests in equity accounts of fully consolidated subsidiaries, less intangibles other than certain purchased mortgage servicing rights and investments in, and loans to, subsidiaries engaged in activities not permissible for a national bank.

Core capital is defined similarly to tangible capital, however, additionally includes, among other items, certain qualifying supervisory goodwill and certain purchased credit card relationships. Supplementary capital includes cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, and the allowance for possible loan losses. The OTS and other federal banking regulators adopted, effective October 1, 1998, an amendment to their risk-based capital guidelines that permits insured depository institutions to include in supplementary capital up to 45% of the pretax net unrealized holding gains on certain available-for-sale equity securities, as such gains are computed under the guidelines. The allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-based assets, and the amount of supplementary capital that may be included as total capital cannot exceed the amount of core capital.

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") requires that the OTS and other federal banking agencies revise their risk-based capital standards, with appropriate transition rules, to ensure that they take into account interest rate risk ("IRR"), concentration of risk and the risks of non-traditional activities. The OTS regulations do not include a specific IRR component of the risk-based capital requirement. However, the OTS monitors the IRR of individual institutions through a variety of methods, including an analysis of the change in net portfolio value ("NPV"). NPV is defined as the net present value of the expected future cash flows on an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The OTS has also used the NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. In addition, OTS Thrift Bulletin 13a provides guidance on the management of IRR and the responsibility of boards of directors in that area. The OTS, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent they are not in compliance with certain written guidelines established by the OTS regarding NPV analysis. The OTS has not imposed any such requirements on the Company.

The table below presents the Bank's regulatory capital as compared to the OTS regulatory capital requirements at December 31, 2003:

	As of December 31, 2003			
	Actual		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
Tangible	\$231,096	7.97%	\$43,492	1.5%
Leverage Capital	231,096	7.97	115,979	4.0%
Risk-based capital	240,809	15.03	128,144	8.0%

The following is a reconciliation of GAAP capital to regulatory capital for the Bank:

	At December 31, 2003		
	Tangible Capital	Leverage Capital	Risk-Based Capital
GAAP capital	\$286,620	\$286,620	\$286,620
Non-allowable assets:			
Core deposit intangible	(873)	(873)	(873)
Loan servicing asset	(227)	(227)	(227)
Accumulated other comprehensive income	1,214	1,214	1,214
Goodwill	(55,638)	(55,638)	(55,638)
General valuation allowance	-	-	15,018
Adjustment for recourse provision on loans sold	-	-	(5,305)
Regulatory capital	231,096	231,096	240,809
Minimum capital requirement	43,492	115,979	128,144
Regulatory capital excess	\$187,604	\$115,117	\$112,665

Limitation on Capital Distributions. OTS regulations currently impose limitations upon capital distributions by savings associations, such as cash dividends, payments to purchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital.

As the subsidiary of a savings and loan holding company, the Bank is required to file a notice with the OTS at least 30 days prior to each capital distribution. However, if the total amount of all capital distributions (including each proposed capital distribution) for the applicable calendar year exceeds net income for that year plus the retained net income for the preceding two years, then the Bank must file an application for OTS approval of a proposed capital distribution. In addition, the OTS can prohibit a proposed capital distribution otherwise permissible under the regulation if it has determined that the association is in need of more than customary supervision or that a proposed distribution by an association would constitute an unsafe or unsound practice. Furthermore, under the OTS prompt corrective action regulations, the Bank would be prohibited from making any capital distribution if, after the distribution, the Bank failed to satisfy its minimum capital requirements, as described above (See "Regulation - Regulation of Federal Savings Associations - Prompt Corrective Regulatory Action").

In addition, pursuant to the Federal Deposit Insurance Act ("FDIA"), an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" as defined in the FDIA.

Liquidity. Pursuant to OTS regulations, the Bank is required to maintain sufficient liquidity to ensure its safe and sound operation (See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," for further discussion). At December 31, 2003, the Bank's liquid assets approximated 25.8% of total assets.

Assessments. Savings associations are required by OTS regulation to pay semi-annual assessments to the OTS to fund its operations. The regulations base the assessment for individual savings associations, other than those with total assets never exceeding \$100.0 million, on three components: the size of the association on which the basic assessment is based; the association's supervisory condition, which results in percentage increases for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which results in percentage increases for a savings association that managed over \$1 billion in trust assets, serviced loans for other institutions aggregating more than \$1 billion, or had certain off-balance sheet assets aggregating more than \$1 billion.

Branching. Subject to certain limitations, HOLA and OTS regulations permit federally chartered savings associations to establish branches in any state of the United States. The authority to establish such a branch is available (a) in states that expressly authorize branches of savings associations located in another state and (b) to an association that either satisfies the QTL test or qualifies as a "domestic building and loan association" under the Code, which imposes qualification requirements similar to those for a QTL under HOLA (See "Regulation - Regulation of Federal Savings Associations - QTL Test"). This authority under HOLA and the OTS regulations preempts any state law purporting to regulate branching by federal savings associations.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by OTS regulations, a savings association possesses a continuing and affirmative obligation, consistent with its safe and sound operation, to help satisfy the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services it believes are best suited to its particular community. The CRA requires the OTS, in connection with its examination of a savings association, to assess the association's record of meeting the credit needs of its community and consider such record in its evaluation of certain applications by such association. The assessment is composed of three tests: (a) a lending test, to evaluate the institution's record of making loans in its service areas; (b) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) a service test, to evaluate the institution's delivery of services through its branches, automated teller machines and other offices. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received an "Outstanding" CRA rating in its most recent examination.

Regulations implementing the requirements under the Gramm-Leach-Bliley Act of 1999 ("Gramm-Leach") that insured depository institutions publicly disclose certain agreements that are in fulfillment of the CRA became effective April 1, 2001. The Bank has no such agreements in place at this time.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by OTS regulations and Sections 23A and 23B of the Federal Reserve Act ("FRA"). In general, an affiliate of the Bank is any company that controls the Bank or any other company that is controlled by a company that controls the Bank, excluding the Bank's subsidiaries other than those that are insured depository institutions. A subsidiary of a bank that is not also a depository institution is generally not treated as an affiliate of the bank for purposes of Sections 23A and 23B, however, the Federal Reserve Bank has proposed treating any subsidiary of a bank that is engaged in activities not permissible for bank holding companies under the Bank Holding Company Act ("BHC Act") as an affiliate for purposes of Sections 23A and 23B. OTS regulations prohibit a savings association from (a) lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies under Section 4(c) of the BHC Act, and (b) purchasing the securities of any affiliate other than a subsidiary. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus

of the savings association and also limits the aggregate amount of transactions with all affiliates to 20% of the savings association's capital and surplus. Extensions of credit to affiliates are required to be secured by collateral in an amount and of a type described in Section 23A, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the association as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards, that in good faith would be offered, or would apply, to nonaffiliated companies.

Effective April 1, 2003, the Federal Reserve Board ("FRB") rescinded its interpretations of Section 23A and 23B of the FRA and replaced them with Regulation W. Regulation W made various changes to certain interpretations regarding Sections 23A and 23B, including expanding the definition of affiliate and exempting certain subsidiaries of state-chartered banks from the restrictions of Sections 23A and 23B.

The OTS issued a final rule, effective October 6, 2003, which conformed its regulations on transactions with affiliates to Regulation W. In addition, the rule implemented additional restrictions imposed on savings associations under Section 11 of HOLA, including provisions prohibiting a savings association from advancing a loan to an affiliate that is engaged in non-bank holding company activities and provisions prohibiting a savings association from purchasing or investing in securities issued by an affiliate that is not a subsidiary. The final rule also includes certain specific exemptions from these prohibitions. The FRB and the OTS expect each depository institution that was subject to Sections 23A and 23B to implement policies and procedures to ensure compliance with Regulation W and the final OTS rule. Implementation of these regulations did not have a material impact upon the financial condition or results of operations of the Company.

Section 402 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") prohibits the extension of personal loans to directors and executive officers of issuers (as defined in Sarbanes-Oxley). The prohibition, however, does not apply to extensions of credit advanced by an insured depository institution, such as the Bank, that is subject to the insider lending restrictions of Section 22(h) of the FRA, as implemented by Regulation O (12 CFR 215).

The Bank's authority to extend credit to its directors, executive officers, and shareholders owning 10% or more of the Holding Company's outstanding common stock, as well as to entities controlled by such persons, is additionally governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB thereunder. Among other matters, these provisions require that extensions of credit to insiders (a) be made on terms substantially the same as, and follow credit underwriting procedures not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the association's capital. In addition, extensions of credit in excess of certain limits must be approved in advance by the association's board of directors.

Transactions between the Bank and the remainder of the Company, and any of their affiliates, are subject to various conditions and limitations

Enforcement. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the OTS possesses primary enforcement responsibility over federally-chartered savings associations and has the authority to bring enforcement action against all "institution-affiliated parties," including any controlling stockholder or any shareholder, attorney, appraiser or accountant who knowingly or recklessly participates in any violation of applicable law or regulation, breach of fiduciary duty or certain other wrongful actions that cause, or are likely to cause, more than minimal loss or other significant adverse effect on an insured savings association. Civil penalties cover a wide series of violations and actions and range from \$5,000 for each day during which violations of law, regulations, orders, and certain written agreements and conditions continue, up to \$1 million per day for such violations if the person obtained a substantial pecuniary gain as a result of such violation or knowingly or recklessly caused a substantial loss to the institution. Criminal penalties for certain financial institution crimes include fines of up to \$1 million and imprisonment for up to 30 years. In addition, regulators possess substantial discretion to take enforcement action against an institution that fails to comply with regulatory structure, particularly with respect to capital requirements. Possible enforcement actions range from the imposition of a capital plan and capital directive to receivership, conservatorship, or the termination of deposit insurance. Under FDICIA, the FDIC has the authority to recommend to the Director of the OTS that enforcement action be taken with respect to a particular savings association. If action is not taken by the Director, the FDIC possesses authority to take such action under certain circumstances.

Standards for Safety and Soundness. Pursuant to FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the OTS, together with the other federal bank regulatory agencies, has adopted a set of guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other features, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the OTS adopted regulations pursuant to FDICIA that authorize, but do not require, the OTS to order an institution that has been given notice by the OTS that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the OTS must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized association is subject under the "prompt corrective action" provisions of FDICIA (See "Regulation - Regulation of Savings Associations – Prompt Corrective Regulatory Action"). If an institution fails to comply with such an order, the OTS may seek enforcement in judicial proceedings and the imposition of civil money penalties.

Real Estate Lending Standards. The OTS and the other federal banking agencies adopted regulations to prescribe standards for extensions of credit that are (a) secured by real estate or (b) made for the purpose of financing the construction of improvements on real estate. The regulations require each savings association to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the association and the nature and scope of its real estate lending activities. The standards must additionally conform to accompanying OTS guidelines, which include loan-to-value ratios for the different types of real estate loans. Associations are also permitted to make a limited amount of loans that do not conform to the loan-to-value limitations provided such exceptions are reviewed and justified appropriately. The guidelines additionally list a number of lending situations in which exceptions to the loan-to-value standards are permitted.

Prompt Corrective Regulatory Action. Under the OTS prompt corrective action regulations, the OTS is required to take certain, and authorized to take other, supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of five categories based on the association's capital. Generally, a savings association is considered "well capitalized" if it maintains all of the following capital ratios: 1) Total capital to risk-based assets of at least 10.0%; 2) Core capital to risk-based assets of at least 6.0%; and 3) Core capital to adjusted total assets of at least 5.0%. In addition, in order to be considered "well capitalized," the savings association cannot be subject to any order or directive of the OTS to satisfy or maintain specific capital levels. A savings association is considered "adequately capitalized" if it maintains all of the following capital ratios: 1) Total capital to risk-based assets of at least 8.0%; 2) Core capital to risk-based assets of at least 4.0%; and 3) Core capital to adjusted total assets of at least 4.0% (or at least 3.0% if the association receives the highest possible overall rating on its most recent safety and soundness examination by the OTS). A savings association is considered "undercapitalized" if it maintains any of the following capital ratios: 1) Total capital to total risk-based assets of less than 8.0%; 2) Core capital to risk-based assets of less than 4.0%; or 3) Core capital to adjusted total assets of less than 4.0% (or of less than 3.0% if the association receives the highest possible overall rating on its most recent safety and soundness examination by the OTS). A savings association is considered "significantly undercapitalized" if it maintains any of the following capital ratios: 1) Total capital to risk-based assets of less than 6.0%; 2) Core capital to risk-based assets of less than 3.0%; or 3) Core capital to adjusted total assets of less than 3.0%. A savings association that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." The elements of an association's capital for purposes of the prompt corrective action regulations are defined generally as they are under the regulations for minimum capital requirements (See "Regulation - Regulation of Savings Associations - Capital Requirements"). As of December 31, 2003, the Bank satisfied all criteria necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action.

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as an association's capital deteriorates within the three undercapitalized categories. All associations are prohibited from paying dividends, other capital distributions or management fees to any controlling person if, following such distribution, the association would be undercapitalized. An undercapitalized association is required to file a capital restoration plan within 45 days of the date the association receives notice that it is within any of the three undercapitalized categories. The OTS is required to monitor closely the condition of an undercapitalized association and to restrict the asset growth, acquisitions, branching, and new lines of business of such an association. Significantly undercapitalized associations are subject to restrictions on compensation of senior executive officers. Such an association may not, without OTS consent, pay any bonus or provide compensation to any senior executive officer at a rate exceeding the officer's average rate of compensation (excluding bonuses, stock options and profit-sharing) during the 12 months preceding the month the association became undercapitalized. A significantly undercapitalized association may also be subject, among other actions, to forced changes in the composition of its board of directors or senior management, additional restrictions on transactions with affiliates, restrictions on acceptance of deposits from correspondent associations, further restrictions on asset growth, restrictions on rates paid on deposits, forced termination or reduction of activities deemed risky, and any further operational restrictions deemed necessary by the OTS.

If one or more grounds exist for appointing a conservator or receiver for an association, the OTS may require the association to issue additional debt or stock, sell assets, be acquired by a depository association holding company or combine with another depository association. The OTS and FDIC possess a broad range of justifications pursuant to which they may appoint a receiver or conservator for an insured depository association. Under FDICIA, the OTS is required to appoint a receiver (or with the concurrence of the FDIC, a conservator) for a critically undercapitalized association within 90 days after the association becomes critically undercapitalized or, with the concurrence of the FDIC, to take such other action that would better achieve the purposes of the prompt corrective action provisions. Such alternative action can be renewed for successive 90-day periods. However, if the association continues to be critically undercapitalized on average during the quarter that begins 270 days after it initially became critically undercapitalized, a receiver must be

appointed, unless the OTS makes certain findings with which the FDIC concurs and the Director of the OTS and the Chairman of the FDIC certify that the association is viable. In addition, an association that is critically undercapitalized is subject to more severe restrictions on its activities, and is prohibited, without prior approval of the FDIC, from, among other actions, entering into certain material transactions or paying interest on new or renewed liabilities at a rate that would significantly increase the association's weighted average cost of funds.

When appropriate, the OTS can require corrective action by a savings association holding company under the "prompt corrective action" provisions of FDICIA.

Insurance of Deposit Accounts. Savings associations are subject to a risk-based assessment system for determining the amount of deposit insurance premium they will be required to pay. Under the risk-based assessment system, which began in 1993, the FDIC assigns an institution to one of three capital categories based on the institution's financial information as of its most recent quarterly financial report filed with the applicable bank regulatory agency prior to the commencement of the assessment period. The three capital categories consist of (a) well capitalized, (b) adequately capitalized, or (c) undercapitalized. The FDIC also assigns an institution to one of three supervisory subcategories within each capital group. The supervisory subgroup to which an institution is assigned is based upon an evaluation provided to the FDIC by the institution's primary federal regulator and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. An institution's assessment rate depends on the capital category and supervisory subcategory to which it is assigned. Under the regulations, there are nine assessment risk classifications (*i.e.*, combinations of capital groups and supervisory subgroups) to which different assessment rates are applied. Assessment rates currently range from 0.0% of deposits for an institution in the highest category (*i.e.*, well-capitalized and financially sound, with no more than a few minor weaknesses) to 0.27% of deposits for an institution in the lowest category (*i.e.*, undercapitalized and substantial supervisory concern). The FDIC is authorized to raise the assessment rates as necessary to maintain the required reserve ratio of 1.25% of assessable deposits. Both the BIF and SAIF currently satisfy the reserve ratio requirement. If the FDIC determines that assessment rates should be increased, institutions in all risk categories could be affected. The FDIC has exercised this authority several times in the past and could raise insurance assessment rates in the future.

The Deposit Insurance Funds Act of 1996 amended the FDIA to recapitalize the SAIF and expand the assessment base for the payments of Financing Corporation ("FICO") bonds. FICO bonds were sold by the federal government in order to finance the recapitalization of the SAIF and BIF insurance funds that was necessitated following payments made from the funds to compensate depositors of federally-insured depository institutions that experienced bankruptcy and dissolution during the 1980's and 1990's. The quarterly adjusted rate of assessment for FICO bonds is 0.0172% for both BIF-and SAIF-insured institutions.

Privacy and Security Protection. The OTS has adopted regulations implementing the privacy protection provisions of Gramm-Leach. The regulations require financial institutions to adopt procedures to protect customers and their "non-public personal information." The regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers the ability to "opt-out" of the sharing of their personal information with unaffiliated third parties, if the sharing of such information does not satisfy any of the permitted exceptions. The Bank's existing privacy protection policy complies with the regulations. Implementation of the regulations did not have a material impact on the business, financial condition or results of operations of the Company.

The OTS and other federal banking agencies have adopted guidelines establishing standards for safeguarding customer information to implement certain provisions of Gramm-Leach. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, including administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, protect against anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial customer harm or inconvenience. The Bank has implemented these guidelines, which did not have a material impact on the business, financial condition or results of operations of the Company.

Gramm-Leach additionally permits each state to enact legislation that is more protective of consumers' personal information. Currently, there are a number of privacy bills pending in the New York legislature. Management of the Company cannot predict the impact, if any, these bills will have if enacted.

Internet Banking. Technological developments are dramatically altering the methods by which most companies, including financial institutions, conduct their business. The growth of the Internet is prompting banks to reconsider business strategies and adopt alternative distribution and marketing systems. The federal banking regulatory agencies have conducted seminars and published materials targeted at various aspects of Internet banking and have indicated their intention to re-evaluate their regulations to ensure they encourage bank efficiency and competitiveness consistent with safe and sound banking practices. The Company cannot assure that federal bank regulatory agencies will not adopt new regulations that will not materially affect or restrict the Bank's Internet operations.

Insurance Activities. As a federal savings bank, the Bank is generally permitted to engage in certain insurance activities through subsidiaries. OTS regulations promulgated pursuant to Gramm-Leach prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity or an agreement by the consumer not to purchase an insurance product or annuity from an entity not affiliated with the depository institution. The regulations additionally require prior disclosure of this prohibition if such products are offered to credit applicants. Implementation of these regulations did not have a material impact upon the financial condition or results of operations of the Company.

Federal Home Loan Bank System. The Bank is a member of the FHLBNY, which is one of the twelve regional FHLB's composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. Any Advances from the FHLBNY must be secured by specified types of collateral, and long-term Advances may be obtained only for the purpose of providing funds for residential housing finance. The Bank, as a member of the FHLBNY, is currently required to acquire and hold shares of capital stock in the FHLBNY in an amount equal to the greater of: (i) \$500; (ii) 1% of the unpaid principal balance of residential mortgage loans and contracts and other mortgage related assets at the beginning of each year; or (iii) 5% of the Bank's aggregate outstanding advances from the FHLBNY.

Pursuant to regulations promulgated by the Federal Housing Finance Board, as required by Gramm-Leach, the FHLBNY has adopted a capital plan that changed the foregoing minimum stock ownership requirements for FHLBNY stock. Under the new capital plan, each member of the FHLBNY will be required to maintain a minimum investment in FHLBNY capital stock in an amount equal to the sum of (i) the greater of \$1,000 or 0.20% of the member's mortgage-related assets, and (ii) 4.50% of the dollar amount of any outstanding Advances under such members Advances, Collateral Pledge and Security Agreement with the FHLBNY. The FHLBNY, however, has postponed the implementation of the new capital plan, and the new implementation date has not yet been determined. The Bank is currently in compliance with the requirements of the new capital plan and does not expect its implementation to have a material impact upon its financial condition or results of operations.

Federal Reserve System. The Bank is subject to provisions of the FRA and FRB regulations pursuant to which depository institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). FRB regulations generally require that reserves be maintained in the amount of 3% of the aggregate of transaction accounts up to \$45.4 million. Aggregate transaction accounts in excess of \$45.4 million are currently subject to a reserve of \$1.2 million plus 10%. FRB regulations currently exempt the initial \$6.6 million of otherwise reservable balances from the reserve requirements, which exemption is adjusted by the FRB at the end of each year. The Bank is in compliance with the foregoing reserve requirements.

Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to satisfy the FRB reserve requirements may be used to satisfy liquidity requirements imposed by the OTS.

FRB members are additionally authorized to borrow from the Federal Reserve "discount window," however, FRB regulations require such institutions to hold reserves in the form of vault cash or deposits with Federal Reserve Banks in order to borrow.

Anti-Money Laundering and Customer Identification. The Company is subject to OTS regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act"). The USA PATRIOT Act provides the federal government with powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act enacts measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of Title III and the related OTS regulations impose affirmative obligations on a broad range of financial institutions, including banks and thrifts. Title III imposes the following requirements, among others, with respect to financial institutions:

- Establishment of anti-money laundering programs.
- Establishment of procedures for obtaining identifying information from customers opening new accounts, including verifying their identity within a reasonable period of time.
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering.
- Prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks.

The OTS adopted interim final rules implementing the USA PATRIOT Act in 2002 and adopted final rules implementing the customer identification requirements on May 9, 2003. The final rule became effective June 9, 2003, however, financial institutions were permitted until October 1, 2003 to comply with the final rule. Compliance with the regulations adopted under USA PATRIOT Act did not have a material adverse impact on the financial condition or results of operations of the Company.

Regulation of Holding Company

The Holding Company is a non-diversified unitary savings and loan holding company within the meaning of HOLA. As such, it is required to register with the OTS and is subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over the Holding Company's non-savings association subsidiaries. Among other effects, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness, or stability of a subsidiary savings association.

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

As a unitary savings and loan holding company, the Holding Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to satisfy the QTL test (See "Regulation - Regulation of Federal Savings Associations - QTL Test" for a discussion of the QTL requirements). Upon any non-supervisory acquisition by the Holding Company of another savings association or a savings bank that satisfies the QTL test and is deemed to be a savings association by the OTS and that will be held as a separate subsidiary, the Holding Company will become a multiple savings association holding company and will be subject to limitations on the types of business activities in which it may engage. HOLA limits the activities of a multiple savings association holding company and its non-insured association subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the BHC Act, subject to prior approval of the OTS, and to other activities authorized by OTS regulation.

The OTS is prohibited from approving any acquisition that would result in a multiple savings association holding company controlling savings associations in more than one state, subject to two exceptions: an acquisition of a savings association in another state (a) in a supervisory transaction, or (b) pursuant to authority under the laws of the state of the association to be acquired that specifically permit such acquisitions. The conditions imposed upon interstate acquisitions by those states that have enacted authorizing legislation vary.

Gramm-Leach also restricts the powers of new unitary savings and loan association holding companies. A unitary savings and loan holding company that is "grand-fathered," *i.e.*, became a unitary savings and loan holding company pursuant to an application filed with the OTS prior to May 4, 1999, such as the Holding Company, retains its authority under the prior law. All other savings and loan holding companies are limited to financially related activities permissible for bank holding companies, as defined under Gramm-Leach. Gramm-Leach also prohibits non-financial companies from acquiring grandfathered savings and loan association holding companies.

The Bank must file a notice with the OTS prior to the declaration or payment of any dividends or other capital distributions to the Holding Company (See "Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions").

Federal Securities Laws

The Holding Company's common stock is registered with the SEC under Section 12(g) of the Exchange Act. It is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Item 2. Properties

The headquarters of both the Holding Company and the Bank are located at 209 Havemeyer Street, Brooklyn, New York 11211. The headquarters building is fully owned by the Bank. The Bank conducts its business through twenty full-service retail banking offices located throughout Brooklyn, Queens, the Bronx and Nassau County, New York.

Item 3. Legal Proceedings

The Company is not involved in any pending legal proceedings other than legal actions arising in the ordinary course of business which, in the aggregate, involve amounts which are believed to be material to its financial condition and results of operations.

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

None.

PART II

Item 5. Market for the Holding Company's Common Stock and Related Stockholder Matters

The Holding Company's common stock is traded on the Nasdaq National Market and quoted under the symbol "DCOM." Prior to June 15, 1998, the Holding Company's common stock was quoted under the symbol "DIME."

The following table indicates the high and low sales price for the Holding Company's common stock and dividends declared during the periods indicated. The Holding Company's common stock began trading on June 26, 1996, the date of the initial public offering. All amounts have been adjusted to reflect the Company's 50% stock dividends paid on August 21, 2001 and April 24, 2002.

Quarter Ended	Twelve Months Ended December 31, 2003			Twelve Months Ended December 31, 2002		
	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
March 31 st	\$0.14	\$23.49	\$18.60	\$0.10	\$21.47	\$18.13
June 30 th	0.14	26.34	22.28	0.10	26.80	19.60
September 30 th	0.17	28.00	23.00	0.12	27.09	20.00
December 31 st	0.17	31.90	23.02	0.12	22.87	19.00

On December 31, 2003, the last trading date in the fiscal year, the Holding Company's common stock closed at \$30.76. Management estimates that the Holding Company had approximately 3,700 shareholders of record as of March 11, 2004, including persons or entities holding stock in nominee or street name through various brokers and banks. There were 25,410,074 shares of common stock outstanding at December 31, 2003.

On August 21, 2001, the Holding Company paid a 50% common stock dividend to all shareholders of record as of July 31, 2001. This dividend had the effect of a three-for-two stock split. On April 24, 2002, the Holding Company paid a 50% common stock dividend to all shareholders of record as of April 1, 2002. This dividend also had the effect of a three-for-two stock split.

During the year ended December 31, 2003, the Holding Company paid cash dividends totaling \$15.8 million, representing \$0.62 per outstanding common share. During the six months ended December 31, 2002, the Holding Company paid cash dividends totaling \$6.2 million, representing \$0.24 per outstanding common share. During the year ended June 30, 2002, the Holding Company paid cash dividends totaling \$9.9 million, which represented \$0.38 per outstanding common share as adjusted for the stock splits effective August 21, 2001 and April 24, 2002. During the year ended June 30, 2001, the Holding Company paid cash dividends totaling \$8.7 million, which represented \$0.34 per outstanding common share.

On January 22, 2004, the Board of Directors declared a cash dividend of \$0.20 per common share to all shareholders of record as of January 30, 2004. This dividend was paid on February 5, 2004.

On February 19, 2004, the Board of Directors declared a 50% stock dividend having the effect of a 3-for-2 stock split to all shareholders of record as of March 1, 2004. This dividend will be paid on March 16, 2004.

The Holding Company is subject to the requirements of Delaware law, which generally limit dividends to an amount equal to the excess of net assets (the amount by which total assets exceed total liabilities) over statutory capital, or if no such excess exists, to net profits for the current and/or immediately preceding fiscal year.

As the principal asset of the Holding Company, the Bank could be called upon to provide funds for the Holding Company's payment of dividends (See "Regulation – Regulation of Federal Savings Associations – Limitation on Capital Distributions"). (See Note 2 to the Company's Audited Financial Statements for a discussion of limitations on distributions from the Bank to the Holding Company).

In April 2000, the Holding Company issued \$25.0 million in subordinated notes payable, with a stated annual coupon rate of 9.25%. It is required, pursuant to the provisions of the notes, to first satisfy the interest obligation on these notes, which approximates \$2.4 million annually, prior to the authorization and payment of common stock cash dividends. Management of the Holding Company does not believe that this requirement will materially affect its ability to pay dividends to its common shareholders.

Item 6. Selected Financial Data

Financial Highlights (Dollars in Thousands, except per share data)

The consolidated financial and other data of the Company as of and for the years ended December 31, 2003, June 30, 2002, June 30, 2001, June 30, 2000, and June 30, 1999, and the six months ended December 31, 2002 set forth below is derived in part from, and should be read in conjunction with, the Company's Consolidated Financial Statements and Notes thereto. The consolidated financial and other data for the year ended December 31, 2002 and the six months ended December 31, 2001 are unaudited. Amounts as of and for the six months ended December 31, 2002 and the years ended June 30, 2002, 2001, 2000 and 1999 have been reclassified to conform to the December 31, 2003 presentation.

	At or for the Twelve Months Ended December 31,	At or for the Twelve Months Ended December 31,	At or for the Six Months Ended December 31,	At or for the Six Months Ended December 31,	At or for the Twelve Months Ended June 30,			
	2003	2002	2002	2001	2002	2001	2000	1999
Selected Financial Condition Data:								
Total assets	\$2,971,661	\$2,946,374	\$2,946,374	\$2,779,882	\$2,810,132	\$2,721,744	\$2,502,139	\$2,247,615
Loans, net (1)	2,177,622	2,154,619	2,154,619	2,040,070	2,104,884	1,944,902	1,706,515	1,368,260
Mortgage-backed securities	462,737	362,952	362,952	364,375	291,488	438,447	442,690	525,667
Investment securities (2)	64,517	140,279	140,279	137,614	173,818	139,523	181,033	206,611
Federal funds sold and other short-term investments	95,286	114,291	114,291	73,279	76,474	36,619	9,449	11,011
Goodwill	55,638	55,638	55,638	55,638	55,638	55,638	60,254	64,871
Deposits	2,041,678	1,927,175	1,927,175	1,595,362	1,780,034	1,428,432	1,219,148	1,238,933
Borrowings	571,675	675,541	675,541	872,547	697,717	995,288	1,014,027	731,660
Stockholders' equity	283,919	265,737	265,737	243,917	249,741	227,116	207,169	211,695
Tangible Stockholders' equity	228,026	206,325	206,325	180,954	189,827	164,513	149,464	145,562
Selected Operating Data:								
Interest income	\$169,115	\$181,914	\$90,469	\$93,136	\$184,581	\$181,648	\$165,623	\$135,390
Interest expense on deposits and borrowings	71,063	91,790	43,278	53,732	102,244	114,043	98,820	77,219
Net interest income	98,052	90,124	47,191	39,404	82,337	67,605	66,803	58,171
Provision for losses	288	240	120	120	240	740	240	240
Net interest income after provision for loan losses	97,764	89,884	47,071	39,284	82,097	66,865	66,563	57,931
Non-interest income	25,122	19,999	10,765	5,603	14,837	9,292	5,043	6,438
Non-interest expense	40,809	38,696	20,368	17,103	35,431	35,096	34,015	30,493
Income before income tax	82,077	71,187	37,468	27,784	61,503	41,061	37,591	33,876
Income tax expense	30,801	26,565	14,008	10,269	22,826	15,821	15,217	14,015
Net income	\$51,276	\$44,622	\$23,460	\$17,515	\$38,677	\$25,240	\$22,374	\$19,861

(1) Loans, net represents gross loans (including loans held for sale) less net deferred loan fees and allowance for loan losses.

(2) Amount includes investment in FHLBNY capital stock.

	At or for the Twelve Months Ended December 31,	At or for the Twelve Months Ended December 31,	At or for the Six Months Ended December 31,	At or for the Six Months Ended December 31	At or for the Year Ended June 30,			
	2003	2002	2002	2001	2002	2001	2000	1999
(Dollars in Thousands)								
SELECTED FINANCIAL RATIOS AND OTHER DATA								
(3):								
Return on average assets	1.67%	1.57%	1.62%	1.27%	1.40%	0.97%	0.93%	1.02%
Return on average stockholders' equity	18.76	17.65	18.17	14.97	16.07	11.67	10.65	10.34
Stockholders' equity to total assets at end of period	9.55	9.02	9.02	8.77	8.89	8.34	8.28	9.42
Tangible equity to tangible assets at end of period	7.82	7.15	7.15	6.66	6.90	6.19	6.11	6.67
Loans to deposits at end of period	107.39	112.60	112.60	128.85	119.11	137.24	141.18	111.66
Loans to interest-earning assets at end of period	77.89	77.85	77.85	78.13	79.65	76.13	73.10	65.05
Net interest spread (4)	3.08	2.93	3.07	2.61	2.70	2.32	2.48	2.61
Net interest margin (5)	3.36	3.33	3.41	3.01	3.12	2.76	2.91	3.11
Average interest-earning assets to average interest-bearing liabilities	111.60	111.64	111.88	110.58	110.99	109.33	110.04	112.33
Non-interest expense to average assets	1.33	1.36	1.40	1.24	1.28	1.35	1.41	1.57
Core non-interest expense to average assets (6)	1.30	1.28	1.37	1.21	1.25	1.14	1.24	1.37
Efficiency ratio (7)	33.05	36.49	36.41	38.09	37.29	46.25	46.33	47.84
Core efficiency ratio (6) (7)	32.38	34.44	35.67	37.17	36.42	39.08	40.77	41.96
Effective tax rate	37.53	37.32	37.39	36.96	37.11	38.53	40.48	41.37
Dividend payout ratio	30.10	25.00	25.81	27.14	24.61	33.63	34.74	30.36
Per Share Data:								
Diluted earnings per share	\$2.06	\$1.76	\$0.93	\$0.70	\$1.54	\$1.00	\$0.84	\$0.75
Cash dividends paid per share	0.62	0.44	0.24	0.19	0.38	0.34	0.29	0.23
Book value per share	11.17	10.36	10.36	9.46	9.68	8.91	7.89	7.36
Tangible book value per share	8.97	8.04	8.04	7.01	7.35	6.45	5.69	5.06
Asset Quality Ratios and Other Data:								
Net charge-offs	\$29	\$274	\$32	\$87	\$329	\$66	\$536	\$201
Total non-performing loans	525	2,116	2,116	1,899	2,123	3,058	4,421	3,001
Other real estate owned, net	-	134	134	179	114	370	381	866
Non-performing loans to total loans	0.02%	0.10%	0.10%	0.09%	0.10%	0.16%	0.26%	0.22%
Non-performing loans and real estate owned to total assets	0.02	0.08	0.08	0.07	0.08	0.13	0.19	0.17
Allowance for Loan Losses to:								
Non-performing loans	2,860.57%	730.53%	730.53%	815.80%	723.98%	505.53%	334.43%	502.53%
Total loans (8)	0.68	0.71	0.71	0.75	0.72	0.79	0.86	1.09
Regulatory Capital Ratios: (Bank only)								
Tangible capital	7.97%	7.19%	7.19%	6.69%	6.91%	6.10%	5.76%	5.83%
Core capital	7.97	7.19	7.19	6.69	6.91	6.10	5.76	5.83
Risk-based capital	15.03	13.17	13.17	13.17	12.94	12.57	11.62	11.45
Earnings to Fixed Charges Ratios (9):								
Including interest on deposits	2.15x	1.78x	1.87x	1.52x	1.60x	1.36x	1.38x	1.44x
Excluding interest on deposits	3.50	2.49	2.73	2.02	2.16	1.64	1.70	2.03
Full Service Branches	20	20	20	18	20	18	18	19

(3) With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods. Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.

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

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

(6) In calculating these ratios, amortization expense related to goodwill and the core deposit intangible is excluded from non-interest expense.

(7) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income, excluding any gains or losses on sales of assets.

(8) Total loans represents loans, net, plus the allowance for loan losses.

(9) For purposes of computing the ratios of earnings to fixed charges, earnings represent income before taxes, extraordinary items and the cumulative effect of accounting changes plus fixed charges. Fixed charges represent total interest expense, including and excluding interest on deposits.

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

Executive Summary

The Holding Company's primary business is the operation of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees and income associated with the Bank's purchase of Bank Owned Life Insurance ("BOLI"). Non-interest expenses primarily consist of employee compensation and benefits, federal deposit insurance premiums, data processing fees, marketing expenses and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

The Bank's primary strategy is to increase its household and deposit market shares in the communities that it serves, either through direct marketing, acquisitions or purchases of deposits. The Bank also seeks to increase its product and service utilization for each individual depositor. In addition, the Bank's primary strategy includes the origination of, and investment in, mortgage loans, with an emphasis on multi-family residential loans secured by mixed use properties that are classified as either multi-family residential or commercial real estate loans based upon the income characteristics of the underlying collateral property. Multi-family residential lending is a significant business of the Bank, reflecting the fact that much of the housing in its primary lending area is multi-family. Recently we have had success in increasing our portfolio of loans secured by mixed-use properties that are classified as commercial real estate loans, typified by commercial units on ground level and residential apartment units on upper floors.

We believe that multi-family residential and commercial real estate loans provide advantages as investment assets. Initially, they offer a higher yield than one-to four-family loans or investment securities of comparable maturities or terms to repricing. Origination and processing costs for the Bank's multi-family residential and commercial real estate loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. In addition, the Bank's market area generally has provided a stable flow of new and refinanced multi-family residential and commercial real estate loan originations. In order to address the higher credit risk associated with multi-family residential and commercial real estate lending, the Bank has developed underwriting standards that it believes are reliable in order to maintain consistent credit quality for its loans.

The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities; seeks to maintain the asset quality of its loans and other investments; and uses appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital. In 2003, we experienced modest growth in assets, primarily in MBS available for sale and commercial real estate loans secured by mixed-use properties. Increases in real estate loan origination levels were driven by the continuation of the low interest rate environment during 2003. This environment also resulted in an increase in principal repayments on loans and MBS resulting from increased customer refinance activities. Deposits grew in 2003 due to the success of various sales and marketing activities during the period, primarily for money market accounts, while we continued to manage our cost of funds by prepaying higher cost REPOS.

During 2003 we experienced an increase in net interest income attributable to a decline in the average cost of interest-bearing liabilities as a result of a shift in the composition of interest-bearing liabilities away from higher cost borrowings towards lower cost CDs, money market and other deposit accounts, and a decline in the average cost of borrowed funds due to general declines in interest rates during the period. The decline in interest rates, particularly long-term rates between October 2002 and June 2003, also reduced the average yield on real estate loans and MBS as these assets repriced in the lower rate environment that prevailed throughout the year. The Bank's general policy has been to emphasize growth in real estate loans as its primary interest-earning asset, and de-emphasize its investment and MBS portfolios while loan origination demand is strong. However, as part of a specific investment strategy to achieve a desirable balance of yield and liquidity on short-term investments in the prevailing interest rate environment, the Bank purchased MBS during 2003 resulting in an increase in the average balance of the portfolio which helped to partially offset the impact of the lower yields in the prevailing environment. We also benefited from increased prepayment fee income, as a result of prepayments related to the low interest rate environment.

We have positioned ourselves for a potential turn in interest rates by not fully deploying our strong capital position in the historically low interest rate environment of 2003. We would expect a controlled deployment of our capital should interest rates rise steadily, though we could experience some pressure on our net interest income should rates rise rapidly.

Overview

Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank. The Holding Company's primary business is the operation of the Bank.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing those deposits primarily in multi-family residential mortgage loans, commercial real estate loans, one- to four-family residential mortgage loans, construction loans, consumer loans, mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities. The Bank's revenues are derived principally from interest on its loan and securities portfolios. The Bank's primary sources of funds are deposits; loan amortization, prepayments and maturities; MBS amortization, prepayments and maturities; investment securities maturities; advances ("Advances") from the Federal Home Loan Bank of New York ("FHLBNY"); securities sold under agreement to repurchase ("REPOS"); and, the sale of real estate loans to the secondary market.

The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees and income associated with the Bank's purchase of Bank Owned Life Insurance ("BOLI"). Non-interest expenses primarily consist of employee compensation and benefits, federal deposit insurance premiums, data processing fees, marketing expenses and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

Critical Accounting Policies

Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2003 contains a summary of the significant accounting policies adopted by the Company. Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. The Company's policies with respect to the methodologies it uses to determine the allowance for loan losses, the valuation of mortgage servicing rights and asset impairment judgments (including the valuation of goodwill and intangible assets and other than temporary declines in the value of securities), and loan income recognition are the Company's most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations and involve a high degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the Company's results of operations or financial condition.

The following is a description of the Company's critical accounting policies and an explanation of the methods and assumptions underlying their application. These critical policies and their application are reviewed periodically and at least annually with the Audit Committee of the Company's Board of Directors.

Allowance for Loan Losses.

The loan loss reserve methodology consists of several key components, including a review of the two elements of the Bank's loan portfolio, classified loans (*i.e.* non-performing loans, troubled-debt restructuring and impaired loans under Amended SFAS 114) and performing loans. At December 31, 2003, the majority of the allowance for loan losses was allocated to performing loans, which represented the overwhelming majority of the Bank's loan portfolio.

Performing loans are reviewed at least quarterly based upon the premise that there are losses inherent within the loan portfolio that have not been identified as of the balance sheet date. As a result, the Bank calculates an allowance for loan losses related to its performing loans by deriving an expected loan loss percentage and applying it to its performing loans. In deriving the expected loan loss percentage, the Bank considers the following criteria: the Bank's historical loss experience; the age and payment history of the loans (commonly referred to as their "seasoned quality"); the type of loan (*i.e.*, one- to four-family, multi-family residential, commercial real estate, cooperative apartment or consumer); the underwriting history of the loan (*i.e.*, whether it was underwritten by the Bank or a predecessor institution acquired subsequently by the Bank and, therefore, originally subjected to different underwriting criteria); both the current condition and recent history of the overall local real estate market (in order to determine the accuracy of utilizing recent historical charge-off data in order to derive the expected loan loss percentages); the level of and trend in non-performing loans; the level and composition of new loan activity; and the existence of geographic loan concentrations (as the overwhelming majority of the Bank's loans are secured by real estate properties located in the New York City metropolitan area) or specific industry conditions within the portfolio segments. Since these criteria effect the expected loan loss percentages that are applied to performing loans, changes in any one or more of these criteria will effect the amount of the allowance and the provision for loan losses. The Bank applied the process of determining the allowance for loan losses consistently throughout the year ended December 31, 2003, the six months ended December 31, 2002 and the twelve months ended June 30, 2002 and 2001.

Loans classified as Special Mention, Substandard or Doubtful are reviewed individually on a quarterly basis by the Loan Loss Reserve Committee to determine if specific reserves are appropriate. Under the guidance established by Amended SFAS 114, loans determined to be impaired are evaluated in order to establish whether the estimated value of the underlying collateral determined from independent appraisals is sufficient to satisfy the existing debt. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimate of its fair value. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. Generally, the Bank considers non-performing and troubled-debt restructured multi-family residential and commercial real estate loans, along with non-performing one- to four-family loans exceeding \$333,700, to be impaired. Non-performing one-to four-family loans of \$333,700 or less are considered homogeneous loan pools and are not required to be evaluated for impairment.

There were no impaired loans at December 31, 2003. The recorded investment in loans deemed impaired was approximately \$690,000, consisting of one loan, at December 31, 2002. The average total balance of impaired loans was approximately \$314,000 during the year ended December 31, 2003, \$684,000 during the six months ended December 31, 2002, and \$3.2 million and \$3.7 million during the years ended June 30, 2002 and 2001, respectively. The decrease in both the current and average balance of impaired loans resulted primarily from the repayment in June 2002 of an impaired \$2.9 million troubled-debt restructured loan. At both December 31, 2003 and 2002, there were no reserves allocated within the allowance for loan losses for impaired loans.

If approved by the Board of Directors, the Bank will additionally increase its valuation allowance in an amount recommended by the Loan Loss Reserve Committee to appropriately reflect the anticipated loss from any other loss classification category. Typically, the Bank's policy is to charge-off immediately all balances classified "Loss" and all charge-offs are recorded as a reduction of the allowance for loan losses. The Bank applied this process consistently throughout the year ended December 31, 2003, the six months ended December 31, 2002 and the twelve months ended June 30, 2002 and 2001.

The Loan Loss Reserve Committee's determination of the estimated fair value of the underlying collateral is subject to assumptions and judgments made by the committee. A specific valuation allowance could differ materially as a result of changes in these assumptions and judgments.

Although management believes that the Bank maintains its allowance for loan losses at appropriate levels, subsequent adjustments may be necessary if economic or other conditions in the future differ from the current operating environment. Although the Bank utilizes the most reliable information available, the level of the allowance for loan losses remains an estimate subject to significant judgment and short-term change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, its valuation of OREO, and the level of loans both in, and pending, foreclosure. Based on their judgments about information available to them at the time of their examination, the regulators may require the Bank to recognize adjustments to the allowance.

These evaluations are inherently subjective because, even though they are based upon objective data, it is management's interpretation of that data that determines the amount of the appropriate allowance. Therefore, the Company periodically reviews the actual performance and charge-off of its portfolio and compares that to the previously determined allowance coverage percentages. In doing so, the Company evaluates the impact that the previously mentioned variables may have on the portfolio to determine which changes, if any, should be made to the assumptions and analyses.

As indicated above, actual results could differ from the Company's estimates as a result of changes in economic or market conditions. Changes in estimates could result in a material change in the allowance for loan losses. While the Company believes that the allowance for loan losses has been established and maintained at levels adequate to reflect the risks inherent in its loan portfolio, future increases may be necessary if the economic or market conditions decline substantially from the conditions that existed at the time of the initial determination.

Valuation of Mortgage Servicing Rights ("MSR"). The estimated origination and servicing cost of mortgage loans sold in which servicing rights are retained, is allocated between the loans and the servicing rights based on their estimated fair values at the time of loan sale. Servicing assets are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, net servicing income. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that the Company believes market participants would use for similar assets. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans for the purpose of evaluating impairment. A valuation allowance is

then established in the event the recorded value of an individual stratum exceeds fair value. All estimates and assumptions utilized in the valuation of the mortgage servicing rights are derived based upon actual historical results for either the Bank or its industry peers.

The fair value of the MSR is sensitive to changes in assumptions. Fluctuations in prepayment speed assumptions have the most significant impact on the fair value of the MSR. In the event that loan prepayment activities increase due to increased loan refinancing, the fair value of the MSR would likely decline. In the event that loan prepayment activities decrease due to a decline in loan refinancing, the fair value of the MSR would likely increase. Any measurement of the MSR is limited by the existing conditions and assumptions utilized at a particular point in time, and would not necessarily be appropriate if they were applied at a different point in time.

Asset Impairment Adjustments (Including valuation of goodwill and intangible assets and other than temporary declines in value of securities). Certain of the Company's assets are carried in its consolidated statements of financial condition at fair value or at the lower of cost or fair value. Valuation allowances are established when necessary to recognize impairment of such assets. Management of the Company periodically performs analyses to test for impairment of these assets. In addition to these impairment analyses related to loans and MSR discussed above, two other significant impairment analyses relate to the value of goodwill and other than temporary declines in the value of the Company's securities.

Goodwill is accounted for in accordance with SFAS 142, "Goodwill and Other Intangible Assets," which was adopted on July 1, 2001. SFAS 142 eliminated amortization of goodwill and instead requires that an annual impairment test be performed annually at the reporting unit level. As of the date of adoption of SFAS 142, and as of December 31, 2003, the Company had goodwill totaling \$55.6 million. Prior to adoption of SFAS 142, annual goodwill amortization expense totaled \$4.6 million.

For purposes of its goodwill impairment testing, the Company identified a single reporting unit. The impairment test is therefore performed on a consolidated basis and compares the Company's market capitalization (reporting unit fair value) to its outstanding equity (reporting unit carrying value). In accordance with the recommended provisions of SFAS 142, the Company utilizes its closing stock price as reported on the Nasdaq National Market on the date of the impairment test in order to compute market capitalization. The Company has designated the last day of its fiscal year as the annual date for impairment testing. The Company performed its annual impairment test as of December 31, 2003 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events have occurred, nor circumstances changed subsequent to December 31, 2003, that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require an immediate impairment test to be performed in accordance with SFAS 142. Differences in the identification of reporting units and the use of valuation techniques can result in materially different evaluations of impairment.

Debt and equity securities that have readily determinable fair values are carried at fair value unless they are held to maturity. Estimated fair values for securities are based on published or securities dealers' market values. Debt securities are classified as held to maturity and carried at amortized cost only if the Company has a positive intent and ability to hold these securities to maturity. If not classified as held to maturity, such securities are classified as securities available for sale or as trading securities. Unrealized holding gains or losses on securities available for sale are excluded from net income and reported net of income taxes as other comprehensive income. The Company conducts a periodic review and evaluation of its securities portfolio to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary. If such decline is deemed other than temporary, the carrying amount of the security is adjusted through a valuation allowance. For the periods ended December 31, 2003, December 31, 2002, June 30, 2002 and June 30, 2001, there were no other-than temporary impairments in the securities portfolio.

Loan Income Recognition. Interest income on loans is recorded using the level yield method. Under this method, discount accretion and premium amortization are included in interest income. Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms. Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, any interest accrued to income in the current year is reversed. Payments on nonaccrual loans are generally applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to cover the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions.

Liquidity and Capital Resources

The Bank's primary sources of funds are deposits; proceeds from principal and interest payments on loans, MBS and investments; borrowings; and proceeds from the sale of multi-family residential loans to FNMA, and fixed-rate, one- to four-family mortgage loans to the secondary mortgage market. While maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. In addition, it must also compete for deposit monies against the stock markets and mutual funds, especially during periods of strong performance in the U.S. equity markets. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives (such as the U.S. bond or equity markets). To the extent that the Bank is responsive to general increases or declines in interest rates, the Company's deposit flows should not be materially impacted. The successful performance of the U.S. equity markets could adversely impact the Company's deposit flows.

Deposits increased \$114.5 million during the year ended December 31, 2003, \$147.1 million during the six months ended December 31, 2002, \$351.6 million during the year ended June 30, 2002, and \$209.3 million during the year ended June 30, 2001. The increase in deposits during each of these periods reflected increased marketing efforts that helped generate additional deposit balances in CDs and core deposit accounts. The increase was also partially attributable to a consumer trend to move monies out of the equity markets and into deposit accounts during the period. During the six months ended December 31, 2002, a successful campaign that attracted longer-term CDs resulted in growth in CDs of \$82.1 million. Otherwise, money market accounts realized the greatest growth during these periods, increasing \$128.6 million during the year ended December 31, 2003, \$60.4 million during the six months ended December 31, 2002, \$260.2 million during the year ended June 30, 2002, and \$150.1 million during the year ended June 30, 2001. The additional level of deposit growth during the year ended June 30, 2002 reflected an extension of the successful promotional deposit activities engaged in during the twelve months ended June 30, 2001, particularly money market deposit promotions. In addition, the twelve months ended June 30, 2002 saw the establishment of two de novo branch offices, which gathered approximately \$49.2 million in deposits as of June 30, 2002. CDs scheduled to mature in one year or less from December 31, 2003 totaled \$552.9 million. Based upon the Bank's current pricing strategy and deposit retention experience, management believes that the Bank will retain a significant portion of such deposits.

During the year ended December 31, 2003, principal repayments on real estate loans totaled \$972.6 million and principal repayments on MBS totaled \$364.2 million. During the year ended December 31, 2002, principal repayments on real estate loans totaled \$520.0 million and principal repayments on MBS totaled \$249.3 million. The increase in principal repayments on loans and MBS resulted from added customer refinance activities associated with the continued level of low, long-term interest rates during the period January 1, 2002 through December 31, 2003, as well as a decline in long-term interest rates during the period October 2002 through June 2003. Maturities and calls of investment securities totaled \$67.9 million during the year ended December 31, 2003 and \$58.1 million during the year ended December 31, 2002. During the period January 1, 2002 through December 31, 2003, the Company and Bank experienced an increased level of call activity on their investment securities due to the reduction in market interest rates. Increases in long-term rates during the second half of 2003 did not significantly impact the level of prepayments or origination levels that previously existed during 2003.

The Bank implemented a program in December 2002 to originate and sell multi-family residential mortgage loans in the secondary market to FNMA while retaining servicing. The Bank underwrites these loans using its customary underwriting standards, funds the loans, and sells them to FNMA at agreed upon pricing. Typically, the Bank seeks to sell loans with terms to maturity or repricing in excess of five years from the origination date. During the years ended December 31, 2003 and 2002, respectively, the Bank sold \$89.8 million and \$73.4 million of loans pursuant to this program. Under the terms of the sales program, the Bank retains a portion of the associated credit risk. Once established, such amount would continue to increase as long as the Bank continues to sell loans under this program to FNMA. The Bank retains this level of exposure until the portfolio of loans are paid in entirety or the Bank funds claims by FNMA for the maximum loss exposure.

During the years ended December 31, 2003 and 2002, REPOS declined \$82.9 million and \$179.5 million, respectively on a net basis and FHLBNY Advances declined \$21.0 million and \$17.5 million on a net basis. During the years ended December 31, 2003 and 2002, management elected to prepay \$82.0 million and \$297.0 million of short- and medium-term REPOS and FHLBNY Advances. During the year ended December 31, 2002, a portion of these prepaid borrowings were replaced with longer term FHLBNY Advances possessing a lower average interest cost. During the year ended December 31, 2003, none of the prepaid borrowings were replaced. As of December 31, 2003, there were \$174.5 million in borrowings due to mature or reprice within one year, the majority of which are obligations of the Bank.

The Bank's primary uses of liquidity and capital resources are the origination of real estate loans and the purchase of mortgage-backed and other securities. During the years ended December 31, 2003 and 2002, real estate loan originations totaled \$1.10 billion and \$713.0 million, respectively. A continued level of low, long-term interest rates during the period January 2003 through December 2003 contributed to an increase in origination activity during the year ended December 31, 2003. Purchases of investment securities and MBS, which were \$328.6 million during the year ended December 31, 2002, totaled \$531.3 million for the year ended December 31, 2003. The increase in purchase activity during the year ended December 31, 2003 reflected both the replacement of MBS amortization during the period and the acquisition of a greater volume of short-term and medium-term securities that will likely be re-invested in real estate loans in the event that long-term interest rates rise.

During the year ended December 31, 2003, the Holding Company purchased 1,075,000 shares of its common stock into treasury. All shares were recorded at their respective acquisition cost, which totaled \$26.8 million during the year ended December 31, 2003. As of December 31, 2003, up to 1,026,757 shares remained available for purchase under authorized share purchase programs. Based upon the closing price of its common stock of \$30.76 per share as of December 31, 2003, the Holding Company would utilize \$31.6 million in funds in order to purchase all of these remaining authorized shares. For the Holding Company to complete these share purchases, it will likely require dividend distributions from the Bank.

The levels of the Bank's short-term liquid assets are dependent on its operating, financing and investing activities during any given period. The Bank monitors its liquidity position on a daily basis. During the year ended December 31, 2003, the Bank experienced increased liquidity resulting from deposit growth, as well as higher levels of real estate loan and MBS prepayments and the sale of loans to FNMA. As of December 31, 2003, a portion of these funds had not been used to fund loan originations or other investment activities. Temporary excess liquidity is invested in overnight federal funds sales and various money market investments.

In the event that the Bank should require funds beyond its ability to generate them internally, additional sources of funds are available through use of its borrowing line at the FHLB/NY. At December 31, 2003, the Bank had an additional potential borrowing capacity of \$372.2 million available should it purchase the minimum required level of FHLB/NY common stock of 1/20th of its outstanding FHLB/NY borrowings.

The Bank is subject to minimum regulatory capital requirements imposed by the OTS, which requirements are, as a general matter, based on the amount and composition of an institution's assets. At December 31, 2003, the Bank was in compliance with all applicable regulatory capital requirements. In addition, at December 31, 2003, the Bank was considered "well-capitalized" for all regulatory purposes (See "Item 1 – Business – Regulation – Regulation of Federal Savings Associations – Capital Requirements").

The Company's ratio of stockholders' equity to total assets was 9.55% and 9.02%, respectively, ay December 31, 2003 and 2002.

Contractual Obligations

The Bank has outstanding at any time, a significant number of borrowings in the form of FHLBNY Advances or Repos. The Holding Company also has an outstanding non-callable subordinated note payable of \$25.0 million due to mature in 2010. The Bank is obligated under leases for certain rental payments due on its branches and equipment. A summary of borrowings and lease obligations at December 31, 2003 is as follows:

	Less than One Year to One Year	Over Three Years to Five Years	Over Five Years	Total at December 31, 2003	
(Dollars in Thousands)					
Borrowings (including subordinated note payable)	\$174,467	\$125,000	\$58,708	\$213,500	\$571,675
Operating lease obligations	\$897	\$1,737	\$1,545	\$3,166	\$7,345

Off Balance Sheet Arrangements

The Bank has outstanding commitments to extend credit to third parties, which are subject to strict credit control assessments. Since many of these loan commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.

	Less than One Year to One Year	Over Three Years to Five Years	Over Five Years	Total at December 31, 2003	
(Dollars in Thousands)					
Credit Commitments:					
Available lines of credit	\$28,342	\$-	\$-	\$-	\$28,342
Other loan commitments	94,500	-	-	-	94,500
Total Commitments	\$122,842	\$-	\$-	\$-	\$122,842

Analysis of Net Interest Income

The Company's profitability, like that of most financial institutions, is dependent to a significant extent upon net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits or borrowings. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned or paid on them. The following tables set forth certain information relating to the Company's consolidated statements of operations for the years ended December 31, 2003 and the unaudited year ended December 31, 2002, the six months ended December 31, 2002 and the unaudited six months ended December 31, 2001, and the years ended June 30, 2002 and 2001, and reflect the average yield on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated. Average balances are derived from daily balances. The yields and costs include fees that are considered adjustments to yields. All significant changes in average balances and income or expense are discussed in the comparison of operating results commencing on page 48.

	For the Year Ended December 31,			For the Year Ended December 31,		
	2003		Average Yield/ Cost	2002		Average Yield/ Cost
	Average Balance	Interest		Average Balance	Interest	
(Dollars In Thousands)						
Assets:						
Interest-earning assets:						
Real estate loans (1)	\$2,189,747	\$145,704	6.65%	\$2,124,952	\$156,422	7.36%
Other loans	3,609	273	7.56	3,345	273	8.16
Investment securities (2)	61,352	2,361	3.85	118,316	4,909	4.15
Mortgage-backed securities	511,848	17,984	3.51	332,932	16,795	5.04
Other	148,908	2,793	1.88	128,820	3,515	2.73
Total interest-earning assets	<u>2,915,464</u>	<u>\$169,115</u>	5.80%	<u>2,708,365</u>	<u>\$181,914</u>	6.72%
Non-interest earning assets	148,747			139,042		
Total assets	<u>\$3,064,211</u>			<u>\$2,847,407</u>		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
NOW, Super Now accounts	\$33,055	\$344	1.04%	\$29,767	\$356	1.20%
Money Market accounts	682,277	10,740	1.57	535,820	11,841	2.21
Savings accounts	368,451	2,405	0.65	364,390	4,260	1.17
Certificates of deposit	872,568	24,732	2.83	759,976	27,678	3.64
Borrowed Funds	656,187	32,842	5.00	735,972	47,655	6.48
Total interest-bearing liabilities	<u>2,612,538</u>	<u>\$71,063</u>	2.72%	<u>2,425,925</u>	<u>\$91,790</u>	3.78%
Checking accounts	89,389			79,392		
Other non-interest-bearing liabilities	89,029			89,293		
Total liabilities	<u>2,790,956</u>			<u>2,594,610</u>		
Stockholders' equity	273,255			252,797		
Total liabilities and stockholders' equity	<u>\$3,064,211</u>			<u>\$2,847,407</u>		
Net interest income/ interest margin(3)		<u>\$98,052</u>	3.36%		<u>\$90,124</u>	3.33%
Net interest spread (4)			3.08%			2.93%
Net interest-earning assets	<u>\$302,926</u>			<u>\$282,440</u>		
Ratio of interest-earning assets to interest-bearing liabilities			111.60%			111.64%

(1) In computing the average balance of loans, non-performing loans have been included. Interest income includes loan servicing fees as defined under SFAS 91.

(2) Includes interest-bearing deposits in other banks.

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

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

For the Six Months Ended December 31,

	2002		2001			
	Average Balance	Interest	Average	Average	Interest	Average
			Yield/ Cost	Balance		Yield/ Cost
(Dollars In Thousands)						
Assets:						
Interest-earning assets:						
Real Estate Loans (1)	\$2,166,062	\$78,275	7.23%	\$1,995,364	\$75,823	7.60%
Other loans	3,380	141	8.34	3,330	179	10.75
Investment securities (2)	124,456	2,455	3.95	103,405	2,773	5.36
Mortgage-backed securities	344,656	7,895	4.58	407,056	12,149	5.97
Other	126,160	1,703	2.70	108,612	2,212	4.07
Total interest-earning assets	<u>2,764,714</u>	<u>\$90,469</u>	6.54%	<u>2,617,767</u>	<u>\$93,136</u>	7.12%
Non-interest earning assets	<u>138,461</u>			<u>130,866</u>		
Total assets	<u>\$2,903,175</u>			<u>\$2,748,633</u>		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
NOW, Super Now accounts	\$31,085	\$189	1.21%	\$26,606	\$157	1.17%
Money Market accounts	584,743	6,016	2.04	369,822	6,637	3.56
Savings accounts	366,260	1,843	1.00	349,993	3,236	1.83
Certificates of deposit	794,116	13,583	3.39	698,136	16,474	4.68
Borrowed Funds	694,973	21,647	6.18	922,705	27,228	5.85
Total interest-bearing liabilities	<u>2,471,177</u>	<u>\$43,278</u>	3.47%	<u>2,367,262</u>	<u>\$53,732</u>	4.50%
Checking accounts	82,783			69,333		
Other non-interest-bearing liabilities	90,979			78,014		
Total liabilities	<u>2,644,939</u>			<u>2,514,609</u>		
Stockholders' equity	<u>258,236</u>			<u>234,024</u>		
Total liabilities and stockholders' equity	<u>\$2,903,175</u>			<u>\$2,748,633</u>		
Net interest income/ interest margin(3)		<u>\$47,191</u>	3.41%		<u>\$39,404</u>	3.01%
Net interest spread (4)			3.07%			2.61%
Net interest-earning assets	<u>\$293,537</u>			<u>\$250,505</u>		
Ratio of interest-earning assets to interest-bearing liabilities			111.88%			110.58%

(1) In computing the average balance of loans, non-performing loans have been included. Interest income includes loan servicing fees as defined under SFAS 91.

(2) Includes interest-bearing deposits in other banks.

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

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

For the Year Ended June 30,

	2002			2001		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in Thousands)					
Assets:						
Interest-earning assets						
Real estate loans (1)	\$2,039,603	\$153,970	7.55%	\$1,815,672	\$140,077	7.71%
Other loans	3,320	311	9.37	3,664	338	9.22
Investment securities (2)	110,808	5,227	4.72	123,952	7,770	6.27
Mortgage-backed securities	364,131	21,049	5.78	435,136	28,881	6.64
Other	117,029	4,024	3.44	72,510	4,582	6.32
Total interest-earning assets	<u>2,634,891</u>	<u>\$184,581</u>	7.01%	<u>2,450,934</u>	<u>\$181,648</u>	7.41%
Non-interest-earning assets	135,245			144,825		
Total assets	<u>\$2,770,136</u>			<u>\$2,595,759</u>		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
NOW and Super NOW accounts	\$27,528	\$325	1.18%	\$25,871	\$306	1.18%
Money market accounts	428,360	12,462	2.91	192,692	8,338	4.33
Savings accounts	356,256	5,653	1.59	360,691	7,321	2.03
Certificates of deposit	711,986	30,568	4.29	646,377	34,375	5.32
Borrowed funds	849,837	53,236	6.26	1,016,071	63,703	6.27
Total interest-bearing liabilities	<u>2,373,967</u>	<u>\$102,244</u>	4.31%	<u>2,241,702</u>	<u>\$114,043</u>	5.09%
Checking accounts	72,667			60,888		
Other non-interest-bearing liabilities	82,811			76,922		
Total liabilities	<u>2,529,445</u>			<u>2,379,512</u>		
Stockholders' equity	240,691			216,247		
Total liabilities and stockholders' equity	<u>\$2,770,136</u>			<u>\$2,595,759</u>		
Net interest income/ interest margin (3)		<u>\$82,337</u>	3.12%		<u>\$67,605</u>	2.76%
Net interest spread (4)			2.70			2.32
Net interest-earning assets	<u>\$260,924</u>			<u>\$209,232</u>		
Ratio of interest-earning assets to interest-bearing liabilities			110.99%			109.33%

(1) In computing the average balance of loans, non-performing loans have been included. Interest income includes loan servicing fees as defined under SFAS 91.

(2) Includes interest-bearing deposits in other banks.

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

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

Rate/Volume Analysis

Net interest income can also be analyzed in terms of the impact of fluctuating interest rates on interest-earning assets and interest-bearing liabilities and changes in the volume of these assets and liabilities. The following table represents the extent to which variations in interest rates and the volume of interest-earning assets and interest-bearing liabilities have affected interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) variances attributable to fluctuations in volume (change in volume multiplied by prior rate), (ii) variances attributable to rate (changes in rate multiplied by prior volume), and (iii) the net change. Variances attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to the volume and the changes due to rate.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 Increase/ (Decrease) Due to			Six Months Ended December 31, 2002 Compared to Six Months Ended December 31, 2001 Increase/ (Decrease) Due to			
Volume	Rate	Total	Volume	Rate	Total	
(Dollars In Thousands)						
Interest-earning assets:						
Real Estate Loans	\$4,570	\$(15,288)	\$(10,718)	\$6,315	\$(3,863)	\$2,452
Other loans	21	(21)	-	3	(41)	(38)
Investment securities	(2,278)	(270)	(2,548)	487	(805)	(318)
Mortgage-backed securities	7,655	(6,466)	1,189	(1,644)	(2,610)	(4,254)
Other	461	(1,183)	(722)	296	(805)	(509)
Total	\$10,429	\$(23,228)	\$(12,799)	\$5,457	\$(8,124)	\$(2,667)
Interest-bearing liabilities:						
NOW and Super Now accounts	\$38	\$(50)	\$(12)	\$26	\$6	\$32
Money market accounts	2,783	(3,884)	(1,101)	3,035	(3,656)	(621)
Savings accounts	44	(1,899)	(1,855)	111	(1,504)	(1,393)
Certificates of deposit	3,656	(6,602)	(2,946)	1,957	(4,848)	(2,891)
Borrowed funds	(4,544)	(10,269)	(14,813)	(6,918)	1,337	(5,581)
Total	1,977	(22,704)	(20,727)	(1,789)	(8,665)	(10,454)
Net change in net interest income	\$8,452	\$(524)	\$7,928	\$7,246	\$541	\$7,787

Year Ended June 30, 2002 Compared to Year Ended June 30, 2001 Increase/ (Decrease) Due to			
Volume	Rate	Net	
Interest-earning assets:			
Real estate loans	\$17,037	\$(3,144)	\$13,893
Other loans	(32)	5	(27)
Investment securities	(723)	(1,820)	(2,543)
Mortgage-backed securities	(4,402)	(3,430)	(7,832)
Other	2,172	(2,730)	(558)
Total	14,052	(11,119)	2,933
Interest-bearing liabilities:			
NOW and Super NOW accounts	\$20	\$(1)	\$19
Money market accounts	8,529	(4,405)	4,124
Savings accounts	(86)	(1,582)	(1,668)
Certificates of deposit	3,170	(6,977)	(3,807)
Borrowed funds	(10,393)	(74)	(10,467)
Total	1,240	(13,039)	(11,799)
Net change in net interest income	\$12,812	\$1,920	\$14,732

Comparison of Financial Condition at December 31, 2003 and December 31, 2002

Assets. Assets totaled \$2.97 billion at December 31, 2003, an increase of \$25.3 million from total assets of \$2.95 billion at December 31, 2002. The growth in assets was experienced primarily in MBS available for sale and real estate loans, which increased \$101.3 million and \$25.8 million, respectively. During the year ended December 31, 2003, the Bank purchased \$531.0 million of MBS available for sale. These purchases were intended to provide both current additional yield over short-term investments as well as liquidity to the Bank in future quarters when it may seek to deploy funds into higher yielding investments. Partially offsetting these purchases were MBS principal repayments of \$364.2 million and sales of \$57.6 million during the year ended December 31, 2003. During the year ended December 31, 2003, the Bank experienced above average levels of principal repayments on MBS available for sale. These repayments were driven by above average mortgage refinancing activity during the period, which resulted from the continued low level of interest rates during the period January 2003 through December 2003.

In addition to growth in MBS available for sale, real estate loans increased \$25.8 million during the year ended December 31, 2003. The majority of this growth was achieved in mixed use properties that are classified as commercial real estate loans. During the period, total real estate loan originations totaled \$1.10 billion, of which \$1.05 billion were multi-family residential and commercial real estate loans. The majority of the Bank's multi-family originations were retained in its portfolio. Real estate loan origination levels were driven by the continuation of the low interest rate environment during the period January 2003 through December 2003. Offsetting the growth in real estate loan originations were increases in principal prepayment levels during the year ended December 31, 2003 attributable to the low level of long-term interest rates during 2003. Principal repayments, which include both regular amortization and prepayments, totaled \$972.6 million during the year ended December 31, 2003 as compared to \$520.0 million during the year ended December 31, 2002.

Investment securities available for sale declined \$67.5 million during the year ended December 31, 2003 due to maturities and calls of these securities during the period resulting from the continued low interest rate environment. Purchases of investment securities available for sale were immaterial during the year ended December 31, 2003.

Liabilities. Total liabilities increased \$7.1 million during the year ended December 31, 2003. Deposits grew \$114.5 million due to the success of various sales and marketing activities during the period, primarily for money market accounts. During the year ended December 31, 2003, successful promotional campaigns resulted in growth in money markets of \$128.6 million, which was partially offset by a decline of \$29.8 million in CD's, as higher-rate promotional CD's that were maturing were not renewed during the year.

During the year ended December 31, 2003, REPOS declined \$82.9 million, while FHLB NY Advances declined \$21.0 million. (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

Stockholders' Equity. Stockholders' equity increased \$18.2 million during the year ended December 31, 2003, due to the addition of net income of \$51.3 million, the increase to equity of \$11.7 million related to the issuance of stock for the exercise of stock options and tax benefits associated with the Company's stock option plans and the Recognition and Retention Plan ("RRP"), and the increase to equity of \$2.6 million related to the amortization of the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Affiliates ("ESOP") and RRP. Both the ESOP and RRP have investments in the Holding Company's common stock that are recorded as reductions in stockholders' equity ("Contra Equity Balances"). As compensation expense is recognized on the ESOP and RRP, the Contra Equity Balances are reduced, resulting in an increase to their respective equity balances. This increase to equity offsets the decline in the Company's retained earnings related to the periodic ESOP and RRP expenses that are recorded.

All of the aforementioned increases to equity during the year ended December 31, 2003 were substantially offset by treasury stock purchases of \$26.8 million, cash dividends of \$15.8 million paid to shareholders and purchases of stock by the Benefit Maintenance Plan of Dime Community Bancshares, Inc. ("BMP") and RRP of \$1.8 million during the same period, and a decline in the unrealized gain or loss on available for sale securities component of other comprehensive income of \$2.9 million reflecting the general low level of interest rates.

Comparison of Financial Condition at December 31, 2002 and June 30, 2002

Assets. Assets totaled \$2.95 billion at December 31, 2002, an increase of \$136.2 million from total assets of \$2.81 billion at June 30, 2002. The growth in assets was experienced primarily in MBS available for sale and real estate loans, which increased \$72.5 million and \$44.4 million, respectively. During the six months ended December 31, 2002, the Bank purchased \$224.6 million of MBS available for sale. These purchases were intended to provide additional yield currently over short-term investments while providing liquidity to the Bank in future quarters when it may seek to deploy funds into higher yielding investments. Partially offsetting these purchases were principal repayments of \$148.5 million during the six months ended December 31, 2002. During the six months ended December 31, 2002, the Bank experienced above average levels of principal repayments on MBS available for sale. These repayments were driven by above average mortgage refinancing activity during the period, which resulted from the continued low level of interest rates during the period July 2002 through December 2002.

In addition to growth in MBS available for sale, real estate loans increased \$44.4 million during the six months ended December 31, 2002. During the six months ended December 31, 2002, real estate loan originations totaled \$424.4 million, of which \$397.7 million were multi-family residential and commercial real estate loans. Approximately 82% of these multi-family originations were retained in the Bank's portfolio. Real estate loan origination levels were driven by the continuation of the low interest rate environment during the period July 2002 through December 2002. Offsetting the growth in real estate loans from originations were increases in principal prepayment levels during the six months ended December 31, 2002 that resulted from the continued low level of long-term interest rates during 2003. Principal repayments, which include both regular amortization and prepayments, totaled \$297.7 million during the six months ended December 31, 2002 as compared to \$165.7 million during the six months ended December 31, 2001, and remained strong during the period January 2002 through December 2002 as a result of increased loan refinance activity driven by low interest rates.

Federal funds sold and other short-term investments increased \$37.8 million during the six months ended December 31, 2002, due to increased liquidity resulting from higher levels of real estate loan and MBS prepayments, as well as deposit growth during the period. As of December 31, 2002, this increased liquidity had not been used to fund loan originations or other investment activities. Other assets increased \$14.3 million during the six months ended December 31, 2002, due primarily to an increase of \$8.5 million of prepaid pension benefits, as the Bank satisfied all funding obligations for its employee pension plan during the period.

Liabilities. Total liabilities increased \$120.2 million during the six months ended December 31, 2002. Deposits grew \$147.2 million due to the success of various sales and marketing activities during the period, as well as an apparent consumer trend to move monies out of the equity markets and into deposit accounts. CDs increased \$82.1 million during the six months ended December 31, 2002 due to successful promotional campaigns. In addition, escrow and other deposits decreased \$9.0 million during the period due to increased funding for real estate taxes.

During the six months ended December 31, 2002, REPOS declined \$2.1 million, and FHLBNY Advances declined \$20.0 million. (See "Liquidity and Capital Resources").

Stockholders' Equity. Stockholders' equity increased \$16.0 million during the six months ended December 31, 2002, due to the addition of net income of \$23.5 million, the increase to equity of \$9.4 million related to exercises and tax benefits associated with the Company's stock option plans and RRP, and the increase to equity of \$1.3 million related to the amortization of the ESOP and RRP. Both the ESOP and RRP have investments in the Holding Company's common stock that are recorded as reductions in stockholders' equity ("Contra Equity Balances"). As compensation expense is recognized on the ESOP and RRP, the Contra Equity Balances are reduced, resulting in an increase to total equity.

All of the aforementioned increases to equity during the six months ended December 31, 2002 were partially offset by treasury stock purchases of \$11.8 million and cash dividends of \$6.2 million paid to shareholders during the same period.

Comparison of the Operating Results for the Year Ended December 31, 2003 and the Unaudited Year Ended December 31, 2002

General. Net income was \$51.3 million during the year ended December 31, 2003, an increase of \$6.7 million over net income of \$44.6 million during the year ended December 31, 2002. During this comparative period, net interest income increased \$7.9 million, non-interest income increased \$5.1 million and non-interest expense increased \$2.1 million, resulting in increased pre-tax income of \$10.9 million. Income tax expense increased \$4.2 million as a result of the increased pre-tax income.

Net Interest Income. Net interest income for the year ended December 31, 2003 increased \$7.9 million, to \$98.0 million, from \$90.1 million during the year ended December 31, 2002. The increase was attributable to a decline of \$20.7 million in interest expense that was partially offset by a decline of \$12.8 million in interest income during the year ended December 31, 2003 compared to the year ended December 31, 2002. The net interest spread increased 15 basis points from 2.93% for the year ended December 31, 2002 to 3.08% for the year ended December 31, 2003, and the net interest margin increased 3 basis points from 3.33% to 3.36% during the same period.

The increase in both the net interest spread and net interest margin reflected a 106 basis point decline in the average cost of interest-bearing liabilities as a result of a shift in the composition of interest-bearing liabilities away from higher cost borrowings towards lower cost CDs, money market and other deposit accounts, and a decline of 148 basis points in the average cost of borrowed funds (96 basis points excluding prepayment expenses of \$4.1 million and \$8.4 million, respectively, incurred during the years ended December 31, 2003 and 2002). Borrowing costs declined during the year ended December 31, 2003 compared to the year ended December 31, 2002 due to declines in short-term and medium-term interest rates during 2002 and 2003. During the year ended December 31, 2003 compared to the year ended December 31, 2002, the average balance of deposits, including non-interest-bearing checking accounts, increased as a result of ongoing deposit marketing promotions and customer sales activities. In addition, the average balance of real estate loans increased during the year ended December 31, 2003 compared to the year ended December 31, 2002, and the average rate on real estate loans was typically less susceptible to reductions in interest rates than other interest-earning assets since real estate loans possess a longer average term to their maturity or next interest rate reset.

Interest Income. Interest income was \$169.1 million during the year ended December 31, 2003, a decrease of \$12.8 million from \$181.9 million during the year ended December 31, 2002. Interest income on real estate loans and investment securities declined \$10.7 million and \$2.5 million, respectively, during the year ended December 31, 2003 compared to the year ended December 31, 2002. These declines were partially offset by an increase in interest income on MBS of \$1.2 million during the same period.

The decline in interest income on real estate loans during the year ended December 31, 2003 compared to the year ended December 31, 2002 was attributable to a decrease of 71 basis points in average yield during the period that resulted from the reduction in long-term interest rates from October 2002 to June 2003. This decline in interest rates stimulated the refinancing and prepayment of higher rate loans in the Bank's portfolio, while also resulting in reduced rates on existing portfolio loans that repriced during the period October 1, 2002 to December 31, 2003. Partially offsetting the decline in interest income on real estate loans resulting from reductions in yield was an increase in interest income resulting from the increased average balance of real estate loans of \$64.8 million during the year ended December 31, 2003 compared to the year ended December 31, 2002. During the year ended December 31, 2003, real estate loan originations totaled \$1.10 billion, compared to \$713.0 million for the year ended December 31, 2002. The increase was the result of declines in long-term interest rates experienced during the period which stimulated a wave of mortgage refinancing activities and contributed to higher property values and average loan origination amounts.

The Bank's general policy has been to emphasize growth in real estate loans as its primary interest-earning asset, and de-emphasize its investment and MBS portfolios while loan origination demand is strong. However, as part of a specific investment strategy to achieve a desirable balance of yield and liquidity on short-term investments in the prevailing interest rate environment, the Bank purchased \$531.0 million of MBS during the year ended December 31, 2003. This purchase level exceeded the level of MBS principal repayments of \$363.8 million and sales of \$57.7 million during the same period. This resulted in an overall increase of \$178.9 million in the average balance of MBS during the year ended December 31, 2003 compared to the year ended December 31, 2002. However, due to the continuation of low interest rates during the period October 1, 2002 through December 31, 2003, the average yield on MBS declined from 5.04% during the year ended December 31, 2002 to 3.51% during the year ended December 31, 2003. The combination of these factors resulted in a net increase in interest income on MBS of \$1.2 million during the year ended December 31, 2003 compared to the year ended December 31, 2002.

Interest income on investment securities declined \$2.5 million as a result of a decline of \$57.0 million in average balance during the year ended December 31, 2003 compared to the year ended December 31, 2002, and a reduction of 30 basis points in the average yield on these securities during the same period. The decline in average balance reflects maturity and call activity experienced on these securities as a result of the lower interest rate environment during the period January 1, 2003 through December 31, 2003. The decline in average yield reflects the decline in interest rates during the period January 1, 2003 through December 31, 2003, as higher coupon securities were called from the portfolio.

Interest income on other short-term investments decreased \$722,000 during the year ended December 31, 2003 compared to the year ended December 31, 2002. The decline reflects the continued low level of short-term interest rates during 2003, as well as the decision by the FHLBNY not to pay a cash dividend to its shareholders during the quarter ended December 31, 2003, which resulted in a loss of approximately \$400,000 of interest income by the Company.

Overall, the yield on interest-earning assets declined 92 basis points from 6.72% during the year ended December 31, 2002 to 5.80% during the year ended December 31, 2003. The continuation of low interest rates during the period January 1, 2003 through December 31, 2003 resulted in reductions in the average yield on MBS of 153 basis points and investment securities of 30 basis points during the year ended December 31, 2003 compared to the year ended December 31, 2002. The yield on real estate loans declined by 71 basis points during this period.

Interest Expense. Interest expense declined \$20.7 million, to \$71.1 million, during the year ended December 31, 2003, from \$91.8 million during the year ended December 31, 2002. The decline in interest expense resulted primarily from a reduction of \$14.8 million in interest expense on borrowed funds, which resulted from declines of \$79.8 million in the

average balance of borrowed funds and 148 basis points in the average cost of borrowed funds during the year ended December 31, 2003 compared to the year ended December 31, 2002.

During the twelve months ended December 31, 2003, the Company prepaid \$82.0 million of borrowed funds, primarily higher cost REPOS, resulting in prepayment fees of \$4.1 million being added to interest expense during the year ended December 31, 2003. During the twelve months ended December 31, 2002, the Company prepaid \$297.0 million of borrowed funds, primarily securities sold under agreement to repurchase borrowings, resulting in prepayment fees of \$8.4 million being added to interest expense during the year ended December 31, 2002. These prepayments of borrowings resulted in the significant reduction in both average balance and average cost of borrowings during the year ended December 31, 2003 compared to the year ended December 31, 2002.

The average cost of CDs, the next largest component of interest expense, declined by 81 basis points, resulting in a reduction in interest expense of \$2.9 million during the year ended December 31, 2003 compared to the year ended December 31, 2002. The average cost of money market accounts and savings accounts declined by 64 basis points and 52 basis points, respectively, during the same period, resulting in a reduction in interest cost of \$1.1 million and \$1.9 million, respectively. These declines in average cost all reflected reductions in interest rates offered by the Bank as a result of the overall interest rate environment in effect during the period January 2003 through December 2003. Substantially offsetting the declines in interest cost of CDs, money market accounts and savings accounts that resulted from reduced average costs was increased interest expense associated with increased average balances of \$ 112.6 million in CDs, \$146.5 million in money market accounts and \$4.1 million in savings accounts during the year ended December 31, 2003 compared to the year ended December 31, 2002. These increased average balances reflected successful deposit gathering promotions of the Bank during the period January 1, 2003 to December 31, 2003.

Provision for Loan Losses. The provision for loan losses was \$288,000 during the year ended December 31, 2003 and \$240,000 during the year ended December 31, 2002. During the year ended December 31, 2003, the Company added \$240,000 to its loan loss provision related to expected losses on real estate loans, and \$48,000 to its loan loss provision related to expected losses on consumer loans (See "Item 1. Business - Allowance for Loan Losses").

Non-Interest Income. Non-interest income increased \$5.1 million, to \$25.1 million, during the year ended December 31, 2003, from \$20.0 million during the year ended December 31, 2002.

During the year ended December 31, 2003, a net loss on the sale of MBS and other short-term investments totaled \$1.9 million. During the year ended December 31, 2002, net gains on sales of equity investment securities totaled \$2.0 million. During the years ended December 31, 2003 and 2002, the Bank recorded net gains of \$1.6 million and \$2.0 million, respectively, on the sale of loans, primarily from the sale of multi-family residential loans to FNMA.

Service charges and other fees increased \$1.5 million due primarily to increased fees on loans and deposits that resulted from both increased loan origination and attendant servicing (as a result of the low interest rate environment) and growth in deposit households as a result of ongoing deposit product promotions. Other non-interest income increased \$8.0 million due to increased prepayment fee income of \$8.0 million, as a result of prepayments related to the low interest rate environment.

Non-Interest Expense. Non-interest expense was \$40.8 million during the year ended December 31, 2003, an increase of \$2.1 million over the year ended December 31, 2002.

Salary and employee benefits increased \$691,000 during the period due to general salary and staffing increases during the year ended December 31, 2003 compared to the year ended December 31, 2002. In addition, the increase in the average price of the Company's common stock during the year ended December 31, 2003 resulted in increased ESOP expense of \$296,000 during the year ended December 31, 2003 compared to the year ended December 31, 2002. This increase was partially offset by a decrease of \$223,000 of expense associated with the RRP for which the final vesting of the original grant of 1,309,275 shares concluded during 2002.

Occupancy and equipment expense increased \$758,000 during the comparative period due primarily to a renovation program on existing branches that was not eligible to be capitalized, as well as from a full year of expenses due to the addition of the Glen Oaks branch, which commenced operations near the end of the June 2002, and the Bay Ridge Branch, which commenced operations in March 2002.

Data processing costs increased \$411,000 during the comparative period due to additional systems activity related to growth in the loan portfolio and additional deposit activity.

Management of the Company continues to remain focused upon controlling operating costs, and expects this trend to continue during 2004.

Income Tax Expense. Income tax expense increased \$4.2 million during the year ended December 31, 2003 compared to the year ended December 31, 2002, due primarily to an increase of \$10.9 million in pre-tax net income.

Comparison of Operating Results for the Six Months Ended December 31, 2002 and the Unaudited Six Months Ended December 31, 2001

General. Net income was \$23.5 million during the six months ended December 31, 2002, an increase of \$6.0 million over net income of \$17.5 million during the six months ended December 31, 2001. During the six months ended December 31, 2002 compared to the six months ended December 31, 2001, net interest income increased \$7.8 million, non-interest income increased \$5.2 million and non-interest expense increased \$3.3 million, resulting in increased pre-tax income of \$9.7 million. Income tax expense increased \$3.7 million as a result of the increased pre-tax income.

Net Interest Income. Net interest income for the six months ended December 31, 2002 increased \$7.9 million to \$47.2 million from \$39.3 million during the six months ended December 31, 2001. This increase was attributable to a decline of \$10.5 million in interest expense that was partially offset by a decline of \$2.7 million in interest income during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. The net interest spread increased 46 basis points from 2.61% for the six months ended December 31, 2001 to 3.07% for the six months ended December 31, 2002, and the net interest margin increased 40 basis points from 3.01% to 3.41% during the same period.

The increase in both the net interest spread and net interest margin reflected a 103 basis point decline in the average cost of interest-bearing liabilities, as well as a shift in the composition of interest-bearing liabilities away from higher cost borrowings and towards lower cost money market and other deposit accounts. During the six months ended December 31, 2002 compared to the six months ended December 31, 2001, the average balance of deposits, including non-interest-bearing checking accounts, increased as a result of ongoing deposit marketing promotions and customer sales activities. In addition, the average balance of real estate loans increased during the six months ended December 31, 2002 compared to the six months ended December 31, 2001, and the average rate on real estate loans was less susceptible to fluctuations in interest rates than other interest-earning assets since real estate loans possess a long average term to their maturity or next interest rate reset.

During the period January 2001 through December 2001, the overnight inter-bank borrowing rate declined on eleven different occasions, moving from an initial rate of 6.5% to an ending rate of 1.75%. During the period January 2002 through October 2002, the overnight inter-bank borrowing rate remained constant at 1.75%. In November 2002, the overnight inter-bank borrowing rate declined to 1.25%. Because the Bank's liabilities generally possess a shorter average term to maturity than its assets, the net interest margin and net interest spread both benefited from the reductions in interest rates during 2001. A significant portion of the benefit of liabilities repricing to lower rates was realized during the period January 2002 through December 31, 2002.

Interest Income. Interest income was \$90.5 million during the six months ended December 31, 2002, a decrease of \$2.7 million from \$93.1 million during the six months ended December 31, 2001. Declines in interest income on MBS of \$4.3 million and on other short-term investments of \$509,000 during the six months ended December 31, 2002 compared to the six months ended December 31, 2001 were partially offset by an increase in interest income on real estate loans of \$2.5 million during the same period.

The Bank's general policy has been to emphasize growth in real estate loans as its primary interest-earning asset, and de-emphasize its investment and MBS portfolios while loan origination demand is strong. Consistent with this policy, total principal repayments on MBS exceeded net purchases of MBS by \$117.2 million during the period October 1, 2001 through June 30, 2002. However, as part of a specific investment strategy to achieve a desirable balance of yield and liquidity on short-term investments, the Bank purchased \$224.6 million of MBS during the six months ended December 31, 2002. This purchase level exceeded the level of principal repayments of \$148.5 million during the same period. The combination of all activity during the period October 2001 through December 2002 resulted in an overall decline of \$62.4 million in the average balance of MBS during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. In addition, due to short-term interest rate reductions during the period January 2001 through December 2001, and the continuation of low short-term interest rates during the period January 1, 2002 through December 31, 2002, the average yield on MBS declined from 5.97% during the six months ended December 31, 2001 to 4.58% during the six months ended December 31, 2002.

The decline of \$509,000 in interest income on short-term investments resulted from a decrease of 137 basis points in average yield on these investments, reflecting gradual reductions in interest rates during the period January 2001 through December 2001 and in late 2002. The decline in yields on these investments more than offset the increase in interest income that would have otherwise resulted from growth in their average balance of \$17.5 million during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. Growth in average balance during the period reflected increased liquid funds generated during the period January 2002 through December 2002 from both deposit growth and higher real estate loan and MBS principal repayments.

The increase in interest income on real estate loans was attributable to an increase of \$170.7 million in the average balance of real estate loans resulting from real estate loan originations during the period January 1, 2002 through December 31, 2002. During the six months ended December 31, 2002 and 2001, real estate loan originations totaled \$424.4 million and \$263.5 million, respectively. Loan originations increased during the six months ended December 31, 2002 as a result of declines in long-term interest rates experienced during the period which stimulated a wave of mortgage refinancing activities and contributed to higher property values and average loan origination amounts.

Overall, the yield on interest-earning assets declined 58 basis points from 7.12% during the six months ended December 31, 2001 to 6.54% during the six months ended December 31, 2002. Declines in the overnight inter-bank borrowing rate brought about by the actions of the FOMC during the period January 2001 through December 2001, along with the continuation of low interest rates during the period January 1, 2002 through December 31, 2002, contributed to general decreases in interest rates, resulting in reductions in the average yield on MBS of 139 basis points, on investment securities of 141 basis points and on other (short-term) investments of 137 basis points during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. The yield on real estate loans declined by only 37 basis points during this period. Real estate loans possess longer terms to maturity or interest rate repricing and, therefore, reacted slower than other interest-earning assets to the declines in long-term interest rates during the six months ended December 31, 2002.

Interest Expense. Interest expense declined \$10.5 million, to \$43.3 million during the six months ended December 31, 2002, from \$53.8 million during the six months ended December 31, 2001. The decline in interest expense resulted substantially from a reduction of \$5.6 million in interest expense on borrowed funds, which resulted from a decline of \$227.7 million in the average balance of borrowed funds during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. The average cost of CDs, the next largest component of interest expense, declined by 129 basis points, resulting in a reduction in interest expense of \$2.9 million during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. The average cost of money market accounts and savings accounts also declined by 152 basis points and 83 basis points, respectively, during the same period, resulting in a reduction in interest cost of \$621,000 and \$1.4 million, respectively. These declines in average cost all reflected reductions in interest rates offered by the Bank as a result of the overall interest rate environment in effect during the period January 2002 through December 2002.

Provision for Loan Losses. The provision for loan losses was \$120,000 during both the six months ended December 31, 2002 and 2001 (See "Item 1. Business - Allowance for Loan Losses").

Non-Interest Income. Non-interest income increased \$5.2 million to \$10.8 million during the six months ended December 31, 2002, from \$5.6 million during the six months ended December 31, 2001. The increase resulted primarily from increased prepayment fee income (included in other non-interest income) of \$2.8 million, as loan prepayments increased during the period due to both declines in interest rates during the period January 2001 through December 2001 and continued low interest rates during the period January 2002 through December 2002. In addition, fee income grew \$365,000 due primarily to additional loan fees of \$213,000 resulting from increased origination activity, and an increase of \$90,000 in deposit customer fees resulting from growth in deposit activity.

Under the terms of an agreement entered into in December 2002, the Bank sold approximately \$73.4 million of recently-originated multi-family residential loans to FNMA during December 2002, recording a pre-tax gain of \$2.0 million on these loan sales. Otherwise, gains and losses on the sale of assets were immaterial during the six months ended December 31, 2002 and 2001.

Non-Interest Expense. Non-interest expense was \$20.4 million during the six months ended December 31, 2002, an increase of \$3.3 million over the six months ended December 31, 2001.

Salary and employee benefits increased \$2.5 million during the six months ended December 31, 2002 compared to the six months ended December 31, 2001, as a result of increased salaries and staffing during the twelve months ended December 31, 2002, reflecting growth in personnel added to satisfy needs created by the increased size of the Bank, as well as growth in loans and deposit balances, and added deposit products during the six months ended December 31, 2002 compared to the six months ended December 31, 2001. The benefit cost associated with the BMP increased \$1.1 million during the six months ended December 31, 2002 compared to the six months ended December 31, 2001 due to the accelerated expense accruals of 12-month expenses over a 6-month period. The accelerated expense accruals resulted from a change in expense accrual methodology resulting from the Company's change in fiscal year-end from June 30th to December 31st. The benefit costs associated with the ESOP, which are calculated based upon the average market value of the Holding Company's common stock, additionally increased \$300,000 due to an increase in the average market value of the Holding Company's common stock during the six months ended December 31, 2002 compared to the six months ended December 31, 2001.

Data processing costs increased \$144,000 during the six months ended December 31, 2002 compared to the six months ended December 31, 2001, due to additional systems activity related to growth in the loan portfolio and additional deposit activity.

Other expenses increased \$899,000 during the period due primarily to growth in advertising expenses of \$152,000, as well as an increase in administrative costs totaling approximately \$200,000 associated with the change in fiscal year-end and six-month report period ending December 31, 2002.

Income Tax Expense. Income tax expense increased \$3.7 million during the six months ended December 31, 2002 compared to the six months ended December 31, 2001, due primarily to an increase of \$9.7 million in pre-tax net income.

Comparison of Operating Results for the Years Ended June 30, 2002 and 2001

General. Net income was \$38.7 million during the year ended June 30, 2002, an increase of \$13.5 million over net income of \$25.2 million during the year ended June 30, 2001. During the year ended June 30, 2002 compared to the year ended June 30, 2001, net interest income increased \$14.7 million, the provision for loan losses declined \$500,000, non-interest income increased \$5.5 million and non-interest expense increased \$335,000, resulting in increased pre-tax income of \$20.4 million. Goodwill amortization, which was \$4.6 million during the year ended June 30, 2001, was eliminated during the year ended June 30, 2002 pursuant to the adoption of SFAS 142 effective July 1, 2001, partially offsetting an increase of \$5.0 million in non-interest expense. Income tax expense increased \$7.0 million as a result of the increased pre-tax income.

Net Interest Income. Net interest income for the year ended June 30, 2002 increased \$14.7 million to \$82.3 million from \$67.6 million during the year ended June 30, 2001. This growth was attributable to both an increase of \$2.9 million in interest income and a decline of \$11.8 million in interest expense during the year ended June 30, 2002 compared to the year ended June 30, 2001. The net interest spread increased 38 basis points from 2.32% for the year ended June 30, 2001 to 2.70% for the year ended June 30, 2002, and the net interest margin increased 36 basis points from 2.76% to 3.12% during the same period.

The increase in net interest spread and net interest margin both reflected a 78 basis point decline in the average cost of interest-bearing liabilities, as well as a shift in the composition of interest-bearing liabilities away from higher cost borrowings and towards lower cost money market and other deposit accounts. During the year ended June 30, 2002 compared to the year ended June 30, 2001, the average balance of deposits, including non-interest-bearing checking accounts, increased as a result of ongoing deposit marketing promotions and customer sales activities. In addition, the average balance of real estate loans increased during the twelve months ended June 30, 2002, and the average rate on real estate loans was less susceptible to changes in interest rates than other interest-earning assets since real estate loans possess a longer average term to their maturity or next interest rate reset.

During the period January 2001 through December 2001, the FOMC reduced the overnight inter-bank borrowing rate on eleven different occasions, moving from a beginning rate of 6.5% to an ending rate of 1.75%. Because the Bank's liabilities generally possess a shorter average term to maturity than its assets, the net interest margin and net interest spread both benefited from these reductions in interest rates.

The increase in net interest margin additionally reflected growth in the ratio of interest-earning assets to interest-bearing liabilities from 109.33% during the year ended June 30, 2001 to 110.99% during the year ended June 30, 2002, reflecting additional equity generated during the period, a portion of which was invested in interest-earning assets.

Interest Income. Interest income was \$184.6 million during the year ended June 30, 2002, an increase of \$2.9 million from \$181.7 million during the year ended June 30, 2001. Increased interest income on real estate loans of \$13.9 million during the year ended June 30, 2002 compared to the year ended June 30, 2001 was partially offset by declines in interest income on MBS of \$7.8 million, on investment securities of \$2.5 million and on other short-term investments of \$558,000 during the same period. As part of its ongoing strategy, the Bank continued to emphasize growth in real estate loans as its primary interest-earning asset, and de-emphasized its securities portfolio while loan origination demand was strong. The increase in interest income on real estate loans was attributable to an increase of \$223.9 million in the average balance of real estate loans resulting from real estate loan originations during the period July 1, 2000 through June 30, 2002 as a result of lower interest rates. During the years ended June 30, 2002 and 2001, real estate loan originations totaled \$552.5 million and \$398.3 million, respectively. The increase reflected lower interest rates.

The decline of \$7.8 million in interest income on MBS and \$2.5 million on investment securities resulted from declines in both the average interest rate and average balance of these assets. During the year ended June 30, 2002 compared to the year ended June 30, 2001, the average balance of MBS declined \$71.0 million and investment securities declined

\$13.1 million, due to principal repayments, maturities and calls of these securities (as a result of lower interest rates) that were partially offset by purchase activity. Interest income on other short-term investments declined by \$558,000 due to a decline of 288 basis points in average yield during the year ended June 30, 2002 compared to the year ended June 30, 2001, reflecting declines in short-term interest rates during the period January 2001 through December 2001.

Overall, the yield on interest-earning assets declined 40 basis points from 7.41% during the year ended June 30, 2001 to 7.01% during the year ended June 30, 2002. Declines in the overnight inter-bank borrowing rate brought about by actions of the FOMC during the period January 2001 through December 2001 contributed to general decreases in interest rates, resulting in a reduction in the average yield of 86 basis points on MBS, 155 basis points on investment securities and 288 basis points on other (short-term) investments during the year ended June 30, 2002 compared to the year ended June 30, 2001. The yield on real estate loans declined by only 16 basis points during this period. Real estate loans possess longer terms to maturity or interest rate repricing and, therefore, reacted slower than other interest-earning assets to the declines in interest rates during the twelve months ended June 30, 2002.

Interest Expense. Interest expense declined \$11.8 million, to \$102.2 million during the year ended June 30, 2002, from \$114.0 million during the year ended June 30, 2001. The decline in interest expense resulted substantially from a reduction of \$10.5 million in interest expense on borrowed funds, which resulted from a decline of \$166.2 million in the average balance of borrowed funds during the year ended June 30, 2002 compared to the year ended June 30, 2001. The average cost of CDs, the next largest component of interest expense, declined by 103 basis points, resulting in a reduction in interest expense of \$3.8 million during the year ended June 30, 2002 compared to the year ended June 30, 2001. The average cost of money market accounts also declined 142 basis points during the same period. The average cost of savings accounts declined 44 basis points during the year ended June 30, 2002 compared to the year ended June 30, 2001, resulting in a decline in interest cost of \$1.7 million during the period. These declines in average cost all reflected reductions in interest rates due to actions of the FOMC during the period January 2001 through December 2001.

Interest expense on money market accounts increased \$4.1 million during the year ended June 30, 2002 compared to the year ended June 30, 2001, despite the decline of 142 basis points in average cost during the period, resulting from an increase of \$235.7 million in the average balance of these deposits during this period. The growth in the average balance of money market accounts resulted from ongoing marketing promotions related to these accounts.

Provision for Loan Losses. The provision for loan losses was \$240,000 during the year ended June 30, 2002, compared to \$740,000 during the year ended June 30, 2001. During the quarter ended December 31, 2000, an additional provision of \$500,000 was recorded related to a loan added to troubled-debt restructurings. The provision of \$240,000 during the year ended June 30, 2002 reflected the growth in the loan portfolio during the 12-month period ended June 30, 2002. Due to net charge-offs of \$329,000 recorded during the year ended June 30, 2002, the allowance for loan losses declined \$89,000 during the same period. During the year ended June 30, 2002, overall asset quality required no additional provisions beyond the \$240,000 allocated to cover loan portfolio growth during the period.

Non-Interest Income. Non-interest income increased \$5.5 million, to \$14.8 million, during the year ended June 30, 2002, from \$9.3 million during the year ended June 30, 2001. The increase resulted primarily from increased prepayment fee income (included in other non-interest income) of \$3.9 million, as loan prepayments increased during the period due to declines in interest rates. In addition, fee income increased \$277,000 during the year due to increased deposit customer fees resulting from both added depositors and changes in fees charged during the period. During the year ended June 30, 2002, a gain on the sale of securities and other assets of \$2.1 million was recorded, primarily from the sale of equity investments. During the year ended June 30, 2001, a gain of \$1.0 million on the sale of securities and other assets was recorded which also related primarily to sales of equity investments. The gains on sales of equity securities during the twelve months ended June 30, 2002 were utilized to offset a portion of expenses associated with the prepayment of FHLBNY Advances during the year.

Non-Interest Expense. Non-interest expense was \$35.4 million during the year ended June 30, 2002, \$335,000 above the level during the year ended June 30, 2001.

Salary and employee benefits increased \$3.4 million during the year ended June 30, 2002 compared to the year ended June 30, 2001, as a result of growth in management and employees added to satisfy needs created by the following: (1) growth in loan portfolio balance; (2) growth in deposit balances; (3) added deposit products; and (4) two new retail branches. The employee benefit costs associated with the ESOP, which are calculated based upon the average market value of the Holding Company's common stock, increased \$778,000 due to an increase in the average market value of the Holding Company's common stock during the period, and were offset by the reduction of \$776,000 in expenses associated with the RRP, as the amortization of the initial stock awards under the RRP was completed on February 1, 2002.

Goodwill amortization expense declined \$4.6 million during the year ended June 30, 2002 compared to the year ended June 30, 2001. Effective July 1, 2001, goodwill amortization was eliminated in accordance with the adoption of SFAS 142 (See Note 1 to the Consolidated Financial Statements and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies.").

Increased data processing costs of \$332,000 during the twelve months ended June 30, 2002 compared to the year ended June 30, 2001 resulted from additional systems activity related to growth in the loan portfolio and additional deposit activity.

Other expenses increased \$1.2 million during the twelve months ended June 30, 2002 compared to the twelve months ended June 30, 2001, due primarily to growth in public relations expenses of \$206,000, marketing expenses of \$345,000, as well as various branch administrative expenses such as supplies, postage and protective services associated with increased customer activities and two new branches added during the twelve month period ended June 30, 2002.

Income Tax Expense. Income tax expense increased \$7.0 million during the year ended June 30, 2002 compared to the year ended June 30, 2001, due primarily to an increase of \$20.4 million in pre-tax net income. The effective tax rate decreased from 38.5% to 37.1% during the period, due to the implementation of certain operational and investment activities that resulted in a reduction in the Company's effective tax rate.

Comparison of Operating Results for the Years Ended June 30, 2001 and 2000

General. Net income was \$25.2 million during the year ended June 30, 2001, an increase of \$2.8 million over net income of \$22.4 million during the year ended June 30, 2000. During the year ended June 30, 2001, an increase from the year ended June 30, 2000 of \$4.2 million in non-interest income was partially offset by increases of \$1.1 million in non-interest expense, \$500,000 in the provision for loan losses, and \$604,000 in income tax expense.

Net Interest Income. Net interest income for the year ended June 30, 2001 increased \$802,000 to \$67.6 million from \$66.8 million during the year ended June 30, 2000. The increase was attributable to the overall growth in interest-earning assets over the corresponding increase in interest-bearing liabilities due to increased equity, checking accounts and other non-interest bearing liabilities. However, the beneficial impact of this growth was offset, in part, by the decline in the net interest spread during this period.

The net interest spread declined 16 basis points from 2.48% for the year ended June 30, 2000 to 2.32% for the year ended June 30, 2001, and the net interest margin declined 15 basis points from 2.91% to 2.76% during the same period. The decline in net interest spread and net interest margin both reflected a 35 basis point increase in the average cost of interest-bearing liabilities, resulting primarily from an increase in the average cost of borrowed funds of 47 basis points, CDs of 23 basis points and money market accounts of 12 basis points. These interest rate increases all reflected increases in general interest rates during the period April 2000 through December 2000. The narrowing of the interest spread and net interest margin also reflected an \$88.3 million increase in average borrowed funds, the highest cost interest-bearing liability. The Holding Company's issuance, on April 12, 2000, of \$25.0 million in subordinated notes with a stated annual coupon of 9.25% additionally contributed to the growth in interest expense on borrowed funds, as twelve months of expense was incurred on these notes during the year ended June 30, 2001 compared to two and one-half months of expense incurred during the twelve month period ended June 30, 2000. During the period January 1, 2001 through June 30, 2001, reductions in general interest rates provided some reduction in borrowing costs, which partially offset the aforementioned items.

During the three months ended March 31, 2000, the FOMC increased its overnight borrowing rate by 25 basis points on two different occasions, moving from a beginning rate of 5.50% to an ending rate of 6.0%. This rate was subsequently increased an additional 50 basis points during the period April 2000 through December 2000 to 6.5%, which is where it stood at December 31, 2000. During the period January 1, 2001 through June 30, 2001, the Federal Reserve Bank reduced its federal funds borrowing rate on six different occasions, moving from the beginning overnight borrowing rate of 6.5% to 3.75% as of June 30, 2001. Because the majority of interest-earning assets and interest-bearing liabilities do not reprice daily, the Bank experiences delays in recognizing the effects of interest rate movements. As a result, despite the significant reductions in interest rates by the Federal Reserve Bank, which brought the overnight borrowing rate at June 30, 2001 below its level at June 30, 2000, the overall yield on interest-earning assets and cost on interest-bearing liabilities were higher during the year ended June 30, 2001 than the year ended June 30, 2000. However, since the Bank's liabilities typically reprice more rapidly than its assets, it did experience significant benefits to its net interest spread and net interest margin from the interest rate decreases during the quarter ended June 30, 2001 (See "Item 7A - Qualitative and Quantitative Disclosure About Market Risk").

Interest Income. Interest income for the year ended June 30, 2001 was \$181.6 million, an increase of \$16.0 million from \$165.6 million during the year ended June 30, 2000. The growth in interest income was attributable to increased interest income on real estate loans of \$21.3 million. The growth in interest income on real estate loans was attributable primarily to an increase of \$256.1 million in the average balance of real estate loans, resulting from \$398.3 million of real estate loans originated during the twelve-month period

ended June 30, 2001. Partially offsetting the increase in interest income on real estate loans was a decline of \$1.5 million in income on other interest-earning assets (composed of federal funds sold, commercial paper, and FHLBNY capital stock) from \$6.1 million during the year ended June 30, 2000 to \$4.6 million during the year ended June 30, 2001. This decline resulted from a reduction in the average balance of these assets of \$29.0 million, as the Bank maintained a higher than normal level of investment in these short-term assets during the quarter ended December 31, 1999 for liquidity purposes. Interest income on MBS declined \$1.9 million during the year ended June 30, 2001 compared to the year ended June 30, 2000, reflecting a reduction of \$38.2 million in average balance, and interest income on investment securities declined \$1.9 million, from \$9.7 million, during the twelve months ended June 30, 2000 to \$7.8 million during the twelve months ended June 30, 2001, reflecting a decline in average balance of \$31.3 million. These declines in average balance resulted from an ongoing strategic shift in the composition of interest-earning assets towards real estate loans. The average balance of these securities during the year ended June 30, 2001 was below its level during the comparable period as more securities funds were allocated to real estate loans.

Overall, the average yield on interest-earning assets increased 19 basis points from 7.22% during the year ended June 30, 2000 to 7.41% during the year ended June 30, 2001. The increase was attributable primarily to increases in the average yield of 10 basis points on real estate loans, 14 basis points on MBS and 31 basis points on other interest-earning assets, resulting primarily from general market interest rate increases during the period April 2000 through December 2000. The average interest rate on real estate loan originations during the year ended June 30, 2001 was 7.75%, compared to 7.69% during the year ended June 30, 2000, reflecting the increase in general market interest rates during the period April 2000 through December 2000. The ongoing strategic shift in composition of interest-earning assets away from investment and MBS and towards real estate loans also had a beneficial impact on the average yield of interest-earning assets during the year ended June 30, 2001.

Interest Expense. Interest expense increased \$15.2 million, to \$114.0 million, during the year ended June 30, 2001, from \$98.8 million during the year ended June 30, 2000. This increase resulted primarily from increased interest expense of \$9.9 million on borrowed funds, which resulted from both growth in the average balance of borrowed funds of \$88.3 million during the year ended June 30, 2001 compared to the year ended June 30, 2000, and an increase in the average cost of borrowed funds of 47 basis points. The increase in the average balance of borrowed funds resulted from growth in FHLBNY Advances from \$250.0 million at June 30, 1999 to \$542.5 million at June 30, 2001. While much of this growth occurred during the period July 1, 1999 through June 30, 2000, when the Bank's deposit generation levels were lower, the full effect of this increase was recognized in the average balance computation for the year ended June 30, 2001, and only a portion of the growth was recognized in the average balance computation for the year ended June 30, 2000. The growth in borrowings resulted primarily from funding that was needed to support loan origination levels in excess of deposit funding during years ended June 30, 2000 and 2001. Average borrowings also increased during this period as a result of the \$25.0 million in subordinated debt added on April 12, 2000, at a stated annual coupon of 9.25%. The subordinated notes contributed \$2.4 million to interest expense during the year ended June 30, 2001. The increase in average cost of borrowed funds reflected both prepayment expenses of \$766,000, and the overall increase in interest rates during the period April 2000 through December 2000. There was no prepayment expense on borrowed funds during the twelve months ended June 30, 2000. Interest expense on money market accounts increased \$4.2 million, resulting from both an increase of \$95.5 million in the average balance and an increase of 12 basis points in average cost of these deposits during the year ended June 30, 2001 compared to the same period of the prior year. The increase in average balance and average cost of money market accounts reflected the growth of these accounts from ongoing interest rate promotions during the period July 1, 1999 through June 30, 2001. Interest expense on CDs also increased \$1.7 million, which resulted from an increase of 23 basis points in the average cost of these deposits, reflecting the overall increase in interest rates early in the year ended June 30, 2001. Interest expense on savings accounts declined \$644,000 due to a decline in average balance in these accounts of \$29.8 million, with much of these funds being moved to money market accounts.

Provision for Loan Losses. The provision for loan losses was \$740,000 during the year ended June 30, 2001, compared to \$240,000 during the year ended June 30, 2000. During the quarter ended December 31, 2000, an additional provision of \$500,000 was recorded related to a troubled-debt restructuring loan. Otherwise, the Bank's overall asset quality remained relatively stable (See "Item 1 – Business - Asset Quality"). The remaining loan loss provision of \$240,000 during the period reflected both the Bank's response to continued growth in real estate loans and its recognition of slight increases in delinquent and impaired loans. The allowance for loan losses increased \$674,000 during the year ended June 30, 2001, as the loan loss provision of \$740,000 exceeded net charge-offs of \$66,000 during the period.

Non-Interest Income. Non-interest income increased \$4.3 million, to \$9.3 million, during the year ended June 30, 2001, from \$5.0 million during the year ended June 30, 2000. The increase resulted primarily from an increase of \$2.6 million on the gain resulting from the disposal of securities and other assets. During the year ended June 30, 2001, a net gain on the sale of equity investments of \$1.0 million was recorded. During the year ended June 30, 2000, net losses of \$2.6 million associated with the sales of investments and MBS was recorded, which were partially offset by a gain of \$1.2 million on the sale of deposits at the Gates Avenue, Brooklyn branch. Additionally, the Bank's investment in BOLI, which was instituted in May 2000, contributed an additional \$1.9 million to other non-interest income during the year ended June 30, 2001. Loan prepayment fees, a component of other non-interest income, declined \$657,000, to \$741,000, during the year ended June 30, 2001 compared to \$1.4 million during the year ended June 30, 2000, reflecting reduced loan refinancing activity resulting from increased interest rates early in the year ended June 30, 2001, but were partially offset by increased Bank retail fee income (a component of service charges and other fees) of \$343,000 during the twelve months ended June 30, 2001, which resulted from increased deposit activities and a new customer debit card service instituted during the twelve month period ended June 30, 2001.

Non-Interest Expense. Non-interest expense increased \$1.1 million, from \$34.0 million during the year ended June 30, 2000, to \$35.1 million during the year ended June 30, 2001.

Salary and employee benefits remained relatively constant during the twelve months ended June 30, 2001. Benefit plan restructurings, which became effective on July 1, 2000, provided reductions of \$2.2 million in salaries and employee benefits expenses during the year ended June 30, 2001. During the year ended June 30, 2000, in conjunction with the restructurings, a non-recurring reduction in expense of \$1.4 million was recorded related to the curtailment gain resulting from the freezing of benefits accrued under the retirement plan. The restructurings additionally contributed to the decline in ESOP expense of \$1.1 million during the twelve months ended June 30, 2001 compared to the prior comparative period, as the amortization period associated with the ESOP expense was increased, thus lowering the annual ESOP expense. Offsetting these declines were increases in salaries and benefits of \$1.1 million resulting primarily from base pay and staff increases necessitated by loan and deposit growth, and The Dime Savings Bank of Williamsburgh 401(k) Plan ("401(k) Plan") expenses, as 401(k) Plan contributions were reinstated effective July 1, 2000.

Occupancy and equipment expense increased \$342,000 during the year ended June 30, 2001 compared to the year ended June 30, 2000, due primarily to increased rental, utility and branch property costs on the Bank's branch offices that aggregated approximately \$154,000. In addition, the Bank experienced increased depreciation expense of \$99,000 during the year ended June 30, 2001, due to the accelerated depreciation of computer equipment acquired in the FIBC Acquisition. This accelerated depreciation resulted from management's revised estimate of the estimated useful life of the equipment.

Federal deposit insurance premiums declined \$107,000 during the year ended June 30, 2001 compared to June 30, 2000, due to a reduction in the assessment rates on SAIF-insured deposits. Data processing costs increased \$151,000 during the year ended June 30, 2001 compared to the prior comparative period, due to an increase in loan and deposit activity during the period, and other expenses increased \$743,000, due primarily to increased advertising and direct marketing expenses of \$318,000.

Income Tax Expense. Income tax expense increased \$604,000 during the year ended June 30, 2001 compared to the year ended June 30, 2000, due to an increase in pre-tax income of \$3.5 million. The increase in income tax expense was partially offset by a decline in income tax expense resulting primarily from the implementation of certain operational and investment activities that resulted in a reduction in the Company's effective tax rate.

Impact of Inflation and Changing Prices

The Financial Statements and Notes thereto presented herein 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 costs of operations. Unlike industrial companies, nearly all of the Company's consolidated assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's consolidated performance than do the effects of general levels of inflation. Interest rates do not necessarily fluctuate in the same direction or to the same extent as the price of goods and services.

Recently Issued Accounting Standards

In November 2002, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," or FIN 45, which addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 were effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are applicable prospectively to guarantees issued or modified after December 31, 2002. The adoption of the recognition and measurement provisions of FIN 45 did not have a material impact on the Company's financial condition or results of operations.

In December 24, 2003, the FASB published a revision to FASB Interpretation No. 46 "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51," ("FIN 46 (R)"), which was originally issued in January 2003. FIN 46, and FIN 46 (R), provide guidance on the consolidation of certain entities in which equity investors: (1) do not have the characteristics of a controlling financial interest; (2) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or; (3) have voting rights disproportionate to their economic interests and the activities of the entity either involve or are conducted on behalf of the investor that has disproportionately few

voting rights. Such entities are referred to as Variable Interest Entities or "VIEs." This guidance also requires the primary beneficiary of a VIE to consolidate the entity. FIN 46 (R) clarifies certain provisions of FIN 46 and exempts certain entities from its requirements. For existing entities, the provisions of FIN 46 do not apply until the end of the first interim period ending after December 15, 2003. For new entities, FIN 46 was effective after January 31, 2003. The provisions of FIN 46 (R) are effective beginning with the first fiscal period ending after March 15, 2004. The adoption of the effective provisions of FIN 46 did not have a material impact on the Company's financial condition or results of operations. The adoption of the remaining provisions of FIN 46 and FIN 46 (R) are not expected to have a material impact on the Company's financial condition or results of operations.

In December 2003, the FASB has issued Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132 Revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that improves financial statement disclosures for defined benefit plans. SFAS 132 Revised replaced existing disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement of recognition of those plans required by SFAS 87, "Employers' Accounting for Pensions," SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." SFAS 132 Revised retained the disclosure requirements contained in the original SFAS 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS 132 Revised is effective for annual and interim periods with fiscal years ending after December 15, 2003. The Company has adopted the revised disclosure provisions.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis. The adoption of SFAS 149, which is effective for contracts entered into or modified after June 30, 2003, did not have a material effect on the Company's financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how to classify and measure certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position and results of operations.

In December 2003, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," ("SOP 03-3"). SOP 03-3 addresses the accounting for differences between the contractual cash flows and the cash flows expected to be collected from purchased loans or debt securities if those differences are attributable, in part, to credit quality. SOP 03-3 requires purchased loans and debt securities to be recorded initially at fair value based on the present value of the cash flows expected to be collected with no carryover of any valuation allowance previously recognized by the seller. Interest income should be recognized based on the effective yield from the cash flows expected to be collected. To the extent that the purchased loans or debt securities experience subsequent deterioration in credit quality, a valuation allowance would be established for any additional cash flows that are not expected to be received. However, if more cash flows subsequently are expected to be received than originally estimated, the effective yield would be adjusted on a prospective basis. SOP 03-3 will be effective for loans and debt securities acquired after December 31, 2004. SOP 03-3 is not expected to have a significant effect on the Company's Consolidated Financial Statements.

In November 2003, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 03-1, The Meaning Of Other-Than-Temporary Impairment And Its Application To Certain Investments. Recognizing impairment for various types of investments accounted for under the provisions of APB Opinion No.18, *The Equity Method of Accounting for Investments in Common Stock*, and SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* is predicated on the notion of *other-than-temporary*. The terms "other-than-temporary" and "other-than-temporary impairments" are not currently defined by current authoritative literature. The FASB staff is currently working on developing separate models for determining the meaning of other-than-temporary for impairments and its application to investments accounted for under the cost or equity method, or accounted for as either available-for-sale or held-to-maturity under SFAS 115.

A consensus was reached on additional disclosure requirements related to other than temporary impairment and unrealized losses. The additional disclosures are included herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a depository financial institution, the Bank's primary source of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of interest income recorded on, and the market value of, a significant portion of the Bank's assets. Fluctuations in interest rates will also ultimately impact the level of interest expense recorded on, and the market value of, a significant portion of the Bank's liabilities. In addition, the Bank's real estate loan portfolio, concentrated primarily within the New York City metropolitan area, is subject to risks associated with the local economy.

Neither the Holding Company nor the Bank are subject to foreign currency exchange or commodity price risk. In addition, the Company owns no trading assets, nor did it engage in any hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) or embedded derivative instruments during the year ended December 31, 2003 that require bifurcation. In the future, the Company may, with appropriate Board approval, engage in hedging transactions utilizing derivative instruments.

Since a majority of the Company's consolidated interest-earning assets and interest-bearing liabilities are located at the Bank, virtually all of the interest rate risk exposure exists at the Bank level. As a result, all of the significant interest rate risk management procedures are performed at the Bank level. The Bank's interest rate risk management strategy is designed to limit the volatility of net interest income and preserve capital over a broad range of interest rate movements and has three primary components.

Assets. The Bank's largest single asset type is the adjustable-rate multi-family residential loan. Multi-family residential loans typically carry shorter average terms to maturity than one- to four-family residential loans, thus significantly reducing the overall level of interest rate risk. Approximately 80% of multi-family residential loans originated during the twelve months ended December 31, 2003 were adjustable rate, with repricing typically occurring after five or seven years, compared to approximately 85% during the twelve months ended December 31, 2002. In addition, the Bank has sought to include in its portfolio various types of adjustable-rate one- to four-family loans and adjustable and floating-rate investment securities, which generally have repricing terms of three years or less. At December 31, 2003, adjustable-rate real estate and consumer loans totaled \$1.67 billion, or 56.1% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled \$44.4 million, or 1.5% of total assets. At December 31, 2002, adjustable-rate real estate and consumer loans totaled \$1.59 billion, or 53.9% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled \$77.3 million, or 2.6% of total assets.

Deposit Liabilities. As a traditional community-based savings bank, the Bank is largely dependent upon its base of competitively priced core deposits to provide stability on the liability side of the balance sheet. The Bank has retained many loyal customers over the years through a combination of quality service, convenience, and a stable and experienced staff. Core deposits, at December 31, 2003, were \$1.24 billion, or 60.8% of total deposits. The balance of CDs as of December 31, 2003 was \$800.4 million, or 39.2% of total deposits, of which \$552.9 million, or 69.1%, were to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2003 was 11.7 months compared to 12.8 months at December 31, 2002. Depending on market conditions, the Bank generally prices its CDs in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year.

Wholesale Funds. The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to \$886.2 million at December 31, 2003. The Bank borrows from the FHLBNY for various purposes. At December 31, 2003, the Bank had outstanding Advances of \$534.0 million with the FHLBNY.

In June 2000, the Bank received approval from its Board to accept brokered deposits as a source of funds. The Bank had no outstanding brokered deposits at either December 31, 2003 or December 31, 2002. At both June 30, 2002 and June 30, 2001, brokered deposits totaled \$2.0 million.

Interest Sensitivity GAP

The Bank regularly monitors its interest rate sensitivity through a calculation of an interest sensitivity GAP. The interest sensitivity GAP is the difference between the amount of interest-earning assets and interest-bearing liabilities anticipated to mature or reprice within a specific period. The interest sensitivity GAP is considered positive when the amount of interest-earning assets anticipated to mature or reprice within a specified time frame exceeds the amount of interest-bearing liabilities anticipated to mature or reprice within the same period. Conversely, the interest sensitivity GAP is considered negative when the amount of interest-bearing liabilities anticipated to mature or reprice within a specific time frame exceeds the amount of interest-earning assets anticipated to mature or reprice within the same period. In a rising interest rate environment, an institution with a positive interest sensitivity GAP would generally be expected, absent the effects of other factors, to experience a greater increase in the yields of its assets relative to the costs of its liabilities and thus an increase in the institution's net interest income, whereas an institution with a negative interest sensitivity GAP would generally be expected to experience a decline in net interest income. Conversely, in a declining interest rate environment, an institution with a positive interest sensitivity GAP would generally be expected, absent the effects of other factors, to experience a greater decline in the yields of its assets relative to the costs of its liabilities and thus a decrease in the institution's net interest income, whereas an institution with a negative interest sensitivity GAP would generally be expected to experience an increase in interest income.

The following table sets forth the amounts of the Company's consolidated interest-earning assets and interest-bearing liabilities outstanding at December 31, 2003 which are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown repricing or maturing during a particular period reflect the earlier of term to repricing or term to repayment of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at December 31, 2003 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month

period and subsequent selected time intervals. For purposes of presentation in the following table, the Bank utilized its historical deposit attrition experience ("Deposit Decay Rate ") for savings accounts, which it believes to be the most accurate measure. For NOW, Super NOW and money market accounts, it utilized the Deposit Decay Rates published by the OTS. All amounts calculated in the table for both loans and MBS reflect principal balances expected to reprice as a result of anticipated principal repayments (inclusive of early repayments) or as a result of contractual interest rate adjustments.

- # -

At December 31, 2003	3 Months or Less	More than 3 Months to 6 Months	More than 6 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Non-interest bearing	Total
(Dollars in Thousands)								
Interest-Earning Assets (1):								
Mortgages and other loans	\$140,838	\$140,838	\$281,677	\$523,472	\$523,472	\$582,343	-	\$2,192,640
Investment securities	28,420	-	-	75	635	8,687	-	37,817
Mortgage-backed securities (2)	45,606	45,606	91,211	167,516	68,253	44,545	-	462,737
Other short-term investments	95,286	-	-	-	-	-	-	95,286
FHLB/NY capital stock	26,700	-	-	-	-	-	-	26,700
Total interest earning assets	336,850	186,444	372,888	691,063	592,360	635,575	-	2,815,180
Less:								
Allowance for loan losses	-	-	-	-	-	-	\$(15,018)	(15,018)
Net interest-earning assets	336,850	186,444	372,888	691,063	592,360	635,575	(15,018)	2,800,162
Non-interest-earning assets	-	-	-	-	-	-	171,499	171,499
Total assets	\$336,850	\$186,444	\$372,888	\$691,063	\$592,360	\$635,575	\$156,481	\$2,971,661
Interest-Bearing Liabilities								
Savings accounts	\$12,710	\$12,278	\$23,318	\$77,642	\$58,702	\$181,942	-	\$366,592
NOW and Super NOW accounts	3,426	3,110	5,383	12,230	3,784	9,110	-	37,043
Money market accounts	147,214	118,139	170,889	147,004	77,101	85,040	-	745,387
Certificates of deposit	183,105	185,962	183,857	178,220	69,203	3	-	800,350
Borrowed funds	174,342	42	83	125,000	58,708	188,500	-	546,675
Subordinated notes	-	-	-	-	-	25,000	-	25,000
Interest-bearing escrow	-	-	-	-	-	1,277	-	1,277
Total interest-bearing liabilities	520,797	319,531	383,530	540,096	267,498	490,872	-	2,522,324
Checking accounts	-	-	-	-	-	-	\$92,306	92,306
Other non-interest bearing liabilities	-	-	-	-	-	-	73,112	73,112
Stockholders' equity	-	-	-	-	-	-	283,919	283,919
Total liabilities and stockholders' equity	\$520,797	\$319,531	\$383,530	\$540,096	\$267,498	\$490,872	\$449,337	\$2,971,661
Positive (Negative) interest sensitivity GAP per period								
Positive (Negative) interest sensitivity GAP per period	\$(183,947)	\$(133,087)	\$(10,642)	\$150,967	\$324,862	\$144,703	-	
Positive (Negative) cumulative interest sensitivity GAP								
Positive (Negative) cumulative interest sensitivity GAP	\$(183,947)	\$(317,034)	\$(327,676)	\$(176,709)	\$148,153	\$292,856	-	
Cumulative interest sensitivity GAP as a percent of total assets								
Cumulative interest sensitivity GAP as a percent of total assets	(6.19)%	(10.67)%	(11.03)%	(5.95)%	4.99%	9.85%	-	
Cumulative total interest-earning assets as a percent of cumulative total interest-bearing liabilities								
Cumulative total interest-earning assets as a percent of cumulative total interest-bearing liabilities	64.68%	62.27%	73.23%	89.98%	107.29%	111.61%	-	

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

(2) Based upon historical repayment experience, and, where applicable, Balloon Payment dates.

The Company's consolidated balance sheet is composed primarily of assets that mature or reprice within five years, with a significant portion maturing or repricing within one year. In addition, the Bank's deposit base is composed primarily of savings accounts, money market accounts and CDs with maturities of two years or less. At December 31, 2003, interest-bearing liabilities estimated to mature or reprice within one year totaled \$1.22 billion, while interest-earning assets estimated to mature or reprice within one year totaled \$896.2 million, resulting in a negative one-year interest sensitivity GAP of \$327.7 million, or negative 11.0% of total assets. In comparison, at December 31, 2002, the Company's consolidated one-year interest sensitivity GAP was negative \$103.9 million, or negative 3.5% of total assets. The increase in the magnitude of the one-year negative interest sensitivity GAP resulted from a decline in the level of investment securities and MBS maturing or repricing in one year or less coupled with an increase in CDs and money market deposits repricing within one year, reflecting an increase in these accounts during 2003.

Certain limitations are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features, like annual and lifetime rate caps, which restrict changes in interest rates both 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 would likely deviate from those assumed in the table. Finally, the ability of certain borrowers to make scheduled payments on their adjustable-rate loans may decrease in the event of an interest rate increase.

Under interest rate scenarios other than that which existed on December 31, 2003, the interest sensitivity GAP for assets and liabilities could differ substantially based upon different assumptions about the manner in which core Deposit Decay Rates and loan prepayments would change. For example, the interest rate risk management model assumes that in a rising rate scenario, by paying competitive rates on non-core deposits, a portion of core deposits will transfer to CDs and be retained, although at higher cost. Also, in a rising interest rate environment, loan and MBS prepayment rates would be expected to slow, as borrowers postpone loan refinancings until rates again decline.

Interest Rate Risk Exposure ("NPV") Compliance

Under guidelines established by OTS Thrift Bulletin 13a, the Bank also measures its interest rate risk through analysis of the change in its net portfolio value ("NPV") under several interest rate scenarios. NPV is the difference between the present value of the expected future cash flows of the Bank's assets and liabilities, plus the value of net expected cash flows from either loan origination commitments or purchases of securities.

Generally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of interest-earning assets, which could adversely affect the Company's consolidated results of operations if they were to be sold, or, in the case of interest-earning assets classified as available for sale, reduce the Company's consolidated stockholders' equity, if retained. The changes in the value of assets and liabilities due to fluctuations in interest rates reflect the interest rate sensitivity of those assets and liabilities. Under GAAP, changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale will be reflected in stockholders' equity through other comprehensive income. As of December 31, 2003, the Company's consolidated securities portfolio included \$49.1 million in securities classified as available for sale, which possessed a gross unrealized loss of \$1.6 million. Fluctuations in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in stockholders' equity through other comprehensive income. Neither the Holding Company nor the Bank owned any trading assets as of December 31, 2003 or 2002.

In order to measure the Bank's sensitivity to changes in interest rates, NPV is calculated under market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under various other interest rate scenarios ("Rate Shock Scenarios") represented by immediate, permanent, parallel shifts in the term structure of interest rates from the actual term structure observed at quarter-end. The changes in NPV due to fluctuations in interest rates reflect the interest rate sensitivity of the assets, liabilities, and commitments to either originate or sell loans and/or purchase or sell securities that comprise the NPV. The NPV ratio under any interest rate scenario is defined as the NPV in that scenario divided by the present value of the assets in the same scenario (the "NPV Ratio").

On a quarterly basis, an interest rate risk exposure compliance report is presented to the Bank's Board of Directors. This report, prepared in accordance with Thrift Bulletin 13a, presents a comparison of the Bank's estimated Pre-Shock NPV to the various estimated NPVs calculated under the Rate Shock Scenarios. The calculated estimates of the resulting NPV Ratios are compared to current limits established by management and approved by the Board of Directors.

The analysis that follows presents the estimated NPV in the Pre-Shock Scenario and four Rate Shock Scenarios and measures the dollar amount and percentage by which each of the Rate Shock Scenario NPVs change from the Pre-Shock Scenario NPV. Interest rate sensitivity is measured by the changes in the various Rate Shock Scenario NPV Ratios from the Pre-Shock NPV Ratio.

Interest Rate Scenario	At December 31, 2003			At December 31, 2002				
	Net Portfolio Value			NPV Ratio	Basis Point Change in NPV Ratio	NPV Ratio	Basis Point Change in NPV Ratio	Board Approved NPV Limit
	Dollar Amount	Dollar Change	Percentage Change					
+ 200 Basis Points	\$278,043	\$(56,364)	(16.85)%	9.49%	(157)	10.43%	(43)	6.0%
+ 100 Basis Points	316,355	(18,052)	(5.40)	10.59	(47)	11.19	33	7.0
Pre-Shock	334,407	-	-	11.06	-	10.86	-	8.0
- 100 Basis Points	324,758	(9,649)	(2.97)	10.71	(35)	10.44	(42)	8.0
- 200 Basis Points	N/A	N/A	N/A	N/A	N/A	10.59	(27)	8.0

The NPVs presented above incorporate some asset and liability values derived from the Bank's valuation model, such as those for mortgage loans and time deposits, and some asset and liability values that are provided by independent and reputable sources, such as values for the Bank's MBS and CMO portfolios, as well as for the Bank's puttable borrowings. The valuation model makes various estimates regarding cash flows from principal repayments on loans and passbook decay balances at each level of interest rate change. The Bank's estimates for loan prepayment levels are influenced by the recent history of prepayment activity in its loan portfolio as well as the interest-rate composition of the existing portfolio, especially, vis-à-vis the current interest rate environment. In addition, the Bank considers the amount of prepayment fee protection inherent in the loan portfolio when estimating future prepayment cash flows.

Regarding passbook deposit flows, the Bank analyzes and tracks the decay rate of its passbook deposits over time and over various interest rate scenarios and then makes estimates of its passbook decay rate for use in the valuation model. Nevertheless, no matter the care and precision with which the estimates are derived, actual cash flows for loans, as well as passbooks, could differ significantly from the Bank's estimates resulting in significantly different NPV calculations.

The Bank also generates a series of spot discount rates that are integral to the valuation of the projected monthly cash flows of its assets and liabilities. The Bank's valuation model employs discount rates that are representative of prevailing market rates of interest, with appropriate adjustments suited to the heterogeneous characteristics of the Bank's various asset and liability portfolios.

The NPV Ratio at December 31, 2003 was 11.06% in the Pre-Shock Scenario, a slight increase from the Pre-Shock NPV Ratio of 10.86% at December 31, 2002. The NPV Ratio was 9.49% in the +200 basis point Rate Shock Scenario at December 31, 2003, a decline from the NPV Ratio of 10.43% in the +200 basis point Rate Shock Scenario at December 31, 2002. At December 31, 2003, the sensitivity measure in the +200 basis point Rate Shock Scenario was negative 157 basis points, compared to a sensitivity measure of negative 43 basis points in the +200 basis point Rate Shock Scenario at December 31, 2002, reflecting increased sensitivity year-over-year.

The increase in the Pre-Shock NPV and NPV Ratio resulted primarily from a strong increase in the intangible value ascribed to the Bank's core deposits. The Bank's core deposits at December 31, 2003 were both higher in balance and lower in weighted average rate than at December 31, 2002. During 2003, while short-term market interest rates declined, the average rates paid on the Bank's core deposits declined by an even greater amount, increasing the intangible value calculated on every dollar of core deposits held by the Bank at December 31, 2003, compared to December 31, 2002. The intangible value ascribed to the Bank's CD portfolio also experienced a significant improvement during the year, even as the balance of CDs declined.

The declines in the Post-Shock (+200 basis point) NPV and NPV Ratios are primarily attributable to expected increased interest rate sensitivity in the Bank's multi-family residential and commercial real estate loan portfolios at December 31, 2003, compared to December 31, 2002. The 200 basis-point increase in interest rates is expected, at December 2003, created a greater reduction in the level of principal repayments on mortgage loan refinancings and satisfactions than was expected at December 2002. When comparing December 31, 2003 to December 31, 2002, the longer expected average lives of the multi-family residential and commercial real estate loans in the +200 basis point scenario causes a greater decline in their Post-Shock Scenario valuation compared to their Pre-Shock valuation.

Item 8. Financial Statements and Supplementary Data

For the Company's consolidated financial statements, see index on page 68.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer conducted an evaluation as of December 31, 2003, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon their evaluation, they each found that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files and submits under the Exchange Act is recorded, processed summarized and reported as and when required and that such information is accumulated and communicated to the Company's management as appropriate to all timely decisions regarding required disclosures.

There were no changes in the Company's internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Company.

Information regarding directors and executive officers of the Holding Company is presented under the headings "Proposal 1 - Election of Directors, " "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers" in the Holding Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 20, 2004 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2003, and is incorporated herein by reference.

Information regarding the audit committee of the Company's Board of Directors, including information regarding audit committee financial experts serving on the audit committee, is presented under the heading Report of the Audit Committee in the Proxy Statement and is incorporated herein by reference.

The Company has adopted a written Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Company will provide to any person, without charge, upon request, a copy of such Code of Ethics. Such request should be made in writing to: Dime Community Bancshares, Inc., 209 Havemeyer Street, Brooklyn, New York 11211, attention Investor Relations.

Item 11. Executive Compensation

Information regarding executive and director compensation is presented under the headings "Directors' Compensation" and "Executive Compensation" in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is included under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

The following table presents equity compensation plan information as of December 31, 2003:

	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)] (c)
Equity compensation plans approved by the Company's shareholders	1,959,529	\$11.24	707,756(1)
Equity compensation plans not approved by the Company's shareholders	-	-	-

(1) Amount composed of 191,323 shares held by the RRP that remain available for issuance to individual employees, officers or Outside Directors of the Company as of December 31, 2003, and 516,433 stock options that remain available for future issuance under the 1996 and 2001 Stock Option Plans. Substantially all of the remaining stock options available for future issuance are available under the 2001 Stock Option Plan.

Item 13. Certain Relationships and Related Transactions.

Information regarding certain relationships and related transactions is included under the heading "Transactions with Certain Related Persons" in the Proxy Statement and is incorporated herein by reference.

Item 14 Principal Accounting Fees and Services

Information regarding principal accounting fees and services is included under the heading "Proposal 2 – Ratification of Appointment of Independent Auditors," in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements

See index to Consolidated Financial Statements on page 66.

(2) Financial Statement Schedules

Financial statement schedules have been omitted because they are not applicable or not required or the required information is shown in the Consolidated Financial Statements or Notes thereto under Item 8 "Financial Statements and Supplementary Data."

(3) Exhibits Required by Item 601 of the Securities Exchange Commission Regulation S-K

See Index of Exhibits on page 105.

(b) Reports on Form 8-K Filed During the Quarter Ended December 31, 2003

On October 22, 2003, the Holding Company furnished a Current Report on Form 8-K regarding its earnings release and investor conference call for the quarterly period ended September 30, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant certifies that it has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 11, 2004.

DIME COMMUNITY BANCSHARES, INC.

By: /s/ VINCENT F. PALAGIANO

Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 11, 2004 by the following persons on behalf of the registrant and in the capacities indicated.

<u>Name</u>	<u>Title</u>
<u>/s/ VINCENT F. PALAGIANO</u> Vincent F. Palagiano	Chairman of the Board and Chief Executive Officer (Principal executive officer)
<u>/s/ MICHAEL P. DEVINE</u> Michael P. Devine	President and Chief Operating Officer and Director
<u>/s/ KENNETH J. MAHON</u> Kenneth J. Mahon	Executive Vice President and Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ ANTHONY BERGAMO</u> Anthony Bergamo	Director
<u>/s/ GEORGE L. CLARK, JR.</u> George L. Clark, Jr.	Director
<u>/s/ STEVEN D. COHN</u> Steven D. Cohn	Director
<u>/s/ PATRICK E. CURTIN</u> Patrick E. Curtin	Director
<u>/s/ JOSEPH H. FARRELL</u> Joseph H. Farrell	Director
<u>/s/ FRED P. FEHRENBACH</u> Fred P. Fehrenbach	Director
<u>/s/ JOHN J. FLYNN</u> John J. Flynn	Director
<u>/s/ STANLEY MEISELS</u> Stanley Meisels	Director
<u>/s/ LOUIS V. VARONE</u> Louis V. Varone	Director

**CONSOLIDATED FINANCIAL STATEMENTS OF
DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors of
Dime Community Bancshares, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial condition of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income and cash flows for the year ended December 31, 2003, the six month period ended December 31, 2002 and each of the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 the Company as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the year ended December 31, 2003, the six month period ended December 31, 2002 and each of the years ended June 30, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 5, 2004

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DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands except share amounts)

	December 31, 2003	December 31, 2002
ASSETS:		
Cash and due from banks	\$24,073	\$21,487
Federal funds sold and short-term investments	95,286	114,291
Encumbered Investment securities held-to-maturity (estimated fair value of \$718 and \$835 at December 31, 2003 and 2002, respectively) (Note 3):	710	825
Unencumbered investment securities available for sale (Note 3)	37,107	104,564
Mortgage-backed securities held-to-maturity (estimated fair value of \$822 and \$2,337 at December 31, 2003 and 2002, respectively) (Note 4):		
Encumbered	267	759
Unencumbered	503	1,490
	770	2,249
Mortgage-backed securities available for sale (Note 4):		
Encumbered	38,692	107,918
Unencumbered	423,275	252,785
	461,967	360,703
Loans (Note 5):		
Real estate	2,186,518	2,160,738
Other loans	4,072	4,753
Less allowance for loan losses (Note 6)	(15,018)	(15,458)
Total loans, net	2,175,572	2,150,033
Loans held for sale	2,050	4,586
Premises and fixed assets, net (Note 8)	16,400	15,862
Federal Home Loan Bank of New York capital stock (Note 9)	26,700	34,890
Other real estate owned, net (Note 6)	-	134
Goodwill (Note 1)	55,638	55,638
Other assets (Notes 7, 14 and 15)	75,388	81,112
Total Assets	\$2,971,661	\$2,946,374
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors (Note 10):		
Interest bearing deposits	\$1,949,372	\$1,841,124
Non-interest bearing deposits	92,306	86,051
Total deposits	\$2,041,678	\$1,927,175
Escrow and other deposits (Note 7)	39,941	36,678
Securities sold under agreements to repurchase (Note 11)	12,675	95,541
Federal Home Loan Bank of New York advances (Note 12)	534,000	555,000
Subordinated notes payable (Note 13)	25,000	25,000
Other liabilities (Note 14 and 15)	34,448	41,243
Total Liabilities	2,687,742	2,680,637
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2003 and 2002)	-	-
Common stock (\$0.01 par, 125,000,000 shares authorized, 32,773,771 shares and 31,935,399 shares issued at December 31, 2003 and 2002, respectively, and 25,410,074 shares and 25,646,702 shares outstanding at December 31, 2003 and 2002, respectively)	327	319
Additional paid-in capital	186,156	172,460
Retained earnings (Note 2)	231,771	196,309
Accumulated other comprehensive (loss) income, net of deferred taxes	(846)	2,076
Unallocated common stock of Employee Stock Ownership Plan ("ESOP") (Note 15)	(5,202)	(5,661)
Unearned and unallocated common stock of Recognition and Retention Plan ("RRP") (Note 15)	(2,617)	(2,641)
Common stock held by Benefit Maintenance Plan (Note 15)	(5,584)	(3,867)
Treasury stock, at cost (7,363,697 shares and 6,288,697 shares at December 31, 2003 and 2002, respectively) (Note 18)	(120,086)	(93,258)
Total Stockholders' Equity	283,919	265,737
Total Liabilities And Stockholders' Equity	\$2,971,661	\$2,946,374

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share amounts)

	Fiscal Year Ended December 31, <u>2003</u>	Six Months Ended December 31, <u>2002</u>	Fiscal Year Ended June 30, <u>2002</u> <u>2001</u>	
	Interest income:			
Loans secured by real estate	\$145,704	\$78,275	\$153,970	\$140,077
Other loans	273	141	311	338
Mortgage-backed securities	17,984	7,895	21,049	28,881
Investment securities	2,361	2,455	5,227	7,770
Other	2,793	1,703	4,024	4,582
Total interest income	<u>169,115</u>	<u>90,469</u>	<u>184,581</u>	<u>181,648</u>
Interest expense:				
Deposits and escrow	38,221	21,631	49,008	50,340
Borrowed funds	32,842	21,647	53,236	63,703
Total interest expense	<u>71,063</u>	<u>43,278</u>	<u>102,244</u>	<u>114,043</u>
Net interest income	<u>98,052</u>	<u>47,191</u>	<u>82,337</u>	<u>67,605</u>
Provision for loan losses	288	120	240	740
Net interest income after provision for loan losses	<u>97,764</u>	<u>47,071</u>	<u>82,097</u>	<u>66,865</u>
Non-interest income:				
Service charges and other fees	6,518	2,687	4,699	4,422
Net gain on sales of loans	1,594	2,033	20	6
Net gain (loss) on sales and redemptions of securities, deposits and other assets	(1,897)	(21)	2,146	1,004
Income from Bank owned life insurance	2,118	1,122	2,201	2,107
Prepayment fee income	15,432	4,270	4,610	446
Other	1,357	674	1,161	1,307
Total non-interest income	<u>25,122</u>	<u>10,765</u>	<u>14,837</u>	<u>9,292</u>
Non-interest expense:				
Salaries and employee benefits	20,371	10,549	17,061	13,703
ESOP and RRP compensation expense	2,542	1,216	2,990	2,988
Occupancy and equipment	5,054	2,221	4,099	4,081
Federal deposit insurance premiums	330	151	276	252
Data processing costs	2,694	1,149	2,139	1,807
Goodwill amortization	-	-	-	4,617
Other	9,818	5,082	8,866	7,648
Total non-interest expense	<u>40,809</u>	<u>20,368</u>	<u>35,431</u>	<u>35,096</u>
Income before income taxes	<u>82,077</u>	<u>37,468</u>	<u>61,503</u>	<u>41,061</u>
Income tax expense	30,801	14,008	22,826	15,821
Net income	<u>\$51,276</u>	<u>\$23,460</u>	<u>\$38,677</u>	<u>\$25,240</u>
Earnings per Share (Pre-Stock Dividend):				
Basic	<u>\$2.14</u>	<u>\$0.97</u>	<u>\$1.62</u>	<u>\$1.06</u>
Diluted	<u>\$2.06</u>	<u>\$0.93</u>	<u>\$1.54</u>	<u>\$1.00</u>
Pro-Forma Earnings per Share (Post-Stock Dividend):				
Basic	<u>\$1.43</u>	<u>\$0.65</u>	<u>\$1.08</u>	<u>\$0.71</u>
Diluted	<u>\$1.37</u>	<u>\$0.62</u>	<u>\$1.03</u>	<u>\$0.67</u>

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Dollars in thousands)

	Fiscal Year Ended December 31, 2003	Six Months Ended December 31, 2002	Fiscal Year Ended June 30, 2002 2001	
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY				
Common Stock (Par Value \$0.01):				
Balance at beginning of period	\$319	\$315	\$305	\$304
Shares issued in exercise of options	8	4	10	1
Balance at end of period	<u>327</u>	<u>319</u>	<u>315</u>	<u>305</u>
Additional Paid-in Capital:				
Balance at beginning of period	172,460	162,162	151,239	149,875
Cash paid for fractional shares of stock dividend	-	-	(17)	-
Stock options exercised	5,316	2,439	6,689	792
Tax benefit of RRP shares and stock option exercised	6,382	6,977	2,822	-
Amortization of excess fair value over cost – ESOP stock	1,998	882	1,429	572
Balance at end of period	<u>186,156</u>	<u>172,460</u>	<u>162,162</u>	<u>151,239</u>
Retained earnings:				
Balance at beginning of period	196,309	179,060	150,264	133,769
Net income for the period	51,276	23,460	38,677	25,240
Cash dividends declared and paid	(15,814)	(6,211)	(9,881)	(8,745)
Balance at end of period	<u>231,771</u>	<u>196,309</u>	<u>179,060</u>	<u>150,264</u>
Accumulated other comprehensive (loss) income:				
Balance at beginning of period	2,076	2,166	4,030	(6,309)
Change in other comprehensive (loss) income during the period, net of deferred taxes	(2,922)	(90)	(1,864)	10,339
Balance at end of period	<u>(846)</u>	<u>2,076</u>	<u>2,166</u>	<u>4,030</u>
Employee Stock Ownership Plan:				
Balance at beginning of period	(5,661)	(5,895)	(6,365)	(6,853)
Amortization of earned portion of ESOP stock	459	234	470	488
Balance at end of period	<u>(5,202)</u>	<u>(5,661)</u>	<u>(5,895)</u>	<u>(6,365)</u>
Recognition and Retention Plan:				
Balance at beginning of period	(2,641)	(2,711)	(2,899)	(4,324)
Common stock acquired by RRP	(84)	(73)	(964)	(503)
Amortization of earned portion of RRP stock	108	143	1,152	1,928
Balance at end of period	<u>(2,617)</u>	<u>(2,641)</u>	<u>(2,711)</u>	<u>(2,899)</u>
Treasury Stock:				
Balance at beginning of period	(93,258)	(81,489)	(66,799)	(57,503)
Purchase of treasury shares, at cost	(26,828)	(11,769)	(14,690)	(9,296)
Balance at end of period	<u>(120,086)</u>	<u>(93,258)</u>	<u>(81,489)</u>	<u>(66,799)</u>
Common Stock Held by Benefit Maintenance Plan:				
Balance at beginning of period	(3,867)	(3,867)	(2,659)	(1,790)
Common stock acquired	(1,717)	-	(1,208)	(869)
Balance at end of period	<u>(5,584)</u>	<u>(3,867)</u>	<u>(3,867)</u>	<u>(2,659)</u>
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME				
Net Income	\$51,276	\$23,460	38,677	25,240
Minimum pension liability, net of (tax) benefit of \$(1,604) during the six months ended December 31, 2002 and \$1,604 during the fiscal year ended June 30, 2002	-	1,908	(1,908)	-
Reclassification adjustment for securities sold, net of (taxes) benefit of \$799 during the year ended December 31, 2003, \$8 during the six months ended December 31, 2002 and \$(929) and \$(447) during the years ended June 30, 2002 and 2001	937	10	(1,090)	(524)
Net unrealized securities gains (losses) arising during the period, net of (taxes) benefit of \$3,288 during the year ended December 31, 2003, \$1,710 during the six months ended December 31, 2002, and \$(965) and \$(9,254) during the years ended June 30, 2002 and 2001	(3,859)	(2,008)	1,134	10,863
Comprehensive Income	<u>\$48,354</u>	<u>\$23,370</u>	<u>\$36,813</u>	<u>\$35,579</u>

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars In thousands)

	Fiscal Year Ended December 31,	Six Months Ended December 31,	Fiscal Year Ended June 30,	
	2003	2002	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income	\$51,276	\$23,460	\$38,677	\$25,240
Adjustments to reconcile net income to net cash provided by operating activities				
Net gain on investment and mortgage backed securities called	-	-	(11)	-
Net (gain) loss on investment and mortgage backed securities sold	1,736	18	(2,018)	(970)
Net gain on sale of loans held for sale	(1,594)	(2,033)	(20)	(6)
Net (gain) loss on sales and disposals of other assets	161	3	(117)	(34)
Net depreciation and amortization	5,408	1,832	1,556	1,024
ESOP and RRP compensation expense	2,565	1,259	3,051	2,988
Provision for loan losses	288	120	240	740
Goodwill amortization	-	-	-	4,617
Originations of loans held for sale	(99,987)	(81,158)	(2,538)	(943)
Proceeds from sales of loans held for sale	104,117	78,800	4,325	1,049
Decrease (Increase) in other assets and other real estate owned	8,414	(12,645)	165	(3,375)
(Decrease) Increase in other liabilities	(6,795)	6,216	3,748	4,314
Net cash provided by Operating Activities	65,589	15,872	47,058	34,644
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in short-term investments	18,769	(37,796)	(39,855)	(27,170)
Proceeds from maturities of investment securities held to maturity	115	50	755	3,270
Proceeds from maturities of investment securities available for sale	49,746	8,875	7,045	13,220
Proceeds from calls of investment securities held to maturity	-	-	2,155	10,500
Proceeds from calls of investment securities available for sale	18,000	32,030	25,211	30,675
Proceeds from sales of investment securities available for sale	-	988	8,589	2,227
Proceeds from sales and calls of mortgage backed securities available for sale	55,904	-	5,005	-
Purchases of investment securities available for sale	(292)	(9,281)	(87,082)	(10,275)
Purchases of mortgage backed securities available for sale	(531,029)	(224,579)	(42,218)	(81,520)
Principal collected on mortgage backed securities held to maturity	1,479	1,026	4,885	5,169
Principal collected on mortgage backed securities available for sale	362,729	148,530	179,950	94,727
Net increase in loans	(25,827)	(45,464)	(161,989)	(239,227)
Purchases of fixed assets, net	(1,950)	(1,323)	(1,593)	(1,056)
Sale (purchase) of Federal Home Loan Bank stock	8,190	(525)	10,017	(1,959)
Net cash used in Investing Activities	(44,166)	(127,469)	(89,125)	(201,419)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase in due to depositors	114,503	147,141	351,602	209,284
Net increase (decrease) in escrow and other deposits	3,263	(9,028)	5,746	4,799
Decrease in securities sold under agreements to repurchase	(82,866)	(2,176)	(330,071)	(6,239)
Proceeds from (repayments of) Federal Home Loan Bank of New York advances	(21,000)	(20,000)	32,500	(12,500)
Common stock issued for exercise of Stock Options and tax benefits of RRP	11,706	9,420	9,511	792
Purchase of common stock by the RRP and Benefit Maintenance Plan	(1,801)	(73)	(2,172)	(1,372)
Cash dividends paid to stockholders and cash disbursed in payment of stock dividends	(15,814)	(6,211)	(9,898)	(8,745)
Purchase of treasury stock	(26,828)	(11,769)	(14,690)	(9,296)
Net cash (used in) provided by Financing Activities	(18,837)	107,304	42,528	176,723
INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	2,586	(4,293)	461	9,948
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	21,487	25,780	25,319	15,371
CASH AND DUE FROM BANKS, END OF PERIOD	\$24,073	\$21,487	\$25,780	\$25,319
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	\$28,907	\$5,216	\$16,748	\$10,831
Cash paid for interest	\$71,843	\$44,893	\$104,606	\$112,623
Transfer of loans to other real estate owned	\$ -	\$ -	\$134	\$228
Change in accumulated other comprehensive income, net of taxes	\$(2,922)	\$(90)	\$(1,868)	\$10,339
Change in minimum pension liability, net of deferred taxes	\$-	\$1,908	\$(1,908)	\$-

See notes to consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars In Thousands except for Share amounts)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Dime Community Bancshares, Inc. (the "Company" or "DCB") is a Delaware corporation organized by The Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on June 26, 1996. Presently, the significant assets of the Company are the capital stock of the Bank, the Company's loan to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Affiliates ("ESOP"), investments retained by the Company, and an investment real estate property owned by the Company's wholly-owned subsidiary, 842 Manhattan Avenue Corporation. The Company's liabilities are composed primarily of a \$25.0 million subordinated note payable maturing in May 2010. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended.

The Bank was originally founded in 1864 as a New York State-chartered mutual savings bank. In November 1995, the Bank converted to a federal stock savings bank. The Bank has been, and intends to continue to be, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York. The Bank has twenty retail banking offices located throughout the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County in New York.

Change in Fiscal Year End - On July 18, 2002, the Board of Directors of the Company approved a change in the Company's fiscal year end from June 30th to December 31st.

Summary of Significant Accounting Policies - The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The following is a description of the significant policies:

Stock Dividends - All capital accounts, share and per share data included in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the 50% common stock dividend paid on August 21, 2001 and the 50% common stock dividend paid on April 24, 2002.

Principles of Consolidation - The accompanying 2003, 2002 and 2001 consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, the Bank and 842 Manhattan Avenue Corp. 842 Manhattan Avenue Corp. owns and manages a real estate property which housed a former branch premise of Financial Federal Savings Bank, F.S.B. ("FFSB"), a subsidiary of Financial Bancorp, Inc. ("FIBC"), which the Company acquired on January 21, 1999. All financial statements presented also include the accounts of the Bank's four wholly-owned subsidiaries, Havemeyer Equities Corp. ("HEC"), Boulevard Funding Corp. ("BFC"), Havemeyer Investments, Inc. and DSBW Residential Preferred Funding Corp. ("DRPFC"). DRPFC, established in March, 1998, invests in real estate loans and is intended to qualify as a real estate investment trust for federal tax purposes. BFC was established in order to invest in real estate joint ventures and other real estate assets. BFC had no investments in real estate at December 31, 2003, and is currently inactive. HEC was also originally established in order to invest in real estate joint ventures and other real estate assets. In June, 1998, HEC assumed direct ownership of DSBW Preferred Funding Corp. ("DPFC"). DPFC, established as a direct subsidiary of the Bank in March, 1998, invests in real estate loans and is intended to qualify as a real estate investment trust for federal tax purposes. HEC had no other investments as of December 31, 2003. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investment Securities and Mortgage-Backed Securities - Purchases and sales of investment and mortgage-backed securities are recorded on trade date. Gains and losses on sales of investment and mortgage-backed securities are recorded on the specific identification basis.

Debt and equity securities that have readily determinable fair values are carried at fair value unless they are held to maturity. Debt securities are classified as held to maturity and carried at amortized cost only if the Company has a positive intent and ability to hold these securities to maturity. If not classified as held to maturity, such securities are classified as securities available for sale or as trading securities. Unrealized holding gains or losses on securities available for sale are excluded from net income and reported net of income taxes as other comprehensive income. At December 31, 2003 and 2002, all equity securities were classified as available for sale.

Neither the Company nor the Bank acquires securities for the purpose of engaging in trading activities.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Loans sold are generally sold with servicing rights retained.

Allowance for Loan Losses - The Company provides a valuation allowance for estimated losses inherent in the loan portfolio. The valuation allowance for estimated losses on loans is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. The allowance is increased by provisions for loan losses charged to operations and is reduced by charge-offs, net of recoveries. While management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions beyond management's control. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to, or reductions in, the allowance based on judgments different from those of management. Management believes, based upon all relevant and available information, that the allowance for loan losses is appropriate to absorb losses inherent in the portfolio.

Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures, an Amendment of FASB Statement No. 114, ("Amended SFAS 114"), requires all creditors to account for impaired loans, except those loans that are accounted for at fair value or at the lower of cost or fair value, at the present value of expected future cash flows discounted at the loan's effective interest rate. As an expedient, creditors may account for impaired loans at the fair value of the collateral or at the observable market price of the loan if one exists. If the estimated fair value of the impaired loan is less than the recorded amount, a specific valuation allowance is established. If the impairment is considered to be permanent, a write-down is charged against the allowance for loan losses. In accordance with Amended SFAS 114, homogeneous loans are not required to be individually considered for impairment. The Company considers individual one- to four-family residential mortgage loans and cooperative apartment loans having a balance of less than \$334 and all consumer loans to be small balance homogenous loan pools and, accordingly, are not covered by Amended SFAS 114.

A reserve is also recorded related to multi-family loan commitments to be sold with recourse under an agreement with Fannie Mae. This reserve, which is included in other liabilities, is determined in a similar manner to our allowance for loan losses related to loans held in portfolio.

Loans - Loans are reported at the principal amount outstanding, net of unearned income and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Under this method, discount accretion and premium amortization are included in interest income. Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms.

Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, any interest accrued to income in the current year is reversed. Payments on nonaccrual loans are generally applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of collateral is sufficient to cover the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions.

Loan Servicing Assets - The cost of mortgage loans sold, with servicing rights retained, is allocated between the loans and the servicing rights based on their estimated fair values at the time of loan sale. Servicing assets are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, net servicing income. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that the Company believes market participants would use for similar assets. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans for the purpose of evaluating impairment. A valuation allowance is then established in the event the recorded value of an individual stratum exceeds fair value. A third party valuation of the loan servicing asset was performed as of December 31, 2003, and will be performed on an ongoing basis at least quarterly.

Other Real Estate Owned, Net - Properties acquired as a result of foreclosure on a mortgage loan are classified as other real estate owned and are recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses and any disposition expenses charged to the valuation allowance for possible losses on other real estate owned. Subsequent write downs are charged directly to operating expenses.

Premises and Fixed Assets, Net - Land is stated at original cost. Buildings and furniture, fixtures and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the properties as follows:

Buildings	2.22% to 2.50% per year
Furniture, fixtures and equipment	10% per year
Computer equipment	33.33% per year

Leasehold improvements are amortized over the remaining non-cancelable terms of the related leases.

Earnings Per Share ("EPS") - Earnings per share are calculated and reported in accordance with SFAS 128, "Earnings Per Share." SFAS 128 requires disclosure of basic earnings per share and diluted earnings per share for entities with complex capital structures on the face of the income statement, along with a reconciliation of the numerator and denominator of basic and diluted earnings per share.

Basic EPS is computed by dividing net income by the weighted-average common shares outstanding during the year (weighted average common shares are adjusted to include vested RRP shares and allocated ESOP shares). Diluted EPS is computed using the same method as Basic EPS, but reflects the potential dilution that would occur if unvested RRP shares became vested and if stock options were exercised and converted into common stock.

The following is a reconciliation of the numerator and denominator of basic EPS and diluted EPS for the year ended December 31, 2003, six-month period ended December 31, 2002, and the years ended June 30, 2002 and 2001:

	Fiscal Year Ended December 31, <u>2003</u>	Six Months Ended December 31, <u>2002</u>	Fiscal Year Ended June 30, <u>2002</u> <u>2001</u>	
Numerator:				
Net Income per the Consolidated Statement of Operations	\$51,276	\$23,460	\$38,677	\$25,240
Denominator:				
Average shares outstanding utilized in the calculation of basic earnings per share	23,948,518	24,191,407	23,910,023	23,845,878
Unvested shares of Recognition and Retention Plan	29,836	43,043	140,771	397,404
Common stock equivalents resulting from the dilutive effect of "in-the-money" stock options	921,817	1,008,342	995,508	921,470
Average shares outstanding utilized in the calculation of diluted earnings per share	24,900,171	25,242,792	25,046,302	25,164,752

Common stock equivalents resulting from the dilutive effect of "in-the-money" stock options are calculated based upon the excess of the average market value of the Company's common stock over the exercise price of outstanding options.

Accounting for Goodwill and Core Deposit Intangible – Prior to the adoption of SFAS 142, "Goodwill and Other Intangible Assets" on July 1, 2001, goodwill generated from the Company's acquisition of Conestoga Bancorp, Inc. ("Conestoga") was amortized to expense on a straight line basis based upon a twelve year amortization period, and goodwill generated from the Company's acquisition of FIBC was amortized to expense on a straight line basis based upon a twenty year amortization period.

SFAS 142 established new standards for goodwill acquired in a business combination. SFAS 142 eliminated amortization of goodwill and instead required a transitional goodwill impairment test to be performed six months from the date of adoption and requires an annual impairment test be performed thereafter. As of the date of adoption of SFAS 142, the Company had goodwill totaling \$55.6 million. Prior to adoption of SFAS 142, annual goodwill amortization expense totaled \$4.6 million.

Prior to December 31, 2001, the Company completed the transitional impairment test for goodwill as of July 1, 2001, and concluded that no potential impairment existed. The Company subsequently designated the last day of its fiscal year as its annual date for impairment testing, and completed a second impairment test as of June 30, 2002. This test also concluded that no potential impairment of goodwill existed. Due to its change in fiscal year end, the Company performed a third impairment test as of December 31, 2002 and a fourth test as of December 31, 2003, and concluded in both instances that no potential impairment of goodwill existed. No events have occurred or circumstances have changed subsequent to December 31, 2003 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require an immediate impairment test to be performed in accordance with SFAS 142.

Had the Company been accounting for goodwill and other intangible assets under SFAS 142 for all periods presented, net income and earnings per share would have been as follows:

	Fiscal Year Ended December 31, <u>2003</u>	Six Months Ended December 31, <u>2002</u>	Fiscal Years Ended June 30, <u>2002</u> <u>2001</u>	
NET INCOME				
Reported Net Income	\$51,276	\$23,460	\$38,677	\$25,240
Goodwill amortization, net of tax	-	-	-	4,617
Adjusted net income	\$51,276	\$23,460	\$38,677	\$29,857
BASIC EARNINGS PER SHARE				
Reported net income	\$2.14	\$0.97	\$1.62	\$1.06
Goodwill amortization, net of tax	-	-	-	0.19
Adjusted net income	\$2.14	\$0.97	\$1.62	\$1.25
DILUTED EARNINGS PER SHARE				
Reported net income	\$2.06	\$0.93	\$1.54	\$1.00
Goodwill amortization, net of tax	-	-	-	0.19
Adjusted net income	\$2.06	\$0.93	\$1.54	\$1.19

Changes in the carrying amount of goodwill and other intangible assets for all the periods presented are as follows:

Fiscal Year Ended	Six Months Ended
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<i>Goodwill:</i>	December 31,	December 31,	Fiscal Year Ended June 30,	
	2003	2002	2002	2001
Original Amount	\$73,107	\$73,107	\$73,107	\$73,107
Accumulated Amortization	(17,469)	(17,469)	(17,469)	(17,469)
Net Carrying Value	\$55,638	\$55,638	\$55,638	\$55,638

<i>Core Deposit Intangible:</i>	Fiscal Year Ended December 31,	Six Months Ended December 31,	Fiscal Year Ended June 30,	
	2003	2002	2002	2001
Original Amount	\$4,950	\$4,950	\$4,950	\$4,950
Accumulated Amortization	(4,077)	(3,252)	(2,840)	(2,015)
Net Carrying Value	\$873	\$1,698	\$2,110	\$2,935

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In conjunction with the adoption of SFAS 142, the Company also re-assessed the useful lives and classification of its identifiable intangible assets and determined that they remain appropriate. Aggregate amortization expense related to the core deposit intangible was \$825 for the fiscal year ended December 31, 2003, \$412 for the six-month period ended December 31, 2002, and \$825 for the fiscal years ended June 30, 2002 and 2001. Estimated future amortization expense related to the core deposit intangible is as follows:

**For the Fiscal Year Ending
December 31:**

2004	825
2005	48
	<u>\$873</u>

Income Taxes - Income taxes are accounted for in accordance with SFAS 109, "Accounting for Income Taxes," which requires that deferred taxes be provided for temporary differences between the book and tax bases of assets and liabilities.

Cash Flows - For purposes of the Consolidated Statement of Cash Flows, the Company considers cash and due from banks to be cash equivalents.

Employee Benefits - The Bank maintains the Retirement Plan of The Dime Savings Bank of Williamsburgh ("Employee Retirement Plan") and The Dime Savings Bank of Williamsburgh 401(k) Plan ("401(k) Plan") for substantially all of its employees, both of which are tax qualified under the Internal Revenue Code of 1986, as amended (the "Code").

The Bank also maintains the Postretirement Welfare Plan of The Dime Savings Bank of Williamsburgh (the "Postretirement Benefit Plan."), providing additional postretirement benefits to employees that are recorded in accordance with SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services.

The Company and Bank maintain the ESOP. Compensation expense related to the ESOP is recorded in accordance with Statement of Position 93-6, which requires the compensation expense to be recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the fair market value of the stock during the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital.

The Company maintains the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc. ("RRP"), the Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees and the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (collectively the "Stock Option Plans"); which are discussed more fully in Note 15 and which are subject to the accounting requirements of SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148 "Accounting for Stock-Based Compensation - Transition and Disclosures, an Amendment of FASB Statement No. 123" (collectively "SFAS 123"). SFAS 123 encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company accounts for stock-based compensation under the 1996 and 2001 Stock Option Plans using the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. Accordingly, no stock-based compensation cost has been reflected in net income for stock options, since, for all options granted under the 1996 and 2001 Stock Option Plans, the market value of the underlying common stock on the date of grant equals the exercise price of the common stock.

In accordance with APB 25, compensation expense related to the RRP is recorded for all shares earned by participants during the period at the average historical acquisition cost of all allocated RRP shares.

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The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation for the 1996 and 2001 Stock Option Plans and RRP shares:

	Fiscal Year Ended December 31, 2003	Six Months Ended December 31, 2002	Fiscal Year Ended June 30, 2002 2001	
Net income, as reported	\$51,276	\$23,460	\$38,677	\$25,240
Less: Excess stock-based compensation expense determined under the fair value method over the stock-based compensation recorded for all plans, net of applicable taxes	(1,453)	(560)	(745)	(367)
Pro forma net income	\$49,823	\$22,900	\$37,932	\$24,873
Earnings per share				
Basic, as reported	\$2.14	\$0.97	\$1.62	\$1.06
Basic, pro forma	2.08	0.95	1.59	1.04
Diluted, as reported	\$2.06	\$0.93	\$1.54	\$1.00
Diluted, pro forma	2.00	0.91	1.51	0.99

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's experience. See Note 15.

Derivative Instruments - In June, 1998, the Financial Accounting Standards Board ("FASB") issued SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" as amended in June 1999 by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and in June 2000, by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively SFAS 133). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133, an entity may designate a derivative as a hedge of exposure to changes in either: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any fluctuations in the fair value of the derivative instrument are either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not receiving hedge accounting recognition are recorded in current year earnings. During the year ended December 31, 2003, the six month period ended December 31, 2002 and the fiscal years ended June 30, 2002 and 2001, neither the Company nor the Bank held any derivative instruments or any embedded derivative instruments that required bifurcation.

Comprehensive Income - Comprehensive income for the year ended December 31, 2003, six months ended December 31, 2002, and the fiscal years ended June 30, 2002 and 2001 was determined in accordance with SFAS 130, "Reporting Comprehensive Income." Comprehensive income includes revenues, expenses, and gains and losses which, under GAAP, bypass net income and are typically reported as a component of stockholders' equity.

Disclosures About Segments of an Enterprise and Related Information - The Company's consolidated financial statements reflect the adoption of SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS 131 establishes standards for the manner in which public business enterprises report information about operating segments in annual financial statements, requires that those enterprises report selected information about operating segments and establishes standards for related disclosure about products and services, geographic areas, and major customers.

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending (exclusive of one-to four-family residential lending) is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. This situation is also similar for consumer and one-to four-family residential mortgage lending. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

For the year ended December 31, 2003, six months ended December 31, 2002, and for the years ended June 30, 2002 and 2001, there was no customer that accounted for more than 10% of the Company's consolidated revenue.

Recently Issued Accounting Standards

In November 2002, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," or FIN 45, which addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 were effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are applicable prospectively to guarantees issued or modified after December 31, 2002. The adoption of the recognition and measurement provisions of FIN 45 did not have a material impact on the Company's financial condition or results of operations.

In December 24, 2003, the FASB published a revision to FASB Interpretation No. 46 "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51," ("FIN 46 (R)"), which was originally issued in January 2003. FIN 46, and FIN 46 (R), provide guidance on the consolidation of certain entities in which equity investors: (1) do not have the characteristics of a controlling financial interest; (2) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or; (3) have voting rights disproportionate to their economic interests and the activities of the entity either involve or are conducted on behalf of the investor that has disproportionately few voting rights. Such entities are referred to as Variable Interest Entities or "VIEs." This guidance also requires the primary beneficiary of a VIE to consolidate the entity. FIN 46 (R) clarifies certain provisions of FIN 46 and exempts certain entities from its requirements. For existing entities, the provisions of FIN 46 do not apply until the end of the first interim period ending after December 15, 2003. For new entities, FIN 46 was effective after January 31, 2003. The provisions of FIN 46 (R) are effective beginning with the first fiscal period ending after March 15, 2004. The adoption of the effective provisions of FIN 46 did not have a material impact on the Company's financial condition or results of operations. The adoption of the remaining provisions of FIN 46 and FIN 46 (R) are not expected to have a material impact on the Company's financial condition or results of operations.

In December 2003, the FASB has issued Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132 Revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that improves financial statement disclosures for defined benefit plans. SFAS 132 Revised replaced existing disclosure requirements for pensions and other postretirement benefits and revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement of recognition of those plans required by SFAS 87, "Employers' Accounting for Pensions," SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." SFAS 132 Revised retained the disclosure requirements contained in the original SFAS 132, but requires additional disclosures about the plan assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS 132 Revised is effective for annual and interim periods with fiscal years ending after December 15, 2003. The Company has adopted the revised disclosure provisions.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis. The adoption of SFAS 149, which is effective for contracts entered into or modified after June 30, 2003, did not have a material effect on the Company's financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how to classify and measure certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position and results of operations.

In December 2003, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," ("SOP 03-3"). SOP 03-3 addresses the accounting for differences between the contractual cash flows and the cash flows expected to be collected from purchased loans or debt securities if those differences are attributable, in part, to credit quality. SOP 03-3 requires purchased loans and debt securities to be recorded initially at fair value based on the present value of the cash flows expected to be collected with no carryover of any valuation allowance previously recognized by the seller. Interest income should be recognized based on the effective yield from the cash flows expected to be collected. To the extent that the purchased loans or debt securities experience subsequent deterioration in credit quality, a valuation allowance would be established for any additional cash flows that are not expected to be received. However, if more cash flows subsequently are expected to be received than originally estimated, the effective yield would be adjusted on a prospective basis. SOP 03-3 will be effective for loans and debt securities acquired after December 31, 2004. SOP 03-3 is not expected to have a significant effect on the Company's Consolidated Financial Statements.

In November 2003, the Emerging Issues Task Force ("EITF") issued EITF Issue NO. 03-1, The Meaning Of Other-Than-Temporary Impairment And Its Application To Certain Investments. Recognizing impairment for various types of investments accounted for under the provisions of APB Opinion No.18, *The Equity Method of Accounting for Investments in Common Stock*, and SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* is predicated on the notion of *other-than-temporary*. The terms "other-than-temporary" and "other-than-temporary impairments" are not currently defined by current authoritative literature. The FASB staff is currently working on developing separate models for determining the meaning of other-than-temporary for impairments and its application to investments accounted for under the cost or equity method, or accounted for as either available-for-sale or held- to-maturity under SFAS 115.

A consensus was reached on additional disclosure requirements related to other than temporary impairment and unrealized losses. The additional disclosures are included herein.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in the accompanying financial statements where estimates are significant include the allowance for loans losses, mortgage servicing rights, asset impairment adjustments related to the valuation of goodwill and other intangible assets and other than temporary impairments of securities, loan income recognition and the fair value of financial instruments.

Reclassification - Certain amounts as of December 31, 2002 and for the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001 have been reclassified to conform to their presentation as of and for the year ended December 31, 2003.

2. CONVERSION TO STOCK FORM OF OWNERSHIP

On November 2, 1995, the Board of Directors of the Bank adopted a Plan of Conversion to convert from mutual to stock form of ownership. At the time of conversion, the Bank established a liquidation account in an amount equal to the retained earnings of the Bank as of the date of the most recent financial statements contained in the final conversion prospectus. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases in deposits will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

The Company acquired Conestoga on June 26, 1996. The liquidation account previously established by Conestoga's subsidiary, Pioneer Savings Bank, F.S.B., during its initial public offering in March 1993, was assumed by the Company in the acquisition.

The Company acquired FIBC on January 21, 1999. The liquidation account previously established by FIBC's subsidiary, FFSB during its initial public offering was assumed by the Company in the acquisition.

The Company 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, the amount required for the liquidation account, or if such declaration and payment would otherwise violate regulatory requirements.

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3. INVESTMENT SECURITIES HELD TO MATURITY AND AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated fair value of investment securities held to maturity at December 31, 2003 were as follows:

	Investment Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt Securities:				
Obligations of state and political Subdivisions, maturities of one-to- five years	\$710	\$8	-	\$718

The amortized/historical cost, gross unrealized gains and losses and estimated fair value of investment securities available for sale at December 31, 2003 were as follows:

	Investment Securities Available for Sale			
	Amortized/ Historical Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$5,011	\$15	-	\$5,026
Corporate securities	22,093	206	\$(348)	21,951
Total debt securities	27,104	221	(348)	26,977
Equity securities	9,639	623	(132)	10,130
	\$36,743	\$844	\$(480)	\$37,107

The following summarizes the gross unrealized losses and fair value, aggregated by investment category and the length of time that these securities have been in a continuous unrealized loss position, of investment securities available for sale as of December 31, 2003:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Unrealized Fair Value	Unrealized Losses	Unrealized Fair Value	Unrealized Loss	Unrealized Fair Value	Unrealized Losses
	Debt securities:					
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$5,026	-	-	-	\$5,026	-
Corporate securities	15,356	\$10	\$6,595	\$338	21,951	\$348
Equity securities	7,437	-	2,693	132	10,130	132
	\$27,819	\$10	\$9,288	\$470	\$37,107	\$480

Management does not believe that any of the unrealized losses that have existed for 12 consecutive months or more as shown in the above table qualify as other-than temporary losses at December 31, 2003, since all of these unrealized losses are attributable primarily to current interest rates. Management also has no current intention to dispose of these investments.

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The amortized cost and estimated fair value of the debt securities component of investment securities available for sale at December 31, 2003, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment fees.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$5,011	\$5,026
Due after one year through five years	-	-
Due after five years through ten years	2,000	2,110
Due after ten years	20,093	19,841
	<u>\$27,104</u>	<u>\$26,977</u>

During the fiscal year ended December 31, 2003 proceeds from the calls of investment securities available for sale totaled \$18,000. There was no gain or loss recorded on these calls.

The amortized cost, gross unrealized gains and losses and estimated fair value of investment securities held to maturity at December 31, 2002 were as follows:

	Investment Securities Held to Maturity			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	
Debt Securities:				
Obligations of state and political subdivisions, maturities of one-to-five years	\$825	\$10	-	\$835

The amortized/historical cost, gross unrealized gains and losses and estimated fair value of investment securities available for sale at December 31, 2002 were as follows:

	Investment Securities Available for Sale			
	Amortized/ Historical Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$52,741	\$548	-	\$53,289
Corporate securities	42,321	493	\$(689)	42,125
Total debt securities	95,062	1,041	(689)	95,414
Equity securities	9,317	361	(528)	9,150
	<u>\$104,379</u>	<u>\$1,402</u>	<u>\$(1,217)</u>	<u>\$104,564</u>

The amortized cost and estimated fair value of the debt securities component of investment securities available for sale at December 31, 2002, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment fees.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$50,908	\$51,466
Due after one year through five years	22,092	22,315
Due after five years through ten years	2,000	2,122
Due after ten years	20,062	19,511
	<u>\$95,062</u>	<u>\$95,414</u>

During the six months ended December 31, 2002 proceeds from the sales and calls of investment securities available for sale totaled \$988 and \$32,030, respectively. Net losses of \$18 resulted from the sales. No gain or loss resulted from the calls.

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY AND AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated fair value of mortgage-backed securities held to maturity at December 31, 2003 were as follows:

	Mortgage-Backed Securities Held to Maturity			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	
GNMA pass-through certificates	\$770	\$52	-	\$822

The amortized cost, gross unrealized gains and losses and estimated fair value of mortgage-backed securities available for sale at December 31, 2003 were as follows:

	Mortgage-Backed Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Collateralized mortgage obligations	\$428,847	\$618	\$(3,448)	\$426,017
GNMA pass-through certificates	24,164	596	-	24,760
FHLMC pass-through certificates	7,509	171	-	7,680
FNMA pass-through certificates	3,381	129	-	3,510
	<u>\$463,901</u>	<u>\$1,514</u>	<u>\$(3,448)</u>	<u>\$461,967</u>

As of December 31, 2003, there were no individual mortgage-backed securities available for sale that had continuous unrealized losses for 12 months or more.

Proceeds from the sale of mortgage-backed securities available for sale totaled \$55,904 during the fiscal year ended December 31, 2003. A loss of \$1,736 was recorded on these sales.

The amortized cost, gross unrealized gains and losses and estimated fair value of mortgage-backed securities held to maturity at December 31, 2002 were as follows:

Mortgage-Backed Securities Held to Maturity

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
GNMA pass-through certificates	\$1,201	\$71	-	\$1,272
FHLMC pass-through certificates	208	3	-	211
FNMA pass-through certificates	840	14	-	854
	\$2,249	\$88	-	\$2,337

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The amortized cost, gross unrealized gains and losses and estimated fair value of mortgage-backed securities available for sale at December 31, 2002 were as follows:

Mortgage-Backed Securities Available for Sale				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Collateralized mortgage obligations	\$292,541	\$1,714	\$(327)	\$293,928
GNMA pass-through certificates	41,544	1,572	-	43,116
FHLMC pass-through certificates	15,688	390	-	16,078
FNMA pass-through certificates	7,282	299	-	7,581
	<u>\$357,055</u>	<u>\$3,975</u>	<u>\$(327)</u>	<u>\$360,703</u>

5. LOANS

The Bank's real estate loans are composed of the following:

	December 31, 2003	December 31, 2002
One- to four-family	\$124,047	\$145,722
Multi-family residential	1,732,854	1,725,652
Commercial real estate	309,810	265,485
Construction	2,880	1,931
F.H.A. and V. A. insured mortgage loans	4,646	5,215
Cooperative apartment unit loans	13,798	16,401
	<u>2,188,035</u>	<u>2,160,406</u>
Net unearned (fees) costs	(1,517)	332
	<u>\$2,186,518</u>	<u>\$2,160,738</u>

The Bank originates both adjustable and fixed interest rate real estate loans. At December 31, 2003, the approximate composition of these loans was as follows:

Fixed Rate		Variable Rate	
Period to Maturity	Book Value	Period to Maturity or Next Repricing	Book Value
1 year or less	\$12,465	1 year or less	\$56,642
> 1 year-3 years	14,819	> 1 year-3 years	222,087
> 3 years-5 years	75,214	> 3 years-5 years	839,029
> 5 years-10 years	274,132	> 5 years-10 years	540,001
> 10 years	147,852	> 10 years	5,794
	<u>\$524,482</u>		<u>\$1,663,553</u>

The adjustable-rate loans are generally indexed to the Federal Home Loan Bank of New York ("FHLBNY") five-year borrowing rate, or the one- or three-year constant maturity Treasury index. The contractual terms of adjustable rate multi-family residential and commercial real estate loans provide that their interest rate, upon repricing, cannot fall below their rate at the time of origination. The Bank's one- to four-family residential adjustable-rate loans are subject to periodic and lifetime caps and floors on interest rate changes that typically range between 200 basis points and 650 basis points.

A concentration of credit risk exists within the Bank's loan portfolio, as the majority of real estate loans are collateralized by properties located in the New York City metropolitan area.

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The Bank's other loans are composed of the following:

	December 31, 2003	December 31, 2002
Student loans	\$295	\$420
Passbook loans (secured by savings and time deposits)	1,429	1,552
Consumer installment and other loans	2,348	2,781
	<u>\$4,072</u>	<u>\$4,753</u>

Loans on which the accrual of interest has been discontinued were \$525 and \$2,116 at December 31, 2003 and 2002, respectively. Interest income foregone on nonaccrual loans was not material during the year ended December 31, 2003, the six months ended December 31, 2002, and the fiscal years ended June 30, 2002 and 2001.

The Bank had no loans considered troubled-debt restructurings at December 31, 2003, December 31, 2002 and June 30, 2002. The Bank had outstanding loans considered troubled-debt restructurings of \$2,924 at June 30, 2001. Income recognized on troubled-debt restructurings was approximately \$414 and \$132 for the years ended June 30, 2002 and 2001, respectively, compared to interest income of \$414 and \$173 calculated under the original terms of the loans, for the years ended June 30, 2002 and 2001, respectively. There was no income recognized on troubled-debt restructurings during the year ended December 31, 2003, and the six months ended December 31, 2002.

There were no loans for which impairment has been recognized under the guidance of SFAS 114 at December 31, 2003. The recorded investment in loans for which impairment has been recognized under the guidance of SFAS 114 was approximately \$690 at December 31, 2002. The average balance of impaired loans was approximately \$314 during the year ended December 31, 2003, \$684 during the six months ended December 31, 2002, and \$3,166 and \$3,741 for the years ended June 30, 2002, and 2001, respectively. Write-downs on impaired loans were not material during the year ended December 31, 2003, the six months ended December 31, 2002, and the years ended June 30, 2002 and 2001. There were no reserves allocated within the allowance for loan losses for impaired loans at December 31, 2003 and 2002. During the year ended June 30, 2002, the Bank received full repayment of principal totaling \$2,924 and interest totaling \$414 on an impaired loan. Net principal and interest received on impaired loans during the year ended December 31, 2003, the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001 was not material.

The following assumptions were utilized in evaluating the loan portfolio pursuant to the provisions of SFAS 114:

Homogenous Loans - Individual one- to four-family residential mortgage loans and cooperative apartment loans having a balance of less than \$334 and all consumer loans are considered to be small balance homogenous loan pools and, accordingly, are not covered by SFAS 114.

Loans Evaluated for Impairment - All non-homogeneous loans greater than \$1,000 are individually evaluated for potential impairment. Additionally, individual one- to four-family residential and cooperative apartment unit mortgage loans exceeding \$334 and delinquent in excess of 60 days are evaluated for impairment. A loan is considered impaired when it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. A loan is not deemed to be impaired if a delay in receipt of payment is expected to be less than 30 days or if, during a longer period of delay, the Bank expects to collect all amounts due, including interest accrued at the contractual rate during the period of the delay. At December 31, 2003, there were no impaired loans. At December 31, 2002, all impaired loans were on nonaccrual status. In addition, at December 31, 2003 and December 31, 2002, respectively, approximately \$525 and \$1,426 of one- to four-family residential cooperative apartment loans with a balance of less than \$334 and consumer loans were on nonaccrual status. These loans are considered as a homogeneous loan pool not covered by SFAS 114.

Reserves and Charge-Offs - The Bank allocates a portion of its total allowance for loan losses to loans deemed impaired under SFAS 114. All charge-offs on impaired loans are recorded as a reduction in both loan principal and the allowance for loan losses. Management evaluates the adequacy of its allowance for loan losses on a regular basis. Management believes that its allowance at December 31, 2002 for impaired loans was appropriate. There was no allowance for impaired loans at December 31, 2003.

Measurement of Impairment - Since all impaired loans are collateralized by real estate properties, the fair value of the collateral is utilized to measure impairment. The fair value of the collateral is measured as soon as practicable after the loan becomes impaired and periodically thereafter.

Income Recognition - Accrual of interest is discontinued on loans identified as impaired and past due ninety days. Subsequent cash receipts are applied initially to the outstanding loan principal balance. Additional receipts beyond the recorded outstanding balance at the time interest is discontinued are recorded as recoveries in the Bank's allowance for loan losses.

6. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	Fiscal Year Ended December 31, 2003	Six Months Ended December 31, 2002	Fiscal Year Ended June 30,	
			2002	2001
Balance at beginning of period	\$15,458	\$15,370	\$15,459	\$14,785
Provision charged to operations	288	120	240	740
Loans charged off	(63)	(44)	(349)	(81)
Recoveries	34	12	20	15
Transfer of reserves related to loan commitments	(699)	-	-	-
Balance at end of period	<u>\$15,018</u>	<u>\$15,458</u>	<u>\$15,370</u>	<u>\$15,459</u>

7. MORTGAGE SERVICING ACTIVITIES

At December 31, 2003 and 2002 the Bank was servicing loans for others having principal amounts outstanding of approximately \$191,445 and \$108,067, respectively, and at June 30, 2002 and 2001, the Bank was servicing loans for others having principal amounts outstanding of approximately \$35,752 and \$42,238 respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. The deferred servicing rights related to these loans totaled \$2,277 and \$1,751 at December 31, 2003 and 2002 including the servicing rights associated with the multi-family loans sold to the Federal National Mortgage Association ("Fannie Mae") discussed below totaling \$1,995 and \$1,579 at December 31, 2003 and 2002. Loan servicing rights added through loan sales were \$955 during the year ended December 31, 2003. Amortization of servicing rights was \$409 during the year ended December 31, 2003. Amortization of servicing rights was immaterial during the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001. Servicing assets are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, net servicing income. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that the Company believes market participants would use for similar assets. In connection with these loans serviced for others, the Bank held borrowers' escrow balances of approximately \$2,131 and \$1,383 at December 31, 2003 and 2002, respectively.

Multi-Family Loans Sold To Fannie Mae - The Bank implemented a program in December 2002 to originate and sell multi-family residential mortgage loans in the secondary market to Fannie Mae while retaining servicing. The Bank underwrites these loans using either its customary or Fannie Mae authorized underwriting standards, funds the loans, and sells them to Fannie Mae at agreed upon pricing. At December 31, 2003 and 2002, the Company serviced \$157,774 and \$73,383 of loans sold pursuant to this program with corresponding loan servicing assets of \$1,995 and \$1,579, respectively. Amortization of servicing rights was \$364 during the year ended December 31, 2003. Amortization of this loan servicing asset was immaterial during the six months ended December 31, 2002. Under the terms of the sales program, the Company retains a portion of the associated credit risk. At December 31, 2003 and 2002, the Company's maximum potential exposure related to secondary market sales to Fannie Mae with respect to this specific program was \$6,529 and \$2,935, respectively. The Company retains this level of exposure until the portfolio of loans are paid in entirety or the Company funds claims by Fannie Mae for the maximum loss exposure. As of December 31, 2003 and 2002, the Company had not realized any losses related to these loans. Reserves of \$699 and \$350 were established as of December 31, 2003 and 2002, respectively, related to this exposure. The reserve recorded relating to this exposure was included in the calculation of the gain on the sale of the loans. No additional provisions relating to this exposure were recorded during the year ended December 31, 2003 and the six months ended December 31, 2002.

Key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent to 20 percent adverse changes in those assumptions are as follows:

	At December 31, 2003	At December 31, 2002
Fair Value of carrying value of the servicing asset	\$1,995	\$1,579
Weighted average life (in years)	7.25	7.5
Prepayment speed assumptions (annual rate)	159 PSA	200 PSA
Impact on fair value of 10% adverse change	\$(54)	\$(37)
Impact on fair value of 20% adverse change	\$(105)	\$(72)
Expected credit losses (annual rate)	\$105	\$47
Impact on fair value of 10% adverse change	\$(10)	\$(4)
Impact on fair value of 20% adverse change	\$(19)	\$(9)
Residual cash flows discount rate (annual rate)	9.75%	9.75%
Impact on fair value of 10% adverse change	\$(61)	\$(38)
Impact on fair value of 20% adverse change	\$(119)	\$(76)
Average Interest rate on adjustable rate loans	5.72%	6.02%
Impact on fair value of 10% adverse change	-	-
Impact on fair value of 20% adverse change	-	-

8. PREMISES AND FIXED ASSETS

The following is a summary of premises and fixed assets:

	December 31, 2003	December 31, 2002
Land	\$2,457	\$2,457
Buildings	10,336	10,376
Leasehold improvements	11,925	10,791
Furniture, fixtures and equipment	10,830	10,164
	35,548	33,788
Less: accumulated depreciation and amortization	(19,148)	(17,926)
	<u>\$16,400</u>	<u>\$15,862</u>

Depreciation and amortization expense amounted to approximately \$1,412 during the year ended December 31, 2003, \$610 during the six months ended December 31, 2002, and \$1,097 and \$1,201 for the years ended June 30, 2002 and 2001, respectively.

9. FEDERAL HOME LOAN BANK OF NEW YORK CAPITAL STOCK

The Bank is a Savings Bank Member of the FHLBNY. Membership requires the purchase of shares of Federal Home Loan Bank of New York ("FHLBNY") capital stock at \$100 per share. The Bank owned 267,000 shares and 348,900 shares at December 31, 2003 and 2002. The bank recorded FHLBNY stock dividends of the capital stock of \$1,299 during the year ended December 31, 2003, \$774 during the six months ended December 31, 2002, and \$2,065 and \$3,026 during the years ended June 30, 2002 and 2001, respectively.

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10. DUE TO DEPOSITORS

Deposits are summarized as follows:

	At December 31, 2003		At December 31, 2002	
	Effective Cost	Liability	Effective Cost	Liability
Savings accounts	0.55%	\$366,592	0.78%	\$362,400
Certificates of deposit	2.64	800,350	3.21	830,140
Money market accounts	1.35	745,387	1.90	616,762
NOW and Super NOW accounts	1.02	37,043	1.24	31,822
Non-interest bearing checking accounts	-	92,306	-	86,051
	1.65%	\$2,041,678	2.16%	\$1,927,175

The distribution of certificates of deposit by remaining maturity was as follows:

	At December 31, 2003	At December 31, 2002
Maturity in one year or less	\$552,924	\$520,650
Over one year through three years	178,220	255,428
Over three years to five years	69,203	54,062
Over five years	3	-
Total certificates of deposit	\$800,350	\$830,140

The aggregate amount of certificates of deposit with a minimum denomination of one-hundred thousand dollars was approximately \$175,711 and \$176,111 at December 31, 2003 and 2002, respectively.

11. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Presented below is information concerning securities sold with agreement to repurchase:

	At or for the Fiscal Year Ended December 31,	At or for the Six Months Ended December 31,	At or for the Fiscal Year Ended June 30,	
	2003	2002	2002	2001
Balance outstanding at end of period	\$12,675	\$95,541	\$97,717	\$427,788
Average interest cost at end of period (1)	4.96%	5.68%	5.61%	4.73%
Average balance outstanding during the period	\$71,302	\$97,941	\$260,988	\$437,153
Average interest cost during the period	8.86%	5.35%	4.47%	6.26%
Carrying value of underlying collateral at end of period	\$12,967	\$85,226	\$95,994	\$425,450
Estimated fair value of underlying collateral	\$13,045	\$87,479	\$96,093	\$430,803
Maximum balance outstanding at month end during the year	\$86,020	\$98,728	\$395,444	\$455,603

(1) Excluding prepayment expenses of \$2,555 on securities sold under agreements to repurchase recorded during the year ended December 31, 2003, the average interest cost of securities sold under agreement to repurchase was 5.29% during the year ended December 31, 2003. Excluding prepayment expenses of \$339 on securities sold under agreements to repurchase recorded during the year ended June 30, 2002, the average interest cost of securities sold under agreement to repurchase was 4.31% during the year ended June 30, 2002. There were no prepayments of securities sold under agreements to repurchase during the six months ended December 31, 2002 or the year ended June 30, 2001.

12. FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

The Bank had borrowings ("Advances") from the FHLBNY totaling \$534,000 and \$555,000 at December 31, 2003 and 2002, respectively. The average interest cost of FHLBNY Advances was 4.26% during the year ended December 31, 2003, 6.18% during the six months ended December 31, 2002, and 6.94% and 6.13%, respectively, during the fiscal years ended June 30, 2002 and 2001. The average interest rate on outstanding FHLBNY Advances was 3.85% and 4.11%, respectively, at December 31, 2003 and 2002. At December 31, 2003, in accordance with its Advances, Collateral Pledge and Security Agreement with the FHLBNY, the Bank maintained the requisite qualifying collateral with the FHLBNY (principally real estate loans), as defined by the FHLBNY, to secure such Advances. During the year ended December 31, 2003, the six months ended December 31, 2002 and the fiscal years ended June 30, 2002 and 2001, prepayment expenses were paid on FHLBNY Advances to totaling \$1,589, \$3,642, \$5,848 and \$766, respectively, and were recorded as interest expense on FHLBNY Advances. Excluding these prepayment expenses, the average cost on FHLBNY borrowings was 3.98% during the year ended December 31, 2003, 4.90% during the six months ended December 31, 2002, 5.85% during the fiscal year ended June 30, 2002 and 5.99% during the fiscal year ended June 30, 2001.

13. SUBORDINATED NOTES PAYABLE

On April 12, 2000, the Company issued subordinated notes in the aggregate amount of \$25,000. The notes have a fixed rate of interest of 9.25% and mature on May 1, 2010. Interest expense recorded on the notes, inclusive of amortization of related issuance costs, was \$2,396 during the year ended December 31, 2003, \$1,198 during the six months ended December 31, 2002, and \$2,396 during both the fiscal years ended June 30, 2002 and 2001, respectively.

14. INCOME TAXES

The Company's consolidated Federal, State and City income tax provisions were comprised of the following:

	Fiscal Year Ended December 31, 2003			Six Months Ended December 31, 2002		
	Federal	State and City	Total	Federal	State and City	Total
Current	\$30,202	\$4,285	\$34,487	\$17,318	\$817	\$18,135
Deferred	(3,439)	(247)	(3,686)	(4,800)	673	(4,127)
	\$26,763	\$4,038	\$30,801	\$12,518	\$1,490	\$14,008

	Fiscal Year Ended June 30, 2002			Six Months Ended June 30, 2001		
	Federal	State and City	Total	Federal	State and City	Total
Current	\$19,194	\$2,532	\$21,726	\$12,718	\$1,515	\$14,233
Deferred	710	390	1,100	1,740	(152)	1,588
	\$19,904	\$2,922	\$22,826	\$14,458	\$1,363	\$15,821

The preceding table excludes tax effects recorded directly to stockholders' equity in connection with: unrealized gains and losses on securities available for sale, stock-based compensation plans, and adjustment to other comprehensive income relating to minimum pension liability. These tax effects are disclosed as part of the presentation of the Statement of Changes in Stockholders' Equity and Comprehensive Income.

The provision for income taxes differed from that computed at the Federal statutory rate as follows:

	Fiscal Year Ended December 31, 2003	Six Months Ended December 31, 2002	Fiscal Year Ended June 30, 2002 2001	
Tax at Federal statutory rate	\$28,727	\$13,114	\$21,526	\$14,371
State and local taxes, net of Federal income tax benefit	2,625	969	1,899	886
Goodwill amortization	-	-	-	1,616
Benefit plan differences	419	202	282	(8)
Adjustments for prior period tax returns	(114)	-	-	(311)
Investment in Bank Owned Life Insurance	(741)	(393)	(770)	(737)
Other, net	(115)	116	(111)	4
	<u>\$30,801</u>	<u>\$14,008</u>	<u>\$22,826</u>	<u>\$15,821</u>
Effective tax rate	37.53%	37.39%	37.11%	38.53%

In accordance with SFAS 109, deferred tax assets and liabilities are recorded for temporary differences between the book and tax bases of assets and liabilities. The components of Federal and net State and City deferred income tax assets and liabilities were as follows:

	At December 31,	
	2003	2002
Deferred tax assets:		
Excess book bad debt over tax bad debt reserve (a)	\$6,688	\$6,643
Employee benefit plans (a)	3,336	3,166
Tax effect of other comprehensive income on securities available for sale (a)	723	-
Other (a)	51	64
Total deferred tax assets	<u>10,798</u>	<u>9,873</u>
Deferred tax liabilities:		
Undistributed earnings of subsidiary (b)	\$-	\$2,728
Tax effect of other comprehensive income on securities available for sale (a)	-	1,769
Difference in book and tax carrying value of fixed assets (a)	31	(29)
Tax effect of purchase accounting fair value adjustments (a)	686	1,582
Other (a)	126	46
Total deferred tax liabilities	<u>\$843</u>	<u>\$6,096</u>
Net deferred tax (liability) asset	<u>\$9,955</u>	<u>\$3,777</u>

(a) Recorded in other assets.

(b) Recorded in other liabilities.

At December 31, 2003, the Bank had approximately \$57,000 of bad debt reserves for New York State income tax purposes for which no provision for income tax was required to be recorded. However, these bad debt reserves could be subject to recapture into taxable income under certain circumstances. Approximately \$15,000 of the Bank's previously accumulated bad debt deductions were similarly subject to potential recapture for federal income tax purposes at December 31, 2003. A New York State and Federal recapture liability could be triggered by certain actions, including a distribution of these bad debt benefits to the Holding Company or the failure of the Bank to qualify as a bank for federal or New York tax purposes.

In order for the Bank to be permitted to maintain a New York State tax bad debt reserve for thrifts, certain thrift definitional tests must be met on an ongoing basis. These definitional tests include maintaining at least 60% of its assets in thrift qualifying assets, as defined for tax purposes, and maintaining a thrift charter. If the Bank failed to meet these definitional tests, the transition to the reserve method permitted to commercial banks under New York State income tax law would result in an increase in the New York State income tax provision, and a deferred tax liability would be established to reflect the eventual recapture of some or all of the New York bad debt reserve.

The Company expects that it will take no action in the foreseeable future which would require the establishment of a tax liability associated with these bad debt reserves.

15. EMPLOYEE BENEFIT PLANS

Employee Retirement Plan - The Bank sponsors the Employee Retirement Plan, a tax-qualified, noncontributory, defined-benefit retirement plan. Prior to April 1, 2000, substantially all full-time employees of at least 21 years of age were eligible for participation after one year of service. Effective April 1, 2000, the Bank froze all participant benefits under the Employee Retirement Plan.

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The net periodic cost (credit) for the Employee Retirement Plan includes the following components:

	Fiscal Year Ended December 31,	Six Months Ended December 31,	Fiscal Year Ended June 30,	
	2003	2002	2002	2001
Interest cost	\$1,081	\$550	\$1,084	\$1,073
Actual return on plan assets	(1,504)	(603)	(1,316)	(1,554)
Net amortization and deferral	634	99	38	(11)
Net periodic cost (credit)	\$211	\$46	\$(194)	\$(492)

The funded status of the Employee Retirement Plan was as follows:

Period Ended	December 31, December 31,	
	2003	2002
Projected benefit obligation:		
Balance at beginning of period	\$16,753	\$15,196
Interest cost	1,081	550
Actuarial loss	827	1,538
Benefit payments	(1,057)	(527)
Settlements	(7)	(4)
Balance at end of period	17,597	16,753
Plan assets at fair value (investments in trust funds managed by trustee)		
Balance at beginning of period	17,236	13,922
Return on plan assets	2,013	(2,405)
Contributions	-	6,250
Benefit payments	(1,057)	(527)
Settlements	(7)	(4)
Balance at end of period	18,185	17,236
Funded status:		
Excess of plan assets over projected benefit obligation	588	483
Unrecognized loss from experience different from that assumed	7,643	7,959
Unfunded minimum pension liability	-	-
Prepaid retirement expense included in other assets	8,231	8,442

The Bank does not anticipate making any contributions to the Employee Retirement Plan in 2004.

Major assumptions utilized were as follows:

Period Ended	December 31, 2003	December 31, 2002
Discount rate	6.25%	6.625%
Expected long-term return on plan assets	9.00	9.00
Rate of increase in compensation levels	-	-

The expected long-term rate of return on plan assets assumptions were set based upon historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the plan's target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 5% to 9% and 2% to 6%, respectively. The long-term inflation rate was estimated to be 3%. When these overall return expectations are applied to the plan's target allocation, the expected rate of return is determined to be 9.0%, which is roughly the midpoint of the range of the expected return.

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The weighted average allocation by asset category of the assets of the Employee Retirement Plan were summarized as follows:

Asset Category	At December 31,	
	2003	2002
Equity securities	67%	62%
Debt securities (bond mutual funds)	33	38
Total	100%	100%

These allocations as of December 31, 2003 and 2002 are consistent with future planned allocation percentages as of December 31, 2003.

Benefit Maintenance Plan of Dime Community Bancshares, Inc. ("BMP") and Retirement Plan for Board Members of Dime Community Bancshares, Inc. ("Directors' Retirement Plan") - The Company and Bank maintain the BMP, which exists in order to compensate executive officers for any curtailments in benefits due to the statutory limitations on benefit plans. As of December 31, 2003 and 2002, the BMP has an investment in the Company's common stock of \$5,584 and \$3,867, respectively. Benefit accruals under the defined benefit portion of the BMP were suspended on April 1, 2000, when they were suspended under the Employee Retirement Plan.

Effective July 1, 1996, the Bank established the Directors' Retirement Plan, which provides benefits to each eligible outside director commencing upon their termination of Board service or at age 65. Each outside director who serves as an outside director will automatically become a participant in the Directors' Retirement Plan.

The combined cost for the defined benefit portion of the BMP and the Directors' Retirement Plan includes the following components:

	Fiscal Year Ended		Six Months Ended		Fiscal Year Ended	
	December 31,		December 31,		June 30,	
	2003	2002	2002	2001	2002	2001
Service cost	\$25	\$9	\$17	\$15		
Interest cost	310	152	291	273		
Net amortization and deferral	130	52	105	107		
	\$465	\$213	\$413	\$395		

The defined contribution costs incurred by the Company related to the BMP were \$1,975 and \$2,169, respectively, for the year ended December 31, 2003 and six months ended December 31, 2002 and were \$1,264 and \$333, respectively, for the fiscal years ended June 30, 2002 and 2001, respectively. There is no defined contribution cost incurred by the Company or Bank under the Directors' Retirement Plan.

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The combined funded status of the defined benefit portion of the BMP and Directors' Retirement Plan was as follows:

Period Ended	December 31, 2003	December 31, 2002
Projected benefit obligation:		
Balance at beginning of period	\$4,735	\$4,216
Service cost	25	10
Interest cost	310	152
Benefit payments	(10)	-
Actuarial (gain) loss	(415)	357
Balance at end of period	4,645	4,735

Plan assets at fair value:

Balance at beginning of period	-	-
Contributions	10	-
Benefit payments	(10)	-
Balance at end of period	-	-

Funded status:

Deficiency of plan assets over projected benefit obligation	(4,645)	(4,735)
Contributions by employer	8	-
Unrecognized loss from experience different from that assumed	181	622
Unrecognized net past service liability	376	481
Accrued expense included in other liabilities	\$(4,080)	\$(3,632)

Amount recognized in statement of financial condition consists of:

Accrued liability	\$(4,080)	\$(4,104)
Intangible asset	-	472
Net amount recognized	\$(4,080)	\$(3,632)

Major assumptions utilized were as follows:

Period Ended	December 31, 2003		December 31, 2002	
	Directors' Retirement		Directors' Retirement	
	BMP	Plan	BMP	Plan
Discount rate	6.25%	6.25%	6.625%	6.50%
Rate of increase in compensation levels	-	4.00	-	4.00

401(k) Plan - The Bank also maintains the 401(k) Plan which covers substantially all employees. The 401(k) Plan annually receives the proceeds from a 100% vested cash contribution to all participants in the ESOP in the amount of 3% of "covered compensation" [defined as total W-2 compensation including amounts deducted from W-2 compensation for pre-tax benefits such as health insurance premiums and contributions to the 401(k) Plan] up to applicable Internal Revenue Service limits. The participants have the ability to invest this contribution in any of the investment options offered under the 401(k) Plan. Otherwise, the Bank makes no other contributions to the 401(k) Plan. Expenses associated with this contribution totaled \$393 during the year ended December 31, 2003, \$180 during the six months ended December 31, 2002, and \$300 and \$288 during the fiscal years ended June 30, 2002 and 2001, respectively.

The 401(k) plan owns participant investments in the Company's common stock for the accounts of participants which totaled \$12,917 and \$8,253 at December 31, 2003 and 2002 and \$9,619 and \$6,428 at June 30, 2002 and 2001, respectively.

Postretirement Benefit Plan - The Bank offers the Postretirement Benefit Plan to its retired employees who have provided at least five (5) consecutive years of credited service and were active employees prior to April 1, 1991, as follows:

- (1) Qualified employees who retired prior to April 1, 1991 receive full medical coverage in effect until their death at no cost to such retirees;
- (2) Qualified employees retiring after April 1, 1991 will be eligible for continuation of the medical coverage in effect at the time of such employees' retirement until their death. Throughout an employee's retirement, the Bank will continue to pay the premiums for this coverage up to the premium amount paid for the first year of retirement coverage. Should the premiums increase, the employee is required to pay the differential to maintain full medical coverage.

The benefits under the Postretirement Benefit Plan are available only to those full-time employees who commence collecting retirement benefits immediately upon termination of service from the Bank. The Bank reserves the right at any time, to the extent permitted by law, to change, terminate or discontinue any of the group benefits, and can exercise the maximum discretion permitted by law, in administering, interpreting, modifying or taking any other action with respect to the plans or benefits.

The Postretirement Benefit Plan cost includes the following components:

	Six Months		Fiscal Year Ended	
	Year Ended	Ended	June 30,	
	December 31, 2003	December 31, 2002	2002	2001
Service cost	\$57	\$21	\$36	\$41
Interest cost	242	120	183	172
Unrecognized past service liability	(28)	(14)	(28)	(29)
Amortization of unrealized gain/loss	41	-	-	-
	\$312	\$127	\$191	\$184

The funded status of the Postretirement Benefit Plan was as follows:

	At December 31, 2003	At December 31, 2002

Projected benefit obligation:

Balance at beginning of period	\$3,758	\$3,294
Service cost	57	21
Interest cost	242	120
Actuarial loss	(94)	420
Benefit payments	(184)	(97)
Balance at end of period	3,779	3,758

Plan assets at fair value:

Balance at beginning of period	-	-
Contributions	184	97
Benefit payments	(184)	(97)
Balance at end of period	-	-

Funded status:

(Deficiency) of plan assets over projected benefit obligation	(3,779)	(3,758)
Unrecognized loss from experience different from that assumed	913	1,049
Unrecognized net past service liability	(140)	(169)
Accrued expense included in other liabilities	\$(3,006)	\$(2,878)

The assumed medical cost trend rates used in computing the accumulated Postretirement Benefit Plan obligation was 10.0% in 2003 and was assumed to decrease gradually to 3.75% in 2010 and remain at that level thereafter. An escalation in the assumed medical care cost trend rates by 1% in each year would increase the accumulated Postretirement Benefit Plan obligation by approximately \$202. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at December 31, 2003 were 6.25% and 3.5%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at December 31, 2002 were 6.625% and 4.0%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at June 30, 2002 were 7.50% and 4.75%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at June 30, 2001 were 7.25% and 4.75%, respectively.

On January 12, 2004, the FASB issued FASB Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-1"). FSP 106-1 permits employers that sponsor postretirement benefit plans (plan sponsors) that provide prescription drug benefits to retirees to make a one-time election to defer accounting impact, if any, of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act"), which was enacted into law on December 8, 2003. The Company has elected to defer recognition of the provisions of the Act as permitted by FSP 106-1 due to uncertainties regarding some of the new Medicare provisions and a lack of authoritative accounting guidance regarding certain matters. Changes to previously reported information may be required depending on the transition guidance issued in future authoritative guidance.

ESOP - The Company adopted the ESOP in connection with the Bank's conversion to stock ownership. The ESOP borrowed \$11,638 from the Company and used the funds to purchase 2,618,550 shares of the Company's common stock. The loan was originally to be repaid principally from the Bank's discretionary contributions to the ESOP over a period of time not to exceed 10 years from the date of the conversion. Effective July 1, 2000 the loan agreement was amended to extend the repayment period to thirty years from the date of the conversion, with the right of optional prepayment. In exchange for the extension of the loan agreement, various benefits were offered to participants, which included the addition of pre-tax employee contributions to the 401(k) Plan, a 3% annual employer contribution to the ESOP (which is automatically transferred to the 401(k) Plan), and the pass-through of cash dividends received by the ESOP to the individual participants. The loan had an outstanding balance of \$5,202 and \$5,661 at December 31, 2003 and December 31, 2002 and a fixed rate of 8.0%.

Shares purchased with the loan proceeds are held in a suspense account for 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 plan, in the year of allocation. The ESOP vests at a rate of 25% per year of service beginning after two years, with full vesting after five years, or upon attainment of age 65, death, disability, retirement or in the event of a "change of control" of the Company as defined in the ESOP. Common stock allocated to participating employees totaled 99,479 shares, 99,478 shares, 99,478 shares and 64,591 shares, respectively, during the year ended December 31, 2003, the six months ended December 31, 2002, and the years ended June 30, 2002 and 2001, respectively. The ESOP benefit expense recorded in accordance with Statement of Position No. 93-6 for allocated shares totaled \$2,434, \$1,073, \$1,838 and 1,060 respectively, for the year ended December 31, 2003, the six months ended December 31, 2002, and the year ended June 30, 2002 and 2001.

Effective July 1, 2000, the Company or the Bank is required to make a 100% vested cash contribution annually to all participants in the ESOP in the amount of 3% of "covered compensation" as defined in the ESOP. This contribution is guaranteed through December 31, 2006 (unless the ESOP is terminated prior thereto) and will be discretionary after that date. This contribution is automatically transferred to the 401(k) Plan, and the participant possesses the ability to invest this contribution in any of the investment options offered under the 401(k) Plan. This annual contribution is made in January of each year based upon the total covered compensation through December 31st of the previous year.

Stock Benefit Plans

RRP - In December 1996, the Company's shareholders approved the RRP, which is designed to retain key officers and directors of the Company and Bank, as well as to provide these persons with a proprietary interest in the Company. On February 1, 1997, the Company allocated 1,309,275 shares of stock to employees and outside directors. These shares vested in equal installments on February 1, 1998, 1999, 2000, 2001, and 2002. On each vesting date, the RRP re-acquired shares that were sold by RRP participants in order to fund income tax obligations associated with their individual vesting of shares. In addition, during the period February 1, 1997 through February 1, 2002 the RRP re-acquired shares that were forfeited by participants. The shares re-acquired by the RRP during the period February 1, 1997 through February 1, 2002, either through the repurchase or forfeiture of previously allocated shares, totaled 229,198. On May 17, 2002, a grant of 45,000 RRP shares was made to executive officers of the Company or the Bank. These shares vest as follows: 20% on November 25, 2002, and 20% each on April 25, 2003, 2004, 2005 and 2006. The RRP has re-acquired 7,125 shares of common stock that were sold by RRP participants in order to fund income tax obligations associated with their individual vesting of shares under the grant made on May 17, 2002. At December 31, 2003, 191,323 shares held by the RRP remain eligible for future allocation. The Company continues to account for compensation expense under the RRP pursuant to Accounting Principles Board No. 25, measuring compensation cost based upon the average acquisition value of the RRP shares.

The following is a summary of activity related to the RRP for the year ended December 31, 2003, the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001:

	At or for the Fiscal Year Ended December 31, 2003	At or for the Six-Months Ended December 31, 2002	At or for the Fiscal Year Ended June 30, 2002 2001	
Shares acquired (a)	3,602	3,523	50,226	43,171
Shares vested	9,000	9,000	232,776	232,776
Shares allocated	-	-	45,000	-
Unallocated shares - end of period	191,323	187,721	184,198	178,972
Unvested allocated shares - end of period	27,000	36,000	45,000	232,776
Compensation recorded to expense	\$108	\$143	\$1,152	\$1,928

(a) Represents shares re-acquired from either participant sales of vested shares in order to meet income tax obligations or shares re-acquired from participant forfeitures.

Stock Option Plans

1996 Stock Option Plan - In November, 1996, the Company adopted the Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (the "1996 Stock Option Plan"), which permits the Company to grant up to 3,294,778 incentive or non-qualified stock options to outside directors, officers and other employees of the Company or the Bank. The Compensation Committee of the Board of Directors administers the 1996 Stock Option Plan and authorizes all option grants.

On December 26, 1996, 3,135,198 stock options were granted to outside directors, officers and certain employees. No stock options may be granted under the 1996 Stock Option Plan after December 26, 2006, all of which are fully exercisable at December 31, 2002. On January 20, 2000, 149,625 stock options remaining under the 1996 Stock Option Plan were granted to officers and certain employees. All of these stock options expire on January 20, 2010. One-fifth of the shares granted to participants under this grant are exercisable by participants on January 20, 2001, 2002, 2003, 2004 and 2005, respectively.

On January 21, 1999, holders of stock options which had been granted by FIBC to purchase 218,193 shares of FIBC common stock were converted into options to purchase 398,888 shares of the Company's common stock (the "Converted Options"). The expiration dates on all Converted Options remained unchanged from the initial grant by FIBC, and all Converted Options were fully exercisable at June 30, 2002.

2001 Stock Option Plan - In September, 2001, the Company adopted the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (the "2001 Stock Option Plan"), which permits the Company to grant up to 1,181,250 incentive or non-qualified stock options to officers and other employees of the Company or the Bank and 168,750 non-qualified stock options to outside directors of the Company or Bank. The Compensation Committee of the Board of Directors administers the 2001 Stock Option Plan and authorizes all option grants.

On November 21, 2001, 360,300 stock options under the 2001 Stock Option Plan were granted to officers and certain employees. All of these stock options expire on November 21, 2011. One-fourth of the options granted to participants under this grant become exercisable by participants on November 21, 2002, 2003, 2004 and 2005, respectively. On November 21, 2001, 45,000 stock options under the 2001 Stock Option Plan were granted to outside directors. All of these stock options expire on November 21, 2011 and became exercisable by the respective directors on November 21, 2002.

On February 1, 2003, 402,700 stock options under the 2001 Stock Option Plan were granted to officers and certain employees. All of these stock options expire on February 1, 2013. One-fourth of the options granted to participants under this grant become exercisable by participants on February 1, 2004, 2005, 2006 and 2007, respectively. On February 1, 2003, 50,000 stock options under the 2001 Stock Option Plan were granted to outside directors. All of these stock options expire on February 1, 2013 and became exercisable by the respective directors on February 1, 2004.

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Combined activity related to the 1996 and 2001 Stock Option Plans for the year ended December 31, 2003, the six months ended December 31, 2002, and the fiscal years ended June 30, 2002 and 2001 is as follows:

	At or for the	At or for the	At or for the	
	Year Ended December 31,	Six Months Ended December 31	Year Ended June 30,	2001
	2003	2002	2002	2001
Options outstanding - beginning of period	2,353,714	2,739,280	3,410,249	3,580,514
Options granted	452,700	-	405,300	-
Weighted average exercise price of grants	\$19.73	-	\$16.36	-
Options exercised	842,166	382,716	1,073,869	165,765
Weighted average exercise price of exercised options	\$6.44	\$6.38	\$6.31	\$4.76
Options forfeited	4,719	2,850	2,400	4,500
Weighted average exercise price of forfeited options	\$19.13	\$11.85	\$12.79	\$6.76
Options outstanding - end of period	1,959,529	2,353,714	2,739,280	3,410,249
Weighted average exercise price on outstanding options - end of period	\$11.24	\$7.90	\$7.70	\$6.23
Remaining options available for grant under the plans	516,433	964,414	961,564	14,464
Exercisable options at end of period	1,275,464	2,000,000	2,248,405	2,727,709
Weighted average exercise price on exercisable options - end of period	\$7.73	\$6.82	\$6.17	\$6.16

Information regarding the range of exercise prices and weighted average remaining contractual life of both options outstanding and options exercisable as of December 31, 2003 is summarized as follows:

Range of Exercise Prices	Outstanding as of December 31, 2003	Exercisable as of December 31, 2003	Weighted Average Exercise Price	Weighted Average Contractual Years Remaining
\$3.00 - \$3.50	20,566	20,566	\$3.47	2.8
\$4.00 - \$4.50	149,419	149,419	4.26	3.3
\$6.00 - \$6.50	880,968	880,968	6.45	3.0
\$6.50 - \$7.00	78,150	21,000	6.84	6.1
\$16.00 - \$16.50	381,601	203,511	16.36	7.9
\$19.50-\$20.00	448,825	-	19.73	9.1

The weighted average fair value per option at the date of grant/conversion for stock options granted/converted was estimated as follows:

	Granted Options(a)	FIBC Converted Options
Estimated fair value on date of grant/conversion	\$3.32	\$6.14
Pricing methodology utilized	Binomial Option/ Black-Scholes	Binomial Option
Expected life (in years)	6.7	7.5
Interest rate	5.41%	5.25%
Volatility	26.86	22.78
Dividend yield	1.84	2.00

(a) Represents weighted average values of stock options granted on December 26, 1996, January 20, 2000, November 21, 2001 and February 1, 2003.

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16. COMMITMENTS AND CONTINGENCIES

Mortgage Loan Commitments and Lines of Credit - At December 31, 2003 and 2002, the Bank had outstanding commitments to make real estate loans aggregating approximately \$94,500 and \$112,225, respectively.

At December 31, 2003, commitments to originate fixed-rate and adjustable-rate real estate loans were \$7,987 and \$86,513 respectively. Interest rates on fixed-rate commitments ranged between 3.50% and 6.875%. Substantially all of the Bank's commitments will expire within three months of their acceptance by the prospective borrower. A concentration risk exists with these commitments as virtually all of the outstanding mortgage loan commitments involve multi-family and underlying cooperative properties located within the New York City metropolitan area.

At December 31, 2003, unused lines of credit offered on one- to four-family residential, multi-family residential and commercial real estate loans totaled \$28.3 million.

The Bank had available at December 31, 2003 unused lines of credit with the FHLBNY totaling \$100,000 expiring on September 13, 2004.

Lease Commitments - At December 31, 2003, aggregate minimum annual rental commitments on leases are as follows:

Year Ended December 31,	Amount
2004	897
2005	860
2006	877
2007	857
2008	688
Thereafter	3,166
Total	\$7,345

Rental expense for the year ended December 31, 2003, the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001 approximated \$1,117, \$533, \$906 and \$812, respectively.

Litigation - The Company and its subsidiaries are subject to certain pending and threatened legal actions which arise out of the normal course of business. Management believes that the resolution of any pending or threatened litigation will not have a material adverse effect on the financial condition or results of operations of the Company or its subsidiaries.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Due From Banks - The fair value is assumed to be equal to their carrying value as these amounts are due upon demand.

Investment Securities and Mortgage-Backed Securities - The fair value of these securities is based on quoted market prices obtained from an independent pricing service.

Federal Funds Sold and Short Term Investments - The fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due to their short maturity.

FHLBNY Stock - The fair value of FHLBNY stock is assumed to be equal to the carrying value as the stock is carried at par value and redeemable at par value by the FHLBNY.

Loans and Loans Held for Sale - The fair value of loans receivable is determined by utilizing either secondary market prices, or, to a greater extent, by discounting the future cash flows, net of prepayments of the loans, using a rate for which similar loans would be originated with similar terms to new borrowers. This methodology is applied to all loans, inclusive of impaired and non-accrual loans.

Accrued Interest Receivable - The estimated fair value of accrued interest is its carrying amount receivable.

Deposits - The fair value of savings, money market, NOW, Super NOW and checking accounts is assumed to be their carrying amount. The fair value of certificates of deposit is based upon the discounted value of contractual cash flows using current rates for instruments of the same remaining maturity.

Escrow and Other Deposits - The estimated fair value of escrow and other deposits is assumed to be their carrying amount payable.

Borrowed Funds - For borrowed funds with stated maturity or subsequent interest rate repricing dates occurring within one year, the carrying value is the best estimate of fair value. For borrowings with stated maturity or subsequent interest rate repricing dates occurring after one year, the fair value is measured by the discounted cash flows through contractual maturity or next interest repricing date, or an earlier call date if the borrowing is expected to be called, as of the balance sheet date. The carrying amount of accrued interest payable on borrowed funds is its fair value.

Accrued Interest Payable - The estimated fair value of accrued interest is its carrying amount payable.

Other Liabilities - The estimated fair value of other liabilities, which primarily include trade accounts payable, is assumed to be their carrying amount.

Commitments to Extend Credit - The fair value of commitments to extend credit 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, fair value also considers the difference between current levels of interest rates and the committed rates.

The estimated fair values of the Company's consolidated financial instruments at December 31, 2003 and December 31, 2002 were as follows:

December 31, 2003	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$24,073	\$24,073
Investment securities held to maturity	710	718
Investment securities available for sale	37,107	37,107
Mortgage-backed securities held to maturity	770	822
Mortgage-backed securities available for sale	461,967	461,967
Loans, net	2,175,572	2,223,654
Loans held for sale	2,050	2,050
Federal funds sold and short-term investments	95,286	95,286
Accrued interest receivable	12,030	12,030
FHLBNY stock	26,700	26,700
Liabilities:		
Savings, money market, NOW, Super NOW and checking accounts	1,241,328	1,241,328
Certificates of Deposit	800,350	806,565

Escrow and other deposits	39,941	39,941
Borrowed funds	571,675	591,380
Accrued interest payable	2,850	2,850
<hr/>		
Off Balance Sheet		
Commitments to extend credit	-	(717)
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December 31, 2002	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$21,487	\$21,487
Investment securities held to maturity	825	835
Investment securities available for sale	104,564	104,564
Mortgage-backed securities held to maturity	2,249	2,337
Mortgage-backed securities available for sale	360,703	360,703
Loans, net	2,150,033	2,241,390
Loans held for sale	4,586	4,586
Federal funds sold and short-term investments	114,291	114,291
Accrued interest receivable	15,101	15,101
FHLBNY stock	34,890	34,890
Liabilities:		
Savings, money market, NOW, Super NOW and checking accounts	1,097,035	1,097,035
Certificates of Deposit	830,140	840,379
Escrow and other deposits	36,678	36,678
Borrowed funds	675,541	713,837
Accrued interest payable	3,630	3,630
Off Balance Sheet		
Commitments to extend credit	-	(1,817)

18. TREASURY STOCK

The Company purchased 1,075,000 shares, 545,500 shares, 750,524 shares and 919,930 shares of its common stock into treasury during the year ended December 31, 2003, the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001, respectively. All shares were purchased in accordance with applicable regulations of the Office of Thrift Supervision ("OTS") and the Securities and Exchange Commission.

19. REGULATORY MATTERS

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

Quantitative measures that have been established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). The Bank's primary regulatory agency, the OTS, requires that the Bank maintain minimum ratios of tangible capital (as defined in the regulations) of 1.5%, and total risk-based capital (as defined in the regulations) of 8%. In addition, insured institutions in the strongest financial and managerial condition, with a rating of one (the highest rating of the OTS under the Uniform Financial Institutions Rating System) are required to maintain a Leverage Capital Ratio (the "Leverage Capital Ratio") of not less than 3.0% of total assets.

For all other banks, the minimum Leverage Capital Ratio requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the institution. The Bank is also subject to prompt corrective action requirement regulations promulgated by the Federal Deposit Insurance Corporation. These regulations require the Bank to maintain a minimum of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2003, that the Bank satisfies all capital adequacy requirements to which it is subject.

As of December 31, 2003, the Bank satisfied all criteria necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table:

As of December 31, 2003	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	\$231,096	7.97%	\$43,492	1.5%	N/A	N/A
Leverage capital	231,096	7.97	115,979	4.0%	N/A	N/A
Total risk-based capital (to risk weighted assets)	240,809	15.03	128,144	8.0%	160,180	10.00
Tier I risk-based capital (to risk weighted assets)	231,096	14.43	N/A	N/A	96,108	6.00
Tier I leverage capital (to average assets)	231,096	7.55	N/A	N/A	152,980	5.00

As of December 31, 2002	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	\$205,991	7.19%	\$43,000	1.5%	N/A	N/A
Leverage capital	205,991	7.19	114,667	4.0%	N/A	N/A
Total risk-based capital (to risk weighted assets)	221,448	13.17	134,476	8.0%	168,095	10.00
Tier I risk-based capital (to risk weighted assets)	205,991	12.25	N/A	N/A	100,857	6.00
Tier I leverage capital (to average assets)	205,991	7.13	N/A	N/A	143,738	5.00

The following is a reconciliation of GAAP capital to regulatory capital for the Bank:

	At December 31, 2003			At December 31, 2002		
	Tangible Capital	Leverage Capital	Risk-Based Capital	Tangible Capital	Leverage Capital	Risk-Based Capital
GAAP capital	\$286,620	\$286,620	\$286,620	\$265,297	\$265,297	\$265,297
Non-allowable assets:						
Core deposit intangible	(873)	(873)	(873)	(1,698)	(1,698)	(1,698)
Loan servicing asset	(227)	(227)	(227)			
Accumulated other comprehensive income	1,214	1,214	1,214	(1,970)	(1,970)	(1,970)

Goodwill	(55,638)	(55,638)	(55,638)	(55,638)	(55,638)	(55,638)
General valuation allowance	-	-	15,018	-	-	15,457
Adjustment for recourse provision on loans sold	-	-	(5,305)			
Regulatory capital	231,096	231,096	240,809	205,991	205,991	221,448
Minimum capital requirement	43,492	115,979	128,144	43,000	114,667	134,476
Regulatory capital excess	\$187,604	\$115,117	\$112,665	\$162,991	\$91,324	\$86,972

20. CHANGE IN FISCAL YEAR END

Effective July 1, 2002, the Corporation changed its fiscal year from a twelve month period ending June 30th to a twelve month period ending December 31st. The Company's financial statements include the six-month transition period from July 1, 2002 to December 31, 2002.

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The following table presents certain financial information for the fiscal year ended December 31, 2003 and the unaudited year ended December 31, 2002, and information for the six month transition period ended December 31, 2002 and the unaudited six-months ended December 31, 2001.

	Year Ended December 31,		Six Months Ended December 31,	
	2002		2001	
	2003	(Unaudited)	2002	(Unaudited)
Total interest income	\$169,115	\$181,914	90,469	93,136
Total interest expense	71,063	91,790	43,278	53,732
Net interest income	98,052	90,124	47,191	39,404
Provision for loan losses	288	240	120	120
Total non-interest income	25,122	19,999	10,765	5,603
Total non-interest expense	40,809	38,696	20,368	17,103
Income before income taxes	82,077	71,187	37,468	27,784
Income tax expense	30,801	26,565	14,008	10,269
Net income	\$51,276	\$44,622	\$23,460	\$17,515
Earnings per Share:				
Basic	\$2.14	\$1.84	\$0.97	\$0.74
Diluted	2.06	1.76	0.93	0.70
Weighted average basic shares outstanding	23,948,518	24,208,102	24,191,407	23,598,077
Weighted average diluted shares outstanding	24,900,171	25,339,061	25,242,792	24,950,700
Dividends declared per common share	\$0.62	\$0.44	\$0.24	\$0.18

21. QUARTERLY FINANCIAL INFORMATION

The following represents the unaudited results of operations for each of the quarters during the fiscal year ended December 31, 2003, the six months ended December 31, 2002, and the fiscal years ended June 30, 2002 and 2001.

	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
For the three months ended				
Net interest income	\$26,269	\$25,604	\$25,480	\$20,699
Provision for loan losses	60	60	88	80
Net interest income after provision for loan losses	26,209	25,544	25,392	20,619
Non-interest income	5,365	4,754	9,406	5,597
Non-interest expense	9,669	9,696	9,769	11,675
Income before income taxes	21,905	20,602	25,029	14,541
Income tax expense	8,268	8,005	9,857	4,671
Net income	\$13,637	\$12,597	\$15,172	\$9,870
Earnings per share (1):				
Basic	\$0.57	\$0.53	\$0.64	\$0.41
Diluted	\$0.55	\$0.51	\$0.61	\$0.40

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For the three months ended	September 30, 2002	December 31, 2002
Net interest income	\$24,223	\$22,968
Provision for loan losses	60	60
Net interest income after provision for loan losses	24,163	22,908
Non-interest income	3,490	7,275
Non-interest expense	10,127	10,241
Income before income taxes	17,526	19,942
Income tax expense	6,598	7,410
Net income	\$10,928	\$12,532
Earnings per share (1):		
Basic	\$0.45	\$0.52
Diluted	\$0.43	\$0.50

For the three months ended	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
Net interest income	\$18,956	\$20,448	\$22,050	\$20,883
Provision for loan losses	60	60	60	60
Net interest income after provision for loan losses	18,896	20,388	21,990	20,823
Non-interest income	2,587	3,016	3,212	6,022
Non-interest expense	8,322	8,781	8,886	9,442
Income before income taxes	13,161	14,623	16,316	17,403
Income tax expense	4,837	5,432	6,161	6,396
Net income	\$8,324	\$9,191	\$10,155	\$11,007
Earnings per share (1):				
Basic	\$0.35	\$0.39	\$0.42	\$0.45
Diluted	\$0.33	\$0.37	\$0.40	\$0.43

For the three months ended	September 30, 2000	December 31, 2000	March 31, 2001	June 30, 2001
Net interest income	\$15,847	\$16,540	\$16,967	\$18,251
Provision for loan losses	60	560	60	60
Net interest income after provision for loan losses	15,787	15,980	16,907	18,191
Non-interest income	1,802	2,771	2,201	2,518
Non-interest expense	8,367	8,802	8,785	9,142
Income before income taxes	9,222	9,949	10,323	11,567
Income tax expense	3,649	3,957	3,763	4,452
Net income	\$5,573	\$5,992	\$6,560	\$7,115
Earnings per share (1):				
Basic	\$0.23	\$0.25	\$0.28	\$0.30
Diluted	\$0.22	\$0.24	\$0.26	\$0.28

(1) The quarterly earnings per share amounts, when added, may not coincide with the full fiscal year earnings per share reported on the Consolidated Statement of Operations due to differences in the computed weighted average shares outstanding as well as rounding differences.

22. CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following statements of condition as of December 31, 2003 and 2002, and the related statements of operations and cash flows for the year ended December 31, 2003, the six months ended December 31, 2002 and the years ended June 30, 2002, and 2001, reflect the Company's investment in its wholly-owned subsidiaries, the Bank and 842 Manhattan Avenue Corp., using the equity method of accounting:

DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands)

	At December 31, 2003	At December 31, 2002
ASSETS:		
Cash and due from banks	\$896	\$54
Investment securities available for sale	7,936	6,963
Mortgage-backed securities available for sale	5,166	9,208
Federal funds sold and short term investments	3,753	2,757
ESOP loan to subsidiary	5,202	5,661
Investment in subsidiary	286,913	265,649
Other assets	587	1,172
Total assets	\$310,453	\$291,464

LIABILITIES AND STOCKHOLDERS'

EQUITY:

Securities sold under agreement to repurchase	-	-
Subordinated notes payable	\$25,000	\$25,000
Other liabilities	1,534	727
Stockholders' equity	283,919	265,737
Total liabilities and stockholders' equity	\$310,453	\$291,464

DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Dollars in thousands)

	Fiscal Year Ended December 31, 2003	Six Months Ended December 31, 2002	Fiscal Year Ended June 30, 2002 2001	
Net interest loss	\$(1,308)	\$(473)	\$(654)	\$(341)
Dividends received from Bank	35,000	15,000	13,500	9,500
Non-interest income	1	-	2,015	972
Non-interest expense	(701)	(528)	(741)	(519)
Income before income taxes and equity in undistributed earnings of direct subsidiaries	32,992	13,999	14,120	9,612
Income tax credit (expense)	697	458	(240)	60
Income before equity in undistributed earnings of direct subsidiaries	33,689	14,457	13,880	9,672
Equity in undistributed earnings of subsidiaries	17,587	9,003	24,797	15,568
Net income	\$51,276	\$23,460	\$38,677	\$25,240

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DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Fiscal Year Ended December 31,	Six Months Ended December 31,	Fiscal Year Ended June 30,	
	2003	2002	2002	2001
Cash flows from Operating Activities:				
Net income	\$51,276	\$23,460	\$38,677	\$25,240
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in undistributed earnings of direct subsidiaries	(17,587)	(9,003)	(24,797)	(15,568)
Gain on sale of assets	-	-	(2,004)	(972)
Net accretion of discount on securities available for sale	6	15	91	77
Decrease (Increase) in other assets	585	(137)	151	67
(Decrease) increase in other liabilities	584	224	(19)	1,170
Net cash provided by operating activities	34,864	14,559	12,099	10,014
Cash flows from Investing Activities:				
(Increase) Decrease in federal funds sold and short-term investments	(996)	(868)	9,156	(2,215)
Proceeds from sale of investment securities available for sale	-	-	4,582	2,227
Proceeds from calls and maturities of investment securities available for sale	-	-	-	9,000
Proceeds from transfer of securities	270	243	-	-
Purchases of investment securities available for sale	(323)	(319)	(1,196)	(262)
Principal repayments on mortgage-backed securities available for sale	3,873	2,775	12,726	17,735
Principal repayments on ESOP loan	459	467	474	250
Net cash provided by investing activities	3,283	2,298	25,742	26,735
Cash flows from Financing Activities:				
Issuance of common stock	8	4	10	-
Cash disbursed in payment of stock dividend	-	-	(17)	-
Decrease in securities sold under agreement to repurchase	-	(2,000)	(19,325)	(17,801)
Proceeds from issuance of subordinated notes payable	-	-	-	-
Common stock issued for exercise of Stock Options	5,316	2,439	6,689	-
Cash dividends paid to stockholders	(15,801)	(6,205)	(9,867)	(8,733)
Purchase of treasury stock	(26,828)	(11,769)	(14,690)	(9,296)
Purchase of common stock by Benefit Maintenance Plan	-	-	-	(869)
Net cash used in financing activities	(37,305)	(17,531)	(37,200)	(36,699)
Net (decrease) increase in cash and due from banks	842	(674)	641	50
Cash and due from banks, beginning of period	54	728	87	37
Cash and due from banks, end of period	\$896	\$54	\$728	\$87

23. SUBSEQUENT EVENT

On February 19, 2004, the Company declared a 50 percent stock dividend to all shareholders of record as of March 1, 2004, having the effect of a three-for-two stock split. This dividend will be distributed on March 16, 2004. Except where indicated, share amounts for all periods disclosed in these financial statements do not reflect this stock dividend, which will become effective in the trading price of the Company's common stock as of March 17, 2004.

* * * * *

Exhibit Number

3(i)	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1)
3(ii)	Amended and Restated Bylaws of Dime Community Bancshares, Inc. (1)
4.1	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto]
4.2	Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto]
4.3	Draft Stock Certificate of Dime Community Bancshares, Inc. (2)
4.4	Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock (3)
4.5	Rights Agreement, dated as of April 9, 1998, between Dime Community Bancorp, Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (3)
4.6	Form of Rights Certificate (3)
10.1	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (4)
10.2	Amended and Restated Employment Agreement between The Dime Savings Bank of

- Williamsburgh and Michael P. Devine (4)
- 10.3 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (4)
- 10.4 Employment Agreement between Dime Community Bancorp, Inc. and Vincent F. Palagiano
- 10.5 Employment Agreement between Dime Community Bancorp, Inc. and Michael P. Devine
- 10.6 Employment Agreement between Dime Community Bancorp, Inc. and Kenneth J. Mahon
- 10.7 Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (4)
- 10.8 The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (5)
- 10.9 Severance Pay Plan of The Dime Savings Bank of Williamsburgh (4)
- 10.10 Retirement Plan for Board Members of Dime Community Bancorp, Inc. (5)
- 10.11 Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees, as amended by amendments number 1 and 2 (5)
- 10.12 Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (5)
- 10.13 Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees. (5)
- 10.14 Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees (5)
- 10.15 Form of award notice for outside directors under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)
- 10.16 Form of award notice for officers and employees under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)
- 10.17 Financial Federal Savings Bank Incentive Savings Plan in RSI Retirement Trust (6)
- 10.18 Financial Federal Savings Bank Employee Stock Ownership Plan (6)
- 10.19 Option Conversion Certificates between Dime Community Bancshares, Inc. and each of Messrs: Russo, Segrete, Calamari, Latawicz, O'Gorman, and Ms. Swaya pursuant to Section 1.6(b) of the Agreement and Plan of Merger, dated as of July 18, 1998 by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc. (6)
- 10.20 Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (7)
- 14 Code of Business Ethics
- 21 Subsidiaries of the Registrant
- 31.1 Certification of Chief Executive Officer Pursuant to 17 CFR 240.13a-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to 17 CFR 240.13a-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.

(2) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.

(3) Incorporated by reference to the registrant's Current Report on Form 8-K dated April 9, 1998 and filed on April 16, 1998.

(4) Incorporated by reference to Exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997.

(5) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997.

(6) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.

(7) Incorporated by reference to the registrant's Annual Report on Form 10-Q for the fiscal year ended September 30, 2003 filed on November 14, 2003.

#

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of January 1, 2003, by and between Dime Community Bancshares, Inc., a savings and loan holding company organized and operating under the laws of the State of Delaware and having an office at 209 Havemeyer Street, Brooklyn, New York 11211 ("Company") and Vincent F. Palagiano ("Mr. Palagiano").

WITNESSETH:

WHEREAS, Mr. Palagiano and the Company are parties to an Employment Agreement made and entered into as of June 26, 1996 (the "Prior Agreement") pursuant to which Mr. Palagiano serves the Company in the capacity of Chairman of the Board and Chief Executive Officer of the Company and its wholly owned subsidiary, The Dime Savings Bank of Williamsburgh ("Bank"); and

WHEREAS, the Prior Agreement required the Company to maintain for Mr. Palagiano qualified and non-qualified defined benefit plans; and

WHEREAS, the Prior Agreement required the Company to refrain from making any material adverse changes in Mr. Palagiano's package of compensation and benefits; and

WHEREAS, the cessation of benefit accruals under the qualified and non-qualified defined benefit plans in which Mr. Palagiano participated may have resulted in a breach of the Company's obligations under the Prior Agreement, allowing him to resign and claim severance benefits under the Prior Agreement; and

WHEREAS, the Company desires to assure for itself the continued availability of Mr. Palagiano's services and the ability of Mr. Palagiano to perform such services with a minimum of personal distraction in the event of a pending or threatened Change in Control (as hereinafter defined); and

WHEREAS, Mr. Palagiano is willing to continue to serve the Company on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Company and Mr. Palagiano hereby agree as follows:

1. Representations and Warranties of the Parties.

(a) The Company hereby represents and warrants to Mr. Palagiano that:

- and
- (i) it has all requisite power and authority to execute, enter into and deliver this Agreement and to perform each and every one of its obligations hereunder;
 - (ii) the execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action on the part of the Company; and
 - (iii) neither the execution or delivery of this Agreement, nor the performance of or compliance with any of the terms and conditions hereof, is prevented or in any way limited by (A) any agreement or instrument to which the Company is a party or by which it is bound, or (B) any provision of law, including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to the Company or its business.

(b) Mr. Palagiano hereby represents and warrants to the Company that:

- (i) he has all requisite power and authority to execute, enter into and deliver this Agreement and to perform each and every one of his obligations hereunder; and
- (ii) neither the execution or delivery of this Agreement, nor the performance of or compliance with any of the terms and conditions hereof, is prevented or in any way limited by (A) any agreement or instrument to which he is a party or by which he is bound, or (B) any provision of law, including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to him.

2. Employment.

The Company hereby continues the employment of Mr. Palagiano, and Mr. Palagiano hereby accepts such continued employment, during the period and upon the terms and conditions set forth in this Agreement.

3. Employment Period.

(a) The terms and conditions of this Agreement shall be and remain in effect during the period of employment established under this section 3 ("Employment Period"). The Employment Period shall be for an initial term of three years beginning on the date of this Agreement and ending on the third anniversary date of this Agreement, plus such extensions, if any, as are provided pursuant to section 3(b).

(b) Except as provided in section 3(c), beginning on the date of this Agreement, the Employment Period shall automatically be extended for one (1) additional day each day, unless either the Company or Mr. Palagiano elects not to extend the Agreement further by giving written notice to the other party, in which case the Employment Period shall end on the third anniversary of the date on which such written notice is given. Upon termination of Mr. Palagiano's employment with the Company for any reason whatsoever, any daily extensions provided pursuant to this section 3(b), if not therefore discontinued, shall automatically cease.

(c) If, prior to the date on which the Employment Period would end pursuant to section 3(a) or (b) of this Agreement, a Change in Control (as defined in section 13 of this Agreement) occurs, then the Employment Period shall be extended through and including the second anniversary of the earliest date after the effective date of such Change in Control on which either the Company or Mr. Palagiano elects, by written notice pursuant to section 3(d) of this Agreement to the non-electing party, to discontinue the Employment Period; provided, however, that this section shall not apply in the event that, prior to the Change in Control (as defined in section 13 of this Agreement), Mr. Palagiano has provided written notice to the Company of his intent to discontinue the Employment Period.

(d) The Company or Mr. Palagiano may, at any time by written notice given to the other, elect to discontinue the daily extension of the Employment Period. Any such notice given by the Company shall be accompanied by a certified copy of a resolution, adopted by the affirmative vote of a majority of the entire membership of the Board at a meeting of the Board duly called and held, authorizing the giving of such notice.

(e) Notwithstanding anything herein contained to the contrary: (i) Mr. Palagiano's employment with the Company may be terminated during the Employment Period, in accordance with the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of Mr. Palagiano's employment following the expiration of the Employment Period upon such terms and conditions as the Company and Mr. Palagiano may mutually agree upon.

(f) For all purposes of this Agreement, any reference to the "Remaining Unexpired Employment Period" as of any specified date shall mean (i) prior to the occurrence of a Change in Control (as hereinafter defined) the period commencing on the date specified and ending on the later of the third anniversary of the date of this Agreement, the third anniversary of any earlier date on which either the Company or Mr. Palagiano has elected to discontinue the daily extensions of the Employment Period, or the third anniversary of Mr. Palagiano's termination of employment for any reason; and (ii) following a Change in Control (as hereinafter defined) a period commencing on the date specified and ending on the later of the second anniversary of the effective date of the Change in Control, the second anniversary of any earlier date following the occurrence of the Change in Control on which either Mr. Palagiano or the Company has elected to discontinue the daily extensions of the Employment Period, or the second anniversary of Mr. Palagiano's termination of employment for any reason whatsoever.

4. Duties.

During the Employment Period, Mr. Palagiano shall:

- (a) except to the extent allowed under section 7 of this Agreement, devote his full business time and attention to the business and affairs of the Company and use his best efforts to advance the Company's interests;
- (b) serve as Chairman of the Board and Chief Executive Officer if duly appointed and/or elected to serve in such position; and
- (c) have such functions, duties and responsibilities not inconsistent with his title and office as may be assigned to him by or under the authority of the Board of Directors of the Company ("Board"), in accordance with organization Certificate, By-laws, Applicable Laws, Statutes and Regulations, custom and practice of the Company as in effect on the date first above written. Mr. Palagiano shall have such authority as is necessary or appropriate to carry out his assigned duties. Mr. Palagiano shall report to and be subject to direction and supervision by the Board.
- (d) none of the functions, duties and responsibilities to be performed by Mr. Palagiano pursuant to this Agreement shall be deemed to include those functions, duties and responsibilities performed by Mr. Palagiano in his capacity as director of the Company.

5. Compensation -- Salary and Bonus.

In consideration for services rendered by Mr. Palagiano under this Agreement, the Company shall pay to Mr. Palagiano a salary at an annual rate equal to:

- (a) during the period beginning on January 1, 2003 and ending on December 31, 2003, no less than \$ _____;
- (b) during each calendar year that begins after December 31, 2003, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2003; or
- (c) for each calendar year that begins on or after a Change in Control, the product of Mr. Palagiano's annual rate of salary in effect immediately prior to such calendar year, multiplied by the greatest of:
 - (i) 1.06;
 - (ii) the quotient of (A) the U.S. City Average All Items Consumer Price Index for All Urban Consumers (or, if such index shall cease to be published, such other measure of general consumer price levels as the Board may, in good faith, prescribe) for October of the immediately preceding calendar year, divided by (B) the U.S. City Average All Items Consumer Price Index for All Urban Consumers (or, if such index shall cease to be published, such other measure of general consumer price levels as the Board may, in good faith, prescribe) for October of the second preceding calendar year; and
 - (iii) the quotient of (A) the average annual rate of salary, determined as of the first day of such calendar year, of the officers of the Company (other than Mr. Palagiano) who are assistant vice presidents or more senior officers, divided by (B) the average annual rate of salary, determined as of the first day of the immediately preceding calendar year, of the officers of the Company (other than Mr. Palagiano) who are assistant vice presidents or more senior officers;

The salary payable under this section 5 shall be paid in approximately equal installments in accordance with the Company's customary payroll practices. Nothing in this section 5 shall be construed as prohibiting the payment to Mr. Palagiano of a salary in excess of that prescribed under this section 5 or of additional cash or non-cash compensation in a form other than salary, to the extent that such payment is duly authorized by or under the authority of the Board. No portion of the compensation paid to Mr. Palagiano pursuant to this Agreement shall be deemed to be compensation received by Mr. Palagiano in his capacity as director of the Company.

6. Employee Benefit Plans and Programs; Other Compensation.

Except as otherwise provided in this Agreement, Mr. Palagiano shall be treated as an employee of the Company and be entitled to participate in and receive benefits under the Company's Retirement Plan, Incentive Savings Plan, group life and health (including medical and major medical) and disability insurance plans, and such other employee benefit plans and programs, including but not limited to any long-term or short-term incentive compensation plans or programs (whether or not employee benefit plans or programs), as the Company may maintain from time to time, in accordance with the terms and conditions of such employee benefit plans and programs and compensation plans and programs and with the Company's customary practices. Following a Change in Control, all such benefits to Mr. Palagiano shall be continued on terms and conditions substantially identical to, and in no event less favorable than, those in effect prior to the Change in Control.

7. Board Memberships and Personal Activities.

- (a) Mr. Palagiano may serve as a member of the board of directors of such business, community and charitable organizations as he may disclose to the Board from time to time, and he may engage in personal business and investment activities for his own account; provided, however, that such service and personal business and investment activities shall not materially interfere with the performance of his duties under this Agreement.
- (b) Mr. Palagiano may also serve as an officer or director of the Bank on such terms and conditions as the Company and the Bank may mutually agree upon, and such service shall not be deemed to materially interfere with Mr. Palagiano's performance of his duties hereunder or otherwise result in a material breach of this Agreement. If Mr. Palagiano is discharged or suspended, or is subject to any regulatory prohibition or restriction with respect to participation in the affairs of the Bank, he shall (subject to the Company's powers of termination hereunder) continue to perform services for the Company in accordance with this Agreement but shall not directly or indirectly provide services to or participate in the affairs of the Bank in a manner inconsistent with the terms of such discharge or suspension or any applicable regulatory order.

8. Working Facilities and Expenses.

Mr. Palagiano's principal place of employment shall be at the Company's executive offices at the address first above written, or at such other location in the New York metropolitan area as determined by the Board. The Company shall provide Mr. Palagiano, at his principal place of employment, with a private office, stenographic services and other support services and facilities suitable to his position with the Company and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Company shall provide Mr. Palagiano with an automobile suitable to his position with the Company in accordance with its prior practices, and such automobile shall be used by Mr. Palagiano in carrying out his duties under this Agreement, including commuting between his residence and his principal place of employment. The Company shall reimburse Mr. Palagiano for his ordinary and necessary business expenses, including, without limitation, all expenses associated with his business use of the aforementioned automobile, fees for memberships in such clubs and organizations as Mr. Palagiano and the Company shall mutually agree are necessary and appropriate for business purposes and travel and entertainment expenses incurred in connection with the performance of his duties under this Agreement, upon presentation to the Company of an itemized account of such expenses in such form as the Company may reasonably require. Mr. Palagiano shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period.

9. Termination Giving Rise to Severance Benefits.

- (a) In the event that Mr. Palagiano's employment with the Company shall terminate during the Employment Period other than on account of:
 - (i) a Termination for Cause (within the meaning of section 12(a) of this Agreement);
 - (ii) a voluntary resignation by Mr. Palagiano other than a Resignation for Good Reason (within the meaning of section 12(b) of this Agreement);
 - (iii) a termination on account of Mr. Palagiano's death; or
 - (iv) a termination after both of the following conditions exist: (A) Mr. Palagiano has been absent from the full-time service of the Company on account of his Disability (as defined in section 11(b) of this Agreement) for at least six (6) consecutive months; and (B) Mr. Palagiano shall have failed to return to work in the full-time service of the Company within thirty (30) days after written notice requesting such return is given to Mr. Palagiano by the Company;

then the Company shall provide to Mr. Palagiano the benefits and pay to Mr. Palagiano the amounts provided under section 9(b) of this Agreement.

- (b)

In the event that Mr. Palagiano's employment with the Company shall terminate under circumstances described in section 9(a) of this Agreement, the following benefits and amounts shall be paid or provided to Mr. Palagiano (or, in the event of his death, to his estate):

(i) his earned but unpaid salary as of the date of the termination of his employment with the Company, payable when due but in no event later than thirty (30) days following his termination of employment with the Company;

(ii) (A) the benefits, if any, to which Mr. Palagiano and his family and dependents are entitled as a former employee, or family or dependents of a former employee, under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the Company's officers and employees, in accordance with the terms of such plans and programs in effect on the date of his termination of employment, or if his termination of employment occurs after a Change in Control, on the date of his termination of employment or on the date of such Change in Control, whichever results in more favorable benefits as determined by Mr. Palagiano, where credit is given for three additional years of service and age in determining eligibility and benefits for any plan and program where age and service are relevant factors, and (B) payment for all unused vacation days and floating holidays in the year in which his employment is terminated, at his highest annual rate of salary for such year;

(iii) continued group life, health (including hospitalization, medical and major medical, dental, accident and long-term disability insurance benefits), in addition to that provided pursuant to section 9(b)(ii) of this Agreement and after taking into account the coverage provided by any subsequent employer, if and to the extent necessary to provide Mr. Palagiano and his family and dependents for a period of three years following termination of employment, coverage identical to and in any event no less favorable than the coverage to which they would have been entitled under such plans (as in effect on the date of his termination of employment, or, if his termination of employment occurs after a Change in Control, on the date of his termination of employment or during the one-year period ending on the date of such Change in Control, whichever results in more favorable benefits as determined by Mr. Palagiano) if he had continued working for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement;

(iv) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the present value of the salary and the bonus that Mr. Palagiano would have earned if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of salary (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) and the highest bonus as a percentage of the rate of salary provided for under this Agreement, where such present value is to be determined using a discount rate of six percent (6%) per annum, compounded, in the case of salary, with the frequency corresponding to the Company's regular payroll periods with respect to its officers, and, in the case of bonus, annually;

(v) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the excess, if any, of: (A) the present value of the benefits to which he would be entitled under any defined benefit plans maintained by, or covering employees of, the Company (including any "excess benefit plan" within the meaning of section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or other special or supplemental plan) as in effect on the date of his termination, if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement and been fully vested in such plan or plans and had continued working for the Company during the Remaining Unexpired Employment Period, such benefits to be determined as of the date of termination of employment by adding to the service actually recognized under such plans an additional period equal to the Remaining Unexpired Employment Period and by adding to the compensation recognized under such plans for the year in which termination of employment occurs all amounts payable under sections 9(b)(i), (iv) and (vii), over (B) the present value of the benefits to which he is actually entitled under any such plans maintained by, or covering employees of, the Company as of the date of his termination where such present values are to be determined using a discount rate of six percent (6%) per annum, compounded monthly, and the mortality tables prescribed under section 72 of the Internal Revenue Code of 1986 ("Code");

(vi) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the excess, if any, of (A) the present value of the benefits attributable to the Company's contribution to which he would be entitled under any defined contribution plans maintained by, or covering employees of, the Company (including any "excess benefit plan" within the meaning of section 3(36) of ERISA, or other special or supplemental plan) as in effect on the date of his termination, if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement, and made the maximum amount of employee contributions, if any, required or permitted under such plan or plans, and been eligible for the highest rate in matching contributions under such plan or plans during the Remaining Unexpired Employment Period which is prior to Mr. Palagiano's termination of employment with the Company, and been fully vested in such plan or plans, over (B) the present value of the benefits attributable to the Company's contributions to which he is actually entitled under such plans as of the date of his termination of employment with the Company, where such present values are to be determined using a discount rate of six percent (6%) per annum, compounded with the frequency corresponding to the Company's regular payroll periods with respect to its officers;

(vii) the payments that would have been made to Mr. Palagiano under any incentive compensation plan maintained by, or covering employees of, the Company (other than bonus payments to which section 9(b)(iv) of this Agreement is applicable) if he had continued working for the Company during the Remaining Unexpired Employment Period and had earned an incentive award in each calendar year that ends during the Remaining Unexpired Employment Period in an amount equal to the product of (A) the maximum percentage rate of compensation at which an award was ever available to Mr. Palagiano under such incentive compensation plan, multiplied by (B) the compensation that would have been paid to Mr. Palagiano during each calendar year at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement, such payments to be made at the same time and in the same manner as payments are made to other officers of the Company pursuant to the terms of such incentive compensation plan; provided, however, that payments under this section 9(b)(vii) shall not be made to Mr. Palagiano for any year on account of which no payments are made to any of the Company's officers under any such incentive compensation plan; and

(viii) the benefits to which Mr. Palagiano is entitled under the Company's Supplemental Executive Retirement Plan (or other excess benefits plan with the meaning of section 3(36) of ERISA or other special or supplemental plan) shall be paid to him in a lump sum, where such lump sum is computed using the mortality tables under the Company's tax-qualified pension plan and a discount rate of 6% per annum. The payments specified in section 9(b) (viii) shall be made within thirty (30) days after the date of Mr. Palagiano's election, and if the amount may be increased by a subsequent Change in Control, any additional payment shall be made within thirty (30) days of such Change in Control.

(c) Mr. Palagiano shall not be required to mitigate the amount of any payment provided for in this section 9 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this section 9 be reduced by any compensation earned by Mr. Palagiano as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Mr. Palagiano to the Company, or otherwise except as specifically provided in section 9(b) (iii) of this Agreement or except as provided in section 28 to avoid duplication of payments. The Company and Mr. Palagiano hereby stipulate that the damages which may be incurred by Mr. Palagiano as a consequence of any such termination of employment are not capable of accurate measurement as of the date first above written and that the benefits and payments provided for in this Agreement constitute a reasonable estimate under the circumstances of all damages sustained as a consequence of any such termination of employment, other than damages arising under or out of any stock option, restricted stock or other non-qualified stock acquisition or investment plan or program, it being understood and agreed that this Agreement shall not determine the measurement of damages under any such plan or program in respect of any termination of employment.

10. Termination Without Severance Benefits.

In the event that Mr. Palagiano's employment with the Company shall terminate during the Employment Period on account of:

- (a) Termination for Cause (within the meaning of section 12(a) of this Agreement);
- (b) voluntary resignation by Mr. Palagiano other than a Resignation for Good Reason (within the meaning of section 12(b) of this Agreement); or
- (c) Mr. Palagiano's death;

then the Company shall have no further obligations under this Agreement, other than the payment to Mr. Palagiano (or, in the event of his death, to his estate) of his earned but unpaid salary as of the date of the termination of his employment, and the provision of such other benefits, if any, to which he is entitled as a former employee under the Company's employee benefit plans and programs and compensation plans and programs and payment for all unused vacation days and floating holidays in the year in which his employment is terminated, at his highest annual salary for such year.

11. Death and Disability.

(a) Death. If Mr. Palagiano's employment is terminated by reason of Mr. Palagiano's death during the Employment Period, this Agreement shall terminate without further obligations to Mr. Palagiano's legal representatives under this Agreement, other than for payment of amounts and provision of benefits under sections 9(b) (i) and (ii); provided, however, that if Mr. Palagiano dies while in the employment of the Company, his designated beneficiary(ies) shall receive a death benefit, payable through life insurance or otherwise, which is the equivalent on a net after-tax basis of the death benefit payable under a term life insurance policy, with a stated death benefit of three times Mr. Palagiano's then Annual Base Salary.

(b) Disability. If Mr. Palagiano's employment is terminated by reason of Mr. Palagiano's Disability as defined in section 11(c) during the Employment Period, this Agreement shall terminate without further obligations to Mr. Palagiano, other than for payment of amounts and provision of benefits under section 9(b) (i) and (ii); provided, however, that in the event of Mr. Palagiano's Disability while in the employment of the Company, the Company will pay to him a lump sum amount equal to three times his then annual base salary.

(c) For purposes of this Agreement, "Disability" shall be defined in accordance with the terms of the Company's long term disability policy.

(d) Payments under this section 11 shall be made within 30 days after Mr. Palagiano's death or termination due to Disability.

12. Definition of Termination for Cause and Resignation for Good Reason.

(a) Mr. Palagiano's termination of employment with the Company shall be deemed a "Termination for Cause" if such termination occurs upon:

(i) Mr. Palagiano's willful and continued failure to substantially perform his duties with the Company (other than any failure resulting from incapacity due to physical or mental illness or any actual or anticipated failure following notice by Mr. Palagiano of an intended Resignation for Good Reason) after a written demand for substantial performance is delivered to him by the Board, which demand specifically identifies the manner in which the Board believes Mr. Palagiano has not substantially performed his duties, and the failure to cure such breach within sixty (60) days following written notice thereof from the Company; or

(ii) the intentional and willful engaging in dishonest conduct in connection with his performance of services for the Company resulting in his conviction of or plea of guilty or nolo contendere to a felony, fraud, personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease-and-desist order.

No act, or failure to act, on Mr. Palagiano's part shall be deemed willful unless done, or omitted to be done, not in good faith and without reasonable belief that such action or omission was in the best interest of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the written advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Mr. Palagiano in good faith and in the best interests of the Company. Notwithstanding the foregoing, no termination of Mr. Palagiano's employment shall be a Termination for Cause unless there shall have been delivered to Mr. Palagiano a copy of a resolution duly adopted by the affirmative vote of a majority of the Board of Directors (or, following a Change in Control, an affirmative vote of three-quarters of the Board of Directors) at a meeting of the Board called and held for such purpose (after reasonable notice to Mr. Palagiano and an opportunity for Mr. Palagiano, together with his counsel, to be heard before the Board) finding that in good faith opinion of the Board circumstances described in section 12(a) (i) or (ii) exist and specifying the particulars thereof in detail.

(b) Mr. Palagiano's termination of employment with the Company shall be deemed a Resignation for Good Reason if such termination occurs following any one or more of the following events:

(i) (A) the assignment to Mr. Palagiano of any duties inconsistent with Mr. Palagiano's status as Chairman of the Board and Chief Executive Officer of the Company or (B) a substantial adverse alteration in the nature or status of Mr. Palagiano's responsibilities from those in effect immediately prior to the alteration;

(ii) a reduction by the Company in Mr. Palagiano's annual base salary as in effect on the date first above written or as the same may be increased from time to time, unless such reduction was mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(iii) the relocation of the Company's principal executive offices to a location outside the New York metropolitan area or the Company's requiring Mr. Palagiano to be based anywhere other than the Company's principal executive offices except for required travel on the Company's business to an extent substantially consistent with Mr. Palagiano's business travel obligations at the date first above written;

(iv) the failure by the Company, without Mr. Palagiano's consent, to pay to Mr. Palagiano, within seven (7) days of the date when due, (A) any portion of his compensation, or (B) any portion of an installment of deferred compensation under any deferred compensation program of the Company;

(v) the failure by the Company to continue in effect any compensation plan in which Mr. Palagiano participates on or after January 1, 2003 which is material to his total compensation, including but not limited to the Retirement Plan and the Company's Incentive Savings Plan or any substitute plans unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue his participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of his participation relative to other participants, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(vi) the failure by the Company to continue to provide Mr. Palagiano with benefits substantially similar to those enjoyed by Mr. Palagiano as of January 1, 2003 under the Retirement Plan and the Company's Incentive Savings Plan or under any of the Company's life, health (including hospitalization, medical and major medical), dental, accident, and long-term disability insurance benefits, in which Mr. Palagiano is participating, or the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Mr. Palagiano of the number of paid vacation days to which he is entitled, on the basis of years of service with the Company, rank or otherwise, in accordance with the Company's normal vacation policy, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(vii) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in section 15(a) of this Agreement;

(viii) any purported termination of employment by the Company which is not effected pursuant the provisions of section 12(a) regarding Termination for Cause or on account of Disability;

(ix) a material breach of this Agreement by the Company, which the Company fails to cure within thirty (30) days following written notice thereof from Mr. Palagiano;

(x) a requirement that Mr. Palagiano report to any person or group other than the Board.

13. Definition of Change in Control; Payment in the Event of a Change in Control.

(a) For purposes of this Agreement, a Change in Control of the Company shall mean:

(i) the occurrence of any event upon which any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than (A) a trustee or other fiduciary holding securities under an employee benefit plan maintained for the benefit of employees of the Company; (B) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (C) Mr. Palagiano, or any group otherwise constituting a person in which Mr. Palagiano is a member, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities issued by the Company representing 25% or more of the combined voting power of all of the Company's then outstanding securities; or

(ii) the occurrence of any event upon which the individuals who on the date first above written are members of the Board, together with individuals (other than any individual designated by a person who has entered into an agreement with the Company to effect a transaction described in section 13(a) or 13(c) of this Agreement) whose election by the Board or nomination for election by the Company's stockholders was approved by the affirmative vote of at least two-thirds of the members of Board then in office who were either members of the Board on the date first above written or whose nomination or election was previously so approved cease for any reason to constitute a majority of the members of the Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) the shareholders of the Company approve either:

(A) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(1) either (I) the members of the Board of the Company immediately prior to such merger or consolidation constitute at least a majority of the members of the governing body of the institution resulting from such merger or consolidation; or (II) the shareholders of the Company own securities of the institution resulting from such merger or consolidation representing 80% or more of the combined voting power of all such securities then outstanding in substantially the same proportions as their ownership of voting securities of the Company before such merger or consolidation; and

(2) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform the Company's obligations under this Agreement; or

(B) a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets; and

(iv) any event which would be described in section 13(a)(i), (ii) or (iii) if the term "Bank" were substituted for the term "Company" therein. Such event shall be deemed to be a Change in Control under the relevant provision of section 13(a)(i), (ii) or (iii).

It is understood and agreed that more than one Change in Control may occur at the same or different times during the Employment Period and that the provisions of this Agreement shall apply with equal force and effect with respect to each such Change in Control.

(b) Upon the occurrence during the Employment Period of a Change in Control, the Company shall, as promptly as practicable and in any event within five business days, pay to Mr. Palagiano:

(i) a lump sum amount equal to the aggregate amount that would be payable to Mr. Palagiano under sections 9(b)(i), (iv), (v), (vi), (vii) and (viii) of this Agreement computed as if Mr. Palagiano had terminated employment in a Resignation for Good Reason on the date of the Change in Control but as if no Change in Control had occurred; plus

(ii) a lump sum amount equal to the present value of the excess of:

(A) a single life annuity, payable commencing immediately, in an amount equal to 26-2/3% of the aggregate base salary and annual bonus for the period of thirty-six consecutive calendar months of employment during the final 120 months of employment that yields the highest aggregate figure; over

(B) the aggregate single life annuity benefits, payable commencing immediately under any qualified and non-qualified defined benefit plans of the Company or the Bank.

where base salary shall be determined without regard to pre-tax or after-tax deductions for benefits under sections 401(k), 401(m), 125 or 132(f) of the Code or otherwise and value shall be determined using the mortality table prescribed under section 72 of the Code and a discount rate of 6% per annum compounded annually.

Such payments shall be paid whether or not Mr. Palagiano's employment has terminated. The Company may require, as a condition of its obligation to make such payments, that Mr. Palagiano execute and deliver to the Company a release, in such form and manner as the Company may reasonably require, relieving the Bank of any obligation it might then have, whether pursuant to an employment contract or otherwise, to pay severance benefits to Mr. Palagiano in connection with a subsequent termination of employment. Such a release shall not relieve the Bank of any obligation that it may have to provide for Mr. Palagiano and his family and dependents the accrued post-termination benefits to which they are entitled under any compensation or benefit plan or program of the Bank.

14. No Effect on Employee Benefit Plans or Programs.

Except as expressly provided in this Agreement, the termination of Mr. Palagiano's employment during the Employment Period or thereafter, whether by the Company or by Mr. Palagiano, shall have no effect on the rights and obligations of the parties hereto under the Company's or the Bank's Retirement Plan and the Company's Incentive Savings Plan, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans or such other employee benefit plans or programs, or compensation plans or programs (whether or not employee benefit plans or programs) and, following the conversion of the Company to stock form, any stock option and appreciation rights plan, employee stock ownership plan and restricted stock plan, as may be maintained by, or cover employees of, the Company from time to time.

15. Successors and Assigns.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain this assumption and agreement prior to the effectiveness of any such succession shall be deemed to constitute a material breach of the Company's obligations under this Agreement.

(b) This Agreement will inure to the benefit of and be binding upon Mr. Palagiano, his legal representatives and testate or intestate distributees, and the Company, their respective successors and assigns, including any successor by merger or consolidation or a statutory receiver or any other person or firm or corporation to which all or substantially all of the respective assets and business of the Company may be sold or otherwise transferred.

16. Notices.

Any communication required or permitted to be given under this Agreement, including any notice, direction, designation, consent, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally, or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below or at such other address as one such party may by written notice specify to the other party:

If to Mr. Palagiano:

[Home address.

If to the Company:

Dime Community Bancshares, Inc.
Attention: Corporate Secretary

209 Havemeyer Street

Brooklyn, New York 11211

with a copy to:

Thacher Proffitt & Wood
Attention: W. Edward Bright, Esq.

Two World Trade Center, 39th Floor

New York, New York 10048

17. Indemnification and Attorneys' Fees.

The Company shall pay to or on behalf of Mr. Palagiano all reasonable costs, including legal fees, incurred by him in connection with or arising out of his consultation with legal counsel or in connection with or arising out of any action, suit or proceeding in which he may be involved, as a result of his efforts, in good faith, to defend or enforce the terms of this Agreement; provided, however, that this section 17 shall not obligate the Company to pay costs and legal fees on behalf of Mr. Palagiano under this Agreement in excess of \$50,000.

18. Excise Tax Indemnification.

(a) If Mr. Palagiano's employment terminates under circumstances entitling him (or in the event of his death, his estate) to the Additional Termination Entitlements, the Company shall pay to Mr. Palagiano (or in the event of his death, his estate) an additional amount intended to indemnify him against the financial effects of the excise tax imposed on excess parachute payments under section 280G of the Code (the "Tax Indemnity Payment"). The Tax Indemnity Payment shall be determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

- E = the percentage rate at which an excise tax is assessed under section 4999 of the Code;
- P = the amount with respect to which such excise tax is assessed, determined without regard to this section 16;
- FI = the highest marginal rate of income tax applicable to Mr. Palagiano under the Code for the taxable year in question;
- SLI = the sum of the highest marginal rates of income tax applicable to Mr. Palagiano under all applicable state and local laws for the taxable year in question; and
- M = the highest marginal rate of Medicare tax applicable to Mr. Palagiano under the Code for the taxable year in question.

Such computation shall be made at the expense of the Company by a member of the firm of Thacher Proffitt & Wood, or by an attorney or a firm of independent certified public accountants selected by Mr. Palagiano and reasonably satisfactory to the Company (the "Tax Advisor") and shall be based on the following assumptions: (i) that a change in ownership, a change in effective ownership or control, or a change in ownership of a substantial portion of assets, of the Bank or the Company has occurred within the meaning of section 280G of the Code (a "280G Change of Control"); (ii) that all direct or indirect payments made to or benefits conferred upon Mr. Palagiano on account of his termination of employment are "parachute payments" within the meaning of section 280G of the Code; and (iii) that no portion of such payments is reasonable compensation for services rendered prior to Mr. Palagiano's termination of employment.

(b) With respect to any payment that is presumed to be a parachute payment for purposes of section 280G of the Code, the Tax Indemnity Payment shall be made to Mr. Palagiano on the earlier of the date the Company, the Bank or any direct or indirect subsidiary or affiliate of the Company or the Bank is required to withhold such tax or the date the tax is required to be paid by Mr. Palagiano, unless, prior to such date, the Company delivers to Mr. Palagiano the written opinion, in form and substance reasonably satisfactory to Mr. Palagiano, of the Tax Advisor or of an attorney or firm of independent certified public accountants selected by the Company and reasonably satisfactory to Mr. Palagiano, to the effect that Mr. Palagiano has a reasonable basis on which to conclude that (i) no 280G Change in Control has occurred, or (ii) all or part of the payment or benefit in question is not a parachute payment for purposes of section 280G of the Code, or (iii) all or a part of such payment or benefit constitutes reasonable compensation for services rendered prior to the 280G Change of Control, or (iv) for some other reason which shall be set forth in detail in such letter, no excise tax is due under section 4999 of the Code with respect to such payment or benefit (the "Opinion Letter"). If the Company delivers an Opinion Letter, the Tax Advisor shall recompute, and the Company shall make, the Tax Indemnity Payment in reliance on the information contained in the Opinion Letter.

(c) In the event that Mr. Palagiano's liability for the excise tax under section 4999 of the Code for a taxable year is subsequently determined to be different than the amount with respect to which the Tax Indemnity Payment is made, Mr. Palagiano or the Company, as the case may be, shall pay to the other party at the time that the amount of such excise tax is finally determined, an appropriate amount, plus interest, such that the payment made under section 18(b), when increased by the amount of the payment made to Mr. Palagiano under this section 18(c), or when reduced by the amount of the payment made to the Company under this section 18(c), equals the amount that should have properly been paid to Mr. Palagiano under section 18(a). The interest paid to the Company under this section 18(c) shall be determined at the rate provided under section 1274(b)(2)(B) of the Code. The payment made to Mr. Palagiano shall include such amount of interest as is necessary to satisfy any interest assessment made by the Internal Revenue Service and an additional amount equal to any monetary penalties assessed by the Internal Revenue Service on account of an underpayment of the excise tax. To confirm that the proper amount, if any, was paid to Mr. Palagiano under this section 16, Mr. Palagiano shall furnish to the Company a copy of each tax return which reflects a liability for an excise tax, at least 20 days before the date on which such return is required to be filed with the Internal Revenue Service. Nothing in this Agreement shall give the Company any right to control or otherwise participate in any action, suit or proceeding to which Mr. Palagiano is a party as a result of positions taken on his federal income tax return with respect to his liability for excise taxes under section 4999 of the Code.

19. Severability.

A determination that any provision of this Agreement is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

20. Waiver.

Failure to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such term, covenant, or condition. A waiver of any provision of this Agreement must be made in writing, designated as a waiver, and signed by the party against who its enforcement is sought. Any waiver or relinquishment of such right or power at any one or more times shall not be deemed a waiver or relinquishment of such right or power at any other time or times.

21. Counterparts.

This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

22. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York, without reference to conflicts of law principles.

23. Headings and Construction.

The headings of sections in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section. Any reference to a section number shall refer to a section of this Agreement, unless otherwise stated.

24. Entire Agreement; Modifications.

This instrument contains the entire agreement of the parties relating to the subject matter hereof, and supersedes in its entirety any and all prior agreements, understandings or representations relating to the subject matter hereof, including the Employment Agreement dated June 26, 1996 between the Bank and Mr. Palagiano, as amended. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto.

25. Arbitration Clause.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in New York, New York, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; the expense of such arbitration shall be borne by the Company.

26. Provisions of Law.

Notwithstanding anything herein contained to the contrary, any payments to Mr. Palagiano by the Company, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

27. Guarantee.

The Company hereby agrees to guarantee the payment by the Bank of any benefits and compensation to which the Executive is or may be entitled to under the terms and conditions of the employment agreement dated as of the 26th day of June, 1996 between the Bank and Mr. Palagiano, a copy of which is attached hereto as Exhibit A.

28. Non-duplication.

In the event that Mr. Palagiano shall perform services for the Bank or any other direct or indirect subsidiary of the Company, any compensation or benefits provided to Mr. Palagiano by such other employer shall be applied to offset the obligations of the Company hereunder, it being intended that this Agreement set forth the aggregate compensation and benefits payable to Mr. Palagiano for all services to the Company and all of its direct or indirect subsidiaries.

29. Waiver of Prior Rights.

Mr. Palagiano hereby permanently and irrevocably waives any right that he now has or may have had to collect termination benefits under the Prior Agreement or the Amended and Restated Employment Agreement between the Bank and Mr. Palagiano made and entered into as of June 26, 1996, as amended, by virtue of any act, omission, fact, event or circumstance whatsoever, whether or not known to Mr. Palagiano, that occurred or was in existence on December 31, 2002, including but not limited to the cessation of benefit accruals under the qualified and non-qualified defined benefit plans of the Company and the Bank and the renegotiation of the outstanding securities acquisition loan under the Company's Employee Stock Ownership Plan. The Bank shall be a third party beneficiary of this Agreement with full powers to enforce the waiver contained herein for its benefit.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and Mr. Palagiano has hereto set his hand, all as of the day and year first above written.

VINCENT F. PALAGIANO

ATTEST

DIME COMMUNITY BANCSHARES, INC.

By: Assistant Secretary

By: for the Board of Directors

[Seal]

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of January 1, 2003, by and between Dime Community Bancshares, Inc., a savings and loan holding company organized and operating under the laws of the State of Delaware and having an office at 209 Havemeyer Street, Brooklyn, New York 11211 ("Company") and Michael P. Devine ("Mr. Devine").

WITNESSETH:

WHEREAS, Mr. Devine and the Company are parties to an Employment Agreement made and entered into as of June 26, 1996 (the "Prior Agreement") pursuant to which Mr. Devine serves the Company in the capacity of President and Chief Operating Officer of the Company and its wholly owned subsidiary, The Dime Savings Bank of Williamsburgh ("Bank"); and

WHEREAS, the Prior Agreement required the Company to maintain for Mr. Devine qualified and non-qualified defined benefit plans; and

WHEREAS, the Prior Agreement required the Company to refrain from making any material adverse changes in Mr. Devine's package of compensation and benefits; and

WHEREAS, the cessation of benefit accruals under the qualified and non-qualified defined benefit plans in which Mr. Devine participated may have resulted in a breach of the Company's obligations under the Prior Agreement, allowing him to resign and claim severance benefits under the Prior Agreement; and

WHEREAS, the Company desires to assure for itself the continued availability of Mr. Devine's services and the ability of Mr. Devine to perform such services with a minimum of personal distraction in the event of a pending or threatened Change in Control (as hereinafter defined); and

WHEREAS, Mr. Devine is willing to continue to serve the Company on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Company and Mr. Devine hereby agree as follows:

1. Representations and Warranties of the Parties.

(a) The Company hereby represents and warrants to Mr. Devine that:

- (i) it has all requisite power and authority to execute, enter into and deliver this Agreement and to perform each and every one of its obligations hereunder; and
- (ii) the execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action on the part of the Company; and
- (iii) neither the execution or delivery of this Agreement, nor the performance of or compliance with any of the terms and conditions hereof, is prevented or in any way limited by (A) any agreement or instrument to which the Company is a party or by which it is bound, or (B) any provision of law, including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to the Company or its business.

(b) Mr. Devine hereby represents and warrants to the Company that:

- (i) he has all requisite power and authority to execute, enter into and deliver this Agreement and to perform each and every one of his obligations hereunder; and
- (ii) neither the execution or delivery of this Agreement, nor the performance of or compliance with any of the terms and conditions hereof, is prevented or in any way limited by (A) any agreement or instrument to which he is a party or by which he is bound, or (B) any provision of law, including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to him.

2. Employment.

The Company hereby continues the employment of Mr. Devine, and Mr. Devine hereby accepts such continued employment, during the period and upon the terms and conditions set forth in this Agreement.

3. Employment Period.

(a) The terms and conditions of this Agreement shall be and remain in effect during the period of employment established under this section 3 ("Employment Period"). The Employment Period shall be for an initial term of three years beginning on the date of this Agreement and ending on the third anniversary date of this Agreement, plus such extensions, if any, as are provided pursuant to section 3(b).

(b) Except as provided in section 3(c), beginning on the date of this Agreement, the Employment Period shall automatically be extended for one (1) additional day each day, unless either the Company or Mr. Devine elects not to extend the Agreement further by giving written notice to the other party, in which case the Employment Period shall end on the third anniversary of the date on which such written notice is given. Upon termination of Mr. Devine's employment with the Company for any reason whatsoever, any daily extensions provided pursuant to this section 3(b), if not therefore discontinued, shall automatically cease.

(c) If, prior to the date on which the Employment Period would end pursuant to section 3(a) or (b) of this Agreement, a Change in Control (as defined in section 13 of this Agreement) occurs, then the Employment Period shall be extended through and including the second anniversary of the earliest date after the effective date of such Change in Control on which either the Company or Mr. Devine elects, by written notice pursuant to section 3(d) of this Agreement to the non-electing party, to discontinue the Employment Period; provided, however, that this section shall not apply in the event that, prior to the Change in Control (as defined in section 13 of this Agreement), Mr. Devine has provided written notice to the Company of his intent to discontinue the Employment Period.

(d) The Company or Mr. Devine may, at any time by written notice given to the other, elect to discontinue the daily extension of the Employment Period. Any such notice given by the Company shall be accompanied by a certified copy of a resolution, adopted by the affirmative vote of a majority of the entire membership of the Board at a meeting of the Board duly called and held, authorizing the giving of such notice.

(e) Notwithstanding anything herein contained to the contrary: (i) Mr. Devine's employment with the Company may be terminated during the Employment Period, in accordance with the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of Mr. Devine's employment following the expiration of the Employment Period upon such terms and conditions as the Company and Mr. Devine may mutually agree upon.

(f) For all purposes of this Agreement, any reference to the "Remaining Unexpired Employment Period" as of any specified date shall mean (i) prior to the occurrence of a Change in Control (as hereinafter defined) the period commencing on the date specified and ending on the later of the third anniversary of the date of this Agreement, the third anniversary of any earlier date on which either the Company or Mr. Devine has elected to discontinue the daily extensions of the Employment Period, or the third anniversary of Mr. Devine's termination of employment for any reason; and (ii) following a Change in Control (as hereinafter defined) a period commencing on the date specified and ending on the later of the second anniversary of the effective date of the Change in Control, the second anniversary of any earlier date following the occurrence of the Change in Control on which either Mr. Devine or the Company has elected to discontinue the daily extensions of the Employment Period, or the second anniversary of Mr. Devine's termination of employment for any reason whatsoever.

4. Duties.

During the Employment Period, Mr. Devine shall:

- (a) except to the extent allowed under section 7 of this Agreement, devote his full business time and attention to the business and affairs of the Company and use his best efforts to advance the Company's interests;
- (b) serve as President and Chief Operating Officer if duly appointed and/or elected to serve in such position; and
- (c) have such functions, duties and responsibilities not inconsistent with his title and office as may be assigned to him by or under the authority of the Board of Directors of the Company ("Board"), in accordance with organization Certificate, By-laws, Applicable Laws, Statutes and Regulations, custom and practice of the Company as in effect on the date first above written. Mr. Devine shall have such authority as is necessary or appropriate to carry out his assigned duties. Mr. Devine shall report to and be subject to direction and supervision by the Board.
- (d) none of the functions, duties and responsibilities to be performed by Mr. Devine pursuant to this Agreement shall be deemed to include those functions, duties and responsibilities performed by Mr. Devine in his capacity as director of the Company.

5. Compensation -- Salary and Bonus.

In consideration for services rendered by Mr. Devine under this Agreement, the Company shall pay to Mr. Devine a salary at an annual rate equal to:

- (a) during the period beginning on January 1, 2003 and ending on December 31, 2003, no less than \$_____;
- (b) during each calendar year that begins after December 31, 2003, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2003; or
- (c) for each calendar year that begins on or after a Change in Control, the product of Mr. Devine's annual rate of salary in effect immediately prior to such calendar year, multiplied by the greatest of:
 - (i) 1.06;
 - (ii) the quotient of (A) the U.S. City Average All Items Consumer Price Index for All Urban Consumers (or, if such index shall cease to be published, such other measure of general consumer price levels as the Board may, in good faith, prescribe) for October of the immediately preceding calendar year, divided by (B) the U.S. City Average All Items Consumer Price Index for All Urban Consumers (or, if such index shall cease to be published, such other measure of general consumer price levels as the Board may, in good faith, prescribe) for October of the second preceding calendar year; and
 - (iii) the quotient of (A) the average annual rate of salary, determined as of the first day of such calendar year, of the officers of the Company (other than Mr. Devine) who are assistant vice presidents or more senior officers, divided by (B) the average annual rate of salary, determined as of the first day of the immediately preceding calendar year, of the officers of the Company (other than Mr. Devine) who are assistant vice presidents or more senior officers;

The salary payable under this section 5 shall be paid in approximately equal installments in accordance with the Company's customary payroll practices. Nothing in this section 5 shall be construed as prohibiting the payment to Mr. Devine of a salary in excess of that prescribed under this section 5 or of additional cash or non-cash compensation in a form other than salary, to the extent that such payment is duly authorized by or under the authority of the Board. No portion of the compensation paid to Mr. Devine pursuant to this Agreement shall be deemed to be compensation received by Mr. Devine in his capacity as director of the Company.

6. Employee Benefit Plans and Programs; Other Compensation.

Except as otherwise provided in this Agreement, Mr. Devine shall be treated as an employee of the Company and be entitled to participate in and receive benefits under the Company's Retirement Plan, Incentive Savings Plan, group life and health (including medical and major medical) and disability insurance plans, and such other employee benefit plans and programs, including but not limited to any long-term or short-term incentive compensation plans or programs (whether or not employee benefit plans or programs), as the Company may maintain from time to time, in accordance with the terms and conditions of such employee benefit plans and programs and compensation plans and programs and with the Company's customary practices. Following a Change in Control, all such benefits to Mr. Devine shall be continued on terms and conditions substantially identical to, and in no event less favorable than, those in effect prior to the Change in Control.

7. Board Memberships and Personal Activities.

- (a) Mr. Devine may serve as a member of the board of directors of such business, community and charitable organizations as he may disclose to the Board from time to time, and he may engage in personal business and investment activities for his own account; provided, however, that such service and personal business and investment activities shall not materially interfere with the performance of his duties under this Agreement.
- (b) Mr. Devine may also serve as an officer or director of the Bank on such terms and conditions as the Company and the Bank may mutually agree upon, and such service shall not be deemed to materially interfere with Mr. Devine's performance of his duties hereunder or otherwise result in a material breach of this Agreement. If Mr. Devine is discharged or suspended, or is subject to any regulatory prohibition or restriction with respect to participation in the affairs of the Bank, he shall (subject to the Company's powers of termination hereunder) continue to perform services for the Company in accordance with this Agreement but shall not directly or indirectly provide services to or participate in the affairs of the Bank in a manner inconsistent with the terms of such discharge or suspension or any applicable regulatory order.

8. Working Facilities and Expenses.

Mr. Devine's principal place of employment shall be at the Company's executive offices at the address first above written, or at such other location in the New York metropolitan area as determined by the Board. The Company shall provide Mr. Devine, at his principal place of employment, with a private office, stenographic services and other support services and facilities suitable to his position with the Company and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Company shall provide Mr. Devine with an automobile suitable to his position with the Company in accordance with its prior practices, and such automobile shall be used by Mr. Devine in carrying out his duties under this Agreement, including commuting between his residence and his principal place of employment. The Company shall reimburse Mr. Devine for his ordinary and necessary business expenses, including, without limitation, all expenses associated with his business use of the aforementioned automobile, fees for memberships in such clubs and organizations as Mr. Devine and the Company shall mutually agree are necessary and appropriate for business purposes and travel and entertainment expenses incurred in connection with the performance of his duties under this Agreement, upon presentation to the Company of an itemized account of such expenses in such form as the Company may reasonably require. Mr. Devine shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period.

9. Termination Giving Rise to Severance Benefits.

- (a) In the event that Mr. Devine's employment with the Company shall terminate during the Employment Period other than on account of:
 - (i) a Termination for Cause (within the meaning of section 12(a) of this Agreement);
 - (ii) a voluntary resignation by Mr. Devine other than a Resignation for Good Reason (within the meaning of section 12(b) of this Agreement);
 - (iii) a termination on account of Mr. Devine's death; or
 - (iv) a termination after both of the following conditions exist: (A) Mr. Devine has been absent from the full-time service of the Company on account of his Disability (as defined in section 11(b) of this Agreement) for at least six (6) consecutive months; and (B) Mr. Devine shall have failed to return to work in the full-time service of the Company within thirty (30) days after written notice requesting such return is given to Mr. Devine by the Company;

then the Company shall provide to Mr. Devine the benefits and pay to Mr. Devine the amounts provided under section 9(b) of this Agreement.

(b) In the event that Mr. Devine's employment with the Company shall terminate under circumstances described in section 9(a) of this Agreement, the following benefits and amounts shall be paid or provided to Mr. Devine (or, in the event of his death, to his estate):

(i) his earned but unpaid salary as of the date of the termination of his employment with the Company, payable when due but in no event later than thirty (30) days following his termination of employment with the Company;

(ii) (A) the benefits, if any, to which Mr. Devine and his family and dependents are entitled as a former employee, or family or dependents of a former employee, under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the Company's officers and employees, in accordance with the terms of such plans and programs in effect on the date of his termination of employment, or if his termination of employment occurs after a Change in Control, on the date of his termination of employment or on the date of such Change in Control, whichever results in more favorable benefits as determined by Mr. Devine, where credit is given for three additional years of service and age in determining eligibility and benefits for any plan and program where age and service are relevant factors, and (B) payment for all unused vacation days and floating holidays in the year in which his employment is terminated, at his highest annual rate of salary for such year;

(iii) continued group life, health (including hospitalization, medical and major medical, dental, accident and long-term disability insurance benefits), in addition to that provided pursuant to section 9(b)(ii) of this Agreement and after taking into account the coverage provided by any subsequent employer, if and to the extent necessary to provide Mr. Devine and his family and dependents for a period of three years following termination of employment, coverage identical to and in any event no less favorable than the coverage to which they would have been entitled under such plans (as in effect on the date of his termination of employment, or, if his termination of employment occurs after a Change in Control, on the date of his termination of employment or during the one-year period ending on the date of such Change in Control, whichever results in more favorable benefits as determined by Mr. Devine) if he had continued working for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement;

(iv) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the present value of the salary and the bonus that Mr. Devine would have earned if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of salary (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) and the highest bonus as a percentage of the rate of salary provided for under this Agreement, where such present value is to be determined using a discount rate of six percent (6%) per annum, compounded, in the case of salary, with the frequency corresponding to the Company's regular payroll periods with respect to its officers, and, in the case of bonus, annually;

(v) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the excess, if any, of: (A) the present value of the benefits to which he would be entitled under any defined benefit plans maintained by, or covering employees of, the Company (including any "excess benefit plan" within the meaning of section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or other special or supplemental plan) as in effect on the date of his termination, if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement and been fully vested in such plan or plans and had continued working for the Company during the Remaining Unexpired Employment Period, such benefits to be determined as of the date of termination of employment by adding to the service actually recognized under such plans an additional period equal to the Remaining Unexpired Employment Period and by adding to the compensation recognized under such plans for the year in which termination of employment occurs all amounts payable under sections 9(b)(i), (iv) and (vii), over (B) the present value of the benefits to which he is actually entitled under any such plans maintained by, or covering employees of, the Company as of the date of his termination where such present values are to be determined using a discount rate of six percent (6%) per annum, compounded monthly, and the mortality tables prescribed under section 72 of the Internal Revenue Code of 1986 ("Code");

(vi) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the excess, if any, of (A) the present value of the benefits attributable to the Company's contribution to which he would be entitled under any defined contribution plans maintained by, or covering employees of, the Company (including any "excess benefit plan" within the meaning of section 3(36) of ERISA, or other special or supplemental plan) as in effect on the date of his termination, if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement, and made the maximum amount of employee contributions, if any, required or permitted under such plan or plans, and been eligible for the highest rate in matching contributions under such plan or plans during the Remaining Unexpired Employment Period which is prior to Mr. Devine's termination of employment with the Company, and been fully vested in such plan or plans, over (B) the present value of the benefits attributable to the Company's contributions to which he is actually entitled under such plans as of the date of his termination of employment with the Company, where such present values are to be determined using a discount rate of six percent (6%) per annum, compounded with the frequency corresponding to the Company's regular payroll periods with respect to its officers;

(vii) the payments that would have been made to Mr. Devine under any incentive compensation plan maintained by, or covering employees of, the Company (other than bonus payments to which section 9(b)(iv) of this Agreement is applicable) if he had continued working for the Company during the Remaining Unexpired Employment Period and had earned an incentive award in each calendar year that ends during the Remaining Unexpired Employment Period in an amount equal to the product of (A) the maximum percentage rate of compensation at which an award was ever available to Mr. Devine under such incentive compensation plan, multiplied by (B) the compensation that would have been paid to Mr. Devine during each calendar year at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement, such payments to be made at the same time and in the same manner as payments are made to other officers of the Company pursuant to the terms of such incentive compensation plan; provided, however, that payments under this section 9(b)(vii) shall not be made to Mr. Devine for any year on account of which no payments are made to any of the Company's officers under any such incentive compensation plan; and

(viii) the benefits to which Mr. Devine is entitled under the Company's Supplemental Executive Retirement Plan (or other excess benefits plan with the meaning of section 3(36) of ERISA or other special or supplemental plan) shall be paid to him in a lump sum, where such lump sum is computed using the mortality tables under the Company's tax-qualified pension plan and a discount rate of 6% per annum. The payments specified in section 9(b) (viii) shall be made within thirty (30) days after the date of Mr. Devine's election, and if the amount may be increased by a subsequent Change in Control, any additional payment shall be made within thirty (30) days of such Change in Control.

(c) Mr. Devine shall not be required to mitigate the amount of any payment provided for in this section 9 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this section 9 be reduced by any compensation earned by Mr. Devine as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Mr. Devine to the Company, or otherwise except as specifically provided in section 9(b) (iii) of this Agreement or except as provided in section 28 to avoid duplication of payments. The Company and Mr. Devine hereby stipulate that the damages which may be incurred by Mr. Devine as a consequence of any such termination of employment are not capable of accurate measurement as of the date first above written and that the benefits and payments provided for in this Agreement constitute a reasonable estimate under the circumstances of all damages sustained as a consequence of any such termination of employment, other than damages arising under or out of any stock option, restricted stock or other non-qualified stock acquisition or investment plan or program, it being understood and agreed that this Agreement shall not determine the measurement of damages under any such plan or program in respect of any termination of employment.

10. Termination Without Severance Benefits.

In the event that Mr. Devine's employment with the Company shall terminate during the Employment Period on account of:

- (a) Termination for Cause (within the meaning of section 12(a) of this Agreement);
- (b) voluntary resignation by Mr. Devine other than a Resignation for Good Reason (within the meaning of section 12(b) of this Agreement); or
- (c) Mr. Devine's death;

then the Company shall have no further obligations under this Agreement, other than the payment to Mr. Devine (or, in the event of his death, to his estate) of his earned but unpaid salary as of the date of the termination of his employment, and the provision of such other benefits, if any, to which he is entitled as a former employee under the Company's employee benefit plans and programs and compensation plans and programs and payment for all unused vacation days and floating holidays in the year in which his employment is terminated, at his highest annual salary for such year.

11. Death and Disability.

(a) Death. If Mr. Devine's employment is terminated by reason of Mr. Devine's death during the Employment Period, this Agreement shall terminate without further obligations to Mr. Devine's legal representatives under this Agreement, other than for payment of amounts and provision of benefits under sections 9(b) (i) and (ii); provided, however, that if Mr. Devine dies while in the employment of the Company, his designated beneficiary(ies) shall receive a death benefit, payable through life insurance or otherwise, which is the equivalent on a net after-tax basis of the death benefit payable under a term life insurance policy, with a stated death benefit of three times Mr. Devine's then Annual Base Salary.

(b) Disability. If Mr. Devine's employment is terminated by reason of Mr. Devine's Disability as defined in section 11(c) during the Employment Period, this Agreement shall terminate without further obligations to Mr. Devine, other than for payment of amounts and provision of benefits under section 9(b) (i) and (ii); provided, however, that in the event of Mr. Devine's Disability while in the employment of the Company, the Company will pay to him a lump sum amount equal to three times his then annual base salary.

(c) For purposes of this Agreement, "Disability" shall be defined in accordance with the terms of the Company's long term disability policy.

(d) Payments under this section 11 shall be made within 30 days after Mr. Devine's death or termination due to Disability.

12. Definition of Termination for Cause and Resignation for Good Reason.

(a) Mr. Devine's termination of employment with the Company shall be deemed a "Termination for Cause" if such termination occurs upon:

(i) Mr. Devine's willful and continued failure to substantially perform his duties with the Company (other than any failure resulting from incapacity due to physical or mental illness or any actual or anticipated failure following notice by Mr. Devine of an intended Resignation for Good Reason) after a written demand for substantial performance is delivered to him by the Board, which demand specifically identifies the manner in which the Board believes Mr. Devine has not substantially performed his duties, and the failure to cure such breach within sixty (60) days following written notice thereof from the Company; or

(ii) the intentional and willful engaging in dishonest conduct in connection with his performance of services for the Company resulting in his conviction of or plea of guilty or nolo contendere to a felony, fraud, personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease-and-desist order.

No act, or failure to act, on Mr. Devine's part shall be deemed willful unless done, or omitted to be done, not in good faith and without reasonable belief that such action or omission was in the best interest of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the written advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Mr. Devine in good faith and in the best interests of the Company. Notwithstanding the foregoing, no termination of Mr. Devine's employment shall be a Termination for Cause unless there shall have been delivered to Mr. Devine a copy of a resolution duly adopted by the affirmative vote of a majority of the Board of Directors (or, following a Change in Control, an affirmative vote of three-quarters of the Board of Directors) at a meeting of the Board called and held for such purpose (after reasonable notice to Mr. Devine and an opportunity for Mr. Devine, together with his counsel, to be heard before the Board) finding that in good faith opinion of the Board circumstances described in section 12(a) (i) or (ii) exist and specifying the particulars thereof in detail.

(b) Mr. Devine's termination of employment with the Company shall be deemed a Resignation for Good Reason if such termination occurs following any one or more of the following events:

(i) (A) the assignment to Mr. Devine of any duties inconsistent with Mr. Devine's status as Chairman of the Board and Chief Executive Officer of the Company or (B) a substantial adverse alteration in the nature or status of Mr. Devine's responsibilities from those in effect immediately prior to the alteration;

(ii) a reduction by the Company in Mr. Devine's annual base salary as in effect on the date first above written or as the same may be increased from time to time, unless such reduction was mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(iii) the relocation of the Company's principal executive offices to a location outside the New York metropolitan area or the Company's requiring Mr. Devine to be based anywhere other than the Company's principal executive offices except for required travel on the Company's business to an extent substantially consistent with Mr. Devine's business travel obligations at the date first above written;

(iv) the failure by the Company, without Mr. Devine's consent, to pay to Mr. Devine, within seven (7) days of the date when due, (A) any portion of his compensation, or (B) any portion of an installment of deferred compensation under any deferred compensation program of the Company;

(v) the failure by the Company to continue in effect any compensation plan in which Mr. Devine participates on or after January 1, 2003 which is material to his total compensation, including but not limited to the Retirement Plan and the Company's Incentive Savings Plan or any substitute plans unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue his participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of his participation relative to other participants, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(vi) the failure by the Company to continue to provide Mr. Devine with benefits substantially similar to those enjoyed by Mr. Devine as of January 1, 2003 under the Retirement Plan and the Company's Incentive Savings Plan or under any of the Company's life, health (including hospitalization, medical and major medical), dental, accident, and long-term disability insurance benefits, in which Mr. Devine is participating, or the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Mr. Devine of the number of paid vacation days to which he is entitled, on the basis of years of service with the Company, rank or otherwise, in accordance with the Company's normal vacation policy, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(vii) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in section 15(a) of this Agreement;

(viii) any purported termination of employment by the Company which is not effected pursuant the provisions of section 12(a) regarding Termination for Cause or on account of Disability;

(ix) a material breach of this Agreement by the Company, which the Company fails to cure within thirty (30) days following written notice thereof from Mr. Devine;

(x) a change in the position to which Mr. Devine reports.

13. Definition of Change in Control; Payment in the Event of a Change in Control.

(a) For purposes of this Agreement, a Change in Control of the Company shall mean:

(i) the occurrence of any event upon which any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than (A) a trustee or other fiduciary holding securities under an employee benefit plan maintained for the benefit of employees of the Company; (B) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (C) Mr. Devine, or any group otherwise constituting a person in which Mr. Devine is a member, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities issued by the Company representing 25% or more of the combined voting power of all of the Company's then outstanding securities; or

(ii) the occurrence of any event upon which the individuals who on the date first above written are members of the Board, together with individuals (other than any individual designated by a person who has entered into an agreement with the Company to effect a transaction described in section 13(a) or 13(c) of this Agreement) whose election by the Board or nomination for election by the Company's stockholders was approved by the affirmative vote of at least two-thirds of the members of Board then in office who were either members of the Board on the date first above written or whose nomination or election was previously so approved cease for any reason to constitute a majority of the members of the Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) the shareholders of the Company approve either:

(A) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(1) either (I) the members of the Board of the Company immediately prior to such merger or consolidation constitute at least a majority of the members of the governing body of the institution resulting from such merger or consolidation; or (II) the shareholders of the Company own securities of the institution resulting from such merger or consolidation representing 80% or more of the combined voting power of all such securities then outstanding in substantially the same proportions as their ownership of voting securities of the Company before such merger or consolidation; and

(2) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform the Company's obligations under this Agreement; or

(B) a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets; and

(iv) any event which would be described in section 13(a)(i), (ii) or (iii) if the term "Bank" were substituted for the term "Company" therein. Such event shall be deemed to be a Change in Control under the relevant provision of section 13(a)(i), (ii) or (iii).

It is understood and agreed that more than one Change in Control may occur at the same or different times during the Employment Period and that the provisions of this Agreement shall apply with equal force and effect with respect to each such Change in Control.

(b) Upon the occurrence during the Employment Period of a Change in Control, the Company shall, as promptly as practicable and in any event within five business days, pay to Mr. Devine:

(i) a lump sum amount equal to the aggregate amount that would be payable to Mr. Devine under sections 9(b)(i), (iv), (v), (vi), (vii) and (viii) of this Agreement computed as if Mr. Devine had terminated employment in a Resignation for Good Reason on the date of the Change in Control but as if no Change in Control had occurred; plus

(ii) a lump sum amount equal to the present value of the excess of:

(A) a single life annuity, payable commencing immediately, in an amount equal to 25% of the aggregate base salary and annual bonus for the period of thirty-six consecutive calendar months of employment during the final 120 months of employment that yields the highest aggregate figure; over

(B) the aggregate single life annuity benefits, payable commencing immediately under any qualified and non-qualified defined benefit plans of the Company or the Bank.

where base salary shall be determined without regard to pre-tax or after-tax deductions for benefits under sections 401(k), 401(m), 125 or 132(f) of the Code or otherwise and value shall be determined using the mortality table prescribed under section 72 of the Code and a discount rate of 6% per annum compounded annually.

Such payments shall be paid whether or not Mr. Devine's employment has terminated. The Company may require, as a condition of its obligation to make such payments, that Mr. Devine execute and deliver to the Company a release, in such form and manner as the Company may reasonably require, relieving the Bank of any obligation it might then have, whether pursuant to an employment contract or otherwise, to pay severance benefits to Mr. Devine in connection with a subsequent termination of employment. Such a release shall not relieve the Bank of any obligation that it may have to provide for Mr. Devine and his family and dependents the accrued post-termination benefits to which they are entitled under any compensation or benefit plan or program of the Bank.

14. No Effect on Employee Benefit Plans or Programs.

Except as expressly provided in this Agreement, the termination of Mr. Devine's employment during the Employment Period or thereafter, whether by the Company or by Mr. Devine, shall have no effect on the rights and obligations of the parties hereto under the Company's or the Bank's Retirement Plan and the Company's Incentive Savings Plan, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans or such other employee benefit plans or programs, or compensation plans or programs (whether or not employee benefit plans or programs) and, following the conversion of the Company to stock form, any stock option and appreciation rights plan, employee stock ownership plan and restricted stock plan, as may be maintained by, or cover employees of, the Company from time to time.

15. Successors and Assigns.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be deemed to constitute a material breach of the Company's obligations under this Agreement.

(b) This Agreement will inure to the benefit of and be binding upon Mr. Devine, his legal representatives and testate or intestate distributees, and the Company, their respective successors and assigns, including any successor by merger or consolidation or a statutory receiver or any other person or firm or corporation to which all or substantially all of the respective assets and business of the Company may be sold or otherwise transferred.

16. Notices.

Any communication required or permitted to be given under this Agreement, including any notice, direction, designation, consent, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally, or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below or at such other address as one such party may by written notice specify to the other party:

If to Mr. Devine:

[Home address.

If to the Company:

Dime Community Bancshares, Inc.
Attention: Corporate Secretary

209 Havemeyer Street

Brooklyn, New York 11211

with a copy to:

Thacher Proffitt & Wood
Attention: W. Edward Bright, Esq.

Two World Trade Center, 39th Floor

New York, New York 10048

17. Indemnification and Attorneys' Fees.

The Company shall pay to or on behalf of Mr. Devine all reasonable costs, including legal fees, incurred by him in connection with or arising out of his consultation with legal counsel or in connection with or arising out of any action, suit or proceeding in which he may be involved, as a result of his efforts, in good faith, to defend or enforce the terms of this Agreement; provided, however, that this section 17 shall not obligate the Company to pay costs and legal fees on behalf of Mr. Devine under this Agreement in excess of \$50,000.

18. Excise Tax Indemnification.

(a) If Mr. Devine's employment terminates under circumstances entitling him (or in the event of his death, his estate) to the Additional Termination Entitlements, the Company shall pay to Mr. Devine (or in the event of his death, his estate) an additional amount intended to indemnify him against the financial effects of the excise tax imposed on excess parachute payments under section 280G of the Code (the "Tax Indemnity Payment"). The Tax Indemnity Payment shall be determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

- E = the percentage rate at which an excise tax is assessed under section 4999 of the Code;
- P = the amount with respect to which such excise tax is assessed, determined without regard to this section 16;
- FI = the highest marginal rate of income tax applicable to Mr. Devine under the Code for the taxable year in question;
- SLI = the sum of the highest marginal rates of income tax applicable to Mr. Devine under all applicable state and local laws for the taxable year in question; and
- M = the highest marginal rate of Medicare tax applicable to Mr. Devine under the Code for the taxable year in question.

Such computation shall be made at the expense of the Company by a member of the firm of Thacher Proffitt & Wood, or by an attorney or a firm of independent certified public accountants selected by Mr. Devine and reasonably satisfactory to the Company (the "Tax Advisor") and shall be based on the following assumptions: (i) that a change in ownership, a change in effective ownership or control, or a change in ownership of a substantial portion of assets, of the Bank or the Company has occurred within the meaning of section 280G of the Code (a "280G Change of Control"); (ii) that all direct or indirect payments made to or benefits conferred upon Mr. Devine on account of his termination of employment are "parachute payments" within the meaning of section 280G of the Code; and (iii) that no portion of such payments is reasonable compensation for services rendered prior to Mr. Devine's termination of employment.

(b) With respect to any payment that is presumed to be a parachute payment for purposes of section 280G of the Code, the Tax Indemnity Payment shall be made to Mr. Devine on the earlier of the date the Company, the Bank or any direct or indirect subsidiary or affiliate of the Company or the Bank is required to withhold such tax or the date the tax is required to be paid by Mr. Devine, unless, prior to such date, the Company delivers to Mr. Devine the written opinion, in form and substance reasonably satisfactory to Mr. Devine, of the Tax Advisor or of an attorney or firm of independent certified public accountants selected by the Company and reasonably satisfactory to Mr. Devine, to the effect that Mr. Devine has a reasonable basis on which to conclude that (i) no 280G Change in Control has occurred, or (ii) all or part of the payment or benefit in question is not a parachute payment for purposes of section 280G of the Code, or (iii) all or a part of such payment or benefit constitutes reasonable compensation for services rendered prior to the 280G Change of Control, or (iv) for some other reason which shall be set forth in detail in such letter, no excise tax is due under section 4999 of the Code with respect to such payment or benefit (the "Opinion Letter"). If the Company delivers an Opinion Letter, the Tax Advisor shall recompute, and the Company shall make, the Tax Indemnity Payment in reliance on the information contained in the Opinion Letter.

(c) In the event that Mr. Devine's liability for the excise tax under section 4999 of the Code for a taxable year is subsequently determined to be different than the amount with respect to which the Tax Indemnity Payment is made, Mr. Devine or the Company, as the case may be, shall pay to the other party at the time that the amount of such excise tax is finally determined, an appropriate amount, plus interest, such that the payment made under section 18(b), when increased by the amount of the payment made to Mr. Devine under this section 18(c), or when reduced by the amount of the payment made to the Company under this section 18(c), equals the amount that should have properly been paid to Mr. Devine under section 18(a). The interest paid to the Company under this section 18(c) shall be determined at the rate provided under section 1274(b)(2)(B) of the Code. The payment made to Mr. Devine shall include such amount of interest as is necessary to satisfy any interest assessment made by the Internal Revenue Service and an additional amount equal to any monetary penalties assessed by the Internal Revenue Service on account of an underpayment of the excise tax. To confirm that the proper amount, if any, was paid to Mr. Devine under this section 16, Mr. Devine shall furnish to the Company a copy of each tax return which reflects a liability for an excise tax, at least 20 days before the date on which such return is required to be filed with the Internal Revenue Service. Nothing in this Agreement shall give the Company any right to control or otherwise participate in any action, suit or proceeding to which Mr. Devine is a party as a result of positions taken on his federal income tax return with respect to his liability for excise taxes under section 4999 of the Code.

19. Severability.

A determination that any provision of this Agreement is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

20. Waiver.

Failure to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such term, covenant, or condition. A waiver of any provision of this Agreement must be made in writing, designated as a waiver, and signed by the party against who its enforcement is sought. Any waiver or relinquishment of such right or power at any one or more times shall not be deemed a waiver or relinquishment of such right or power at any other time or times.

21. Counterparts.

This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

22. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York, without reference to conflicts of law principles.

23. Headings and Construction.

The headings of sections in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section. Any reference to a section number shall refer to a section of this Agreement, unless otherwise stated.

24. Entire Agreement; Modifications.

This instrument contains the entire agreement of the parties relating to the subject matter hereof, and supersedes in its entirety any and all prior agreements, understandings or representations relating to the subject matter hereof, including the Employment Agreement dated June 26, 1996 between the Bank and Mr. Devine, as amended. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto.

25. Arbitration Clause.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in New York, New York, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; the expense of such arbitration shall be borne by the Company.

26. Provisions of Law.

Notwithstanding anything herein contained to the contrary, any payments to Mr. Devine by the Company, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

27. Guarantee.

The Company hereby agrees to guarantee the payment by the Bank of any benefits and compensation to which the Executive is or may be entitled to under the terms and conditions of the employment agreement dated as of the 26th day of June, 1996 between the Bank and Mr. Devine, a copy of which is attached hereto as Exhibit A.

28. Non-duplication.

In the event that Mr. Devine shall perform services for the Bank or any other direct or indirect subsidiary of the Company, any compensation or benefits provided to Mr. Devine by such other employer shall be applied to offset the obligations of the Company hereunder, it being intended that this Agreement set forth the aggregate compensation and benefits payable to Mr. Devine for all services to the Company and all of its direct or indirect subsidiaries.

29. Waiver of Prior Rights.

Mr. Devine hereby permanently and irrevocably waives any right that he now has or may have had to collect termination benefits under the Prior Agreement or the Amended and Restated Employment Agreement between the Bank and Mr. Devine made and entered into as of June 26, 1996, as amended, by virtue of any act, omission, fact, event or circumstance whatsoever, whether or not known to Mr. Devine, that occurred or was in existence on December 31, 2002, including but not limited to the cessation of benefit accruals under the qualified and non-qualified defined benefit plans of the Company and the Bank and the renegotiation of the outstanding securities acquisition loan under the Company's Employee Stock Ownership Plan. The Bank shall be a third party beneficiary of this Agreement with full powers to enforce the waiver contained herein for its benefit.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and Mr. Devine has hereto set his hand, all as of the day and year first above written.

P. DEVINE

MICHAEL

ATTEST

DIME COMMUNITY BANCSHARES, INC.

By:

By:

Assistant Secretary

for the Board of Directors

[Seal]

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of January 1, 2003, by and between Dime Community Bancshares, Inc., a savings and loan holding company organized and operating under the laws of the State of Delaware and having an office at 209 Havemeyer Street, Brooklyn, New York 11211 ("Company") and Kenneth J. Mahon ("Mr. Mahon").

WITNESSETH:

WHEREAS, Mr. Mahon and the Company are parties to an Employment Agreement made and entered into as of June 26, 1996 (the "Prior Agreement") pursuant to which Mr. Mahon serves the Company in the capacity of Executive Vice President and Chief Financial Officer of the Company and its wholly owned subsidiary, The Dime Savings Bank of Williamsburgh ("Bank"); and

WHEREAS, the Prior Agreement required the Company to maintain for Mr. Mahon qualified and non-qualified defined benefit plans; and

WHEREAS, the Prior Agreement required the Company to refrain from making any material adverse changes in Mr. Mahon's package of compensation and benefits; and

WHEREAS, the cessation of benefit accruals under the qualified and non-qualified defined benefit plans in which Mr. Mahon participated may have resulted in a breach of the Company's obligations under the Prior Agreement, allowing him to resign and claim severance benefits under the Prior Agreement; and

WHEREAS, the Company desires to assure for itself the continued availability of Mr. Mahon's services and the ability of Mr. Mahon to perform such services with a minimum of personal distraction in the event of a pending or threatened Change in Control (as hereinafter defined); and

WHEREAS, Mr. Mahon is willing to continue to serve the Company on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Company and Mr. Mahon hereby agree as follows:

1. Representations and Warranties of the Parties.

(a) The Company hereby represents and warrants to Mr. Mahon that:

- (i) it has all requisite power and authority to execute, enter into and deliver this Agreement and to perform each and every one of its obligations hereunder; and
- (ii) the execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action on the part of the Company; and
- (iii) neither the execution or delivery of this Agreement, nor the performance of or compliance with any of the terms and conditions hereof, is prevented or in any way limited by (A) any agreement or instrument to which the Company is a party or by which it is bound, or (B) any provision of law, including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to the Company or its business.

(b) Mr. Mahon hereby represents and warrants to the Company that:

- (i) he has all requisite power and authority to execute, enter into and deliver this Agreement and to perform each and every one of his obligations hereunder; and
- (ii) neither the execution or delivery of this Agreement, nor the performance of or compliance with any of the terms and conditions hereof, is prevented or in any way limited by (A) any agreement or instrument to which he is a party or by which he is bound, or (B) any provision of law, including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to him.

2. Employment.

The Company hereby continues the employment of Mr. Mahon, and Mr. Mahon hereby accepts such continued employment, during the period and upon the terms and conditions set forth in this Agreement.

3. Employment Period.

(a) The terms and conditions of this Agreement shall be and remain in effect during the period of employment established under this section 3 ("Employment Period"). The Employment Period shall be for an initial term of three years beginning on the date of this Agreement and ending on the third anniversary date of this Agreement, plus such extensions, if any, as are provided pursuant to section 3(b).

(b) Except as provided in section 3(c), beginning on the date of this Agreement, the Employment Period shall automatically be extended for one (1) additional day each day, unless either the Company or Mr. Mahon elects not to extend the Agreement further by giving written notice to the other party, in which case the Employment Period shall end on the third anniversary of the date on which such written notice is given. Upon termination of Mr. Mahon's employment with the Company for any reason whatsoever, any daily extensions provided pursuant to this section 3(b), if not therefore discontinued, shall automatically cease.

(c) If, prior to the date on which the Employment Period would end pursuant to section 3(a) or (b) of this Agreement, a Change in Control (as defined in section 13 of this Agreement) occurs, then the Employment Period shall be extended through and including the second anniversary of the earliest date after the effective date of such Change in Control on which either the Company or Mr. Mahon elects, by written notice pursuant to section 3(d) of this Agreement to the non-electing party, to discontinue the Employment Period; provided, however, that this section shall not apply in the event that, prior to the Change in Control (as defined in section 13 of this Agreement), Mr. Mahon has provided written notice to the Company of his intent to discontinue the Employment Period.

(d) The Company or Mr. Mahon may, at any time by written notice given to the other, elect to discontinue the daily extension of the Employment Period. Any such notice given by the Company shall be accompanied by a certified copy of a resolution, adopted by the affirmative vote of a majority of the entire membership of the Board at a meeting of the Board duly called and held, authorizing the giving of such notice.

(e) Notwithstanding anything herein contained to the contrary: (i) Mr. Mahon's employment with the Company may be terminated during the Employment Period, in accordance with the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of Mr. Mahon's employment following the expiration of the Employment Period upon such terms and conditions as the Company and Mr. Mahon may mutually agree upon.

(f) For all purposes of this Agreement, any reference to the "Remaining Unexpired Employment Period" as of any specified date shall mean (i) prior to the occurrence of a Change in Control (as hereinafter defined) the period commencing on the date specified and ending on the later of the third anniversary of the date of this Agreement, the third anniversary of any earlier date on which either the Company or Mr. Mahon has elected to discontinue the daily extensions of the Employment Period, or the third anniversary of Mr. Mahon's termination of employment for any reason; and (ii) following a Change in Control (as hereinafter defined) a period commencing on the date specified and ending on the later of the second anniversary of the effective date of the Change in Control, the second anniversary of any earlier date following the occurrence of the Change in Control on which either Mr. Mahon or the Company has elected to discontinue the daily extensions of the Employment Period, or the second anniversary of Mr. Mahon's termination of employment for any reason whatsoever.

4. Duties.

During the Employment Period, Mr. Mahon shall:

- (a) except to the extent allowed under section 7 of this Agreement, devote his full business time and attention to the business and affairs of the Company and use his best efforts to advance the Company's interests;
- (b) serve as Executive Vice President and Chief Financial Officer if duly appointed and/or elected to serve in such position; and
- (c) have such functions, duties and responsibilities not inconsistent with his title and office as may be assigned to him by or under the authority of the Board of Directors of the Company ("Board"), in accordance with organization Certificate, By-laws, Applicable Laws, Statutes and Regulations, custom and practice of the Company as in effect on the date first above written. Mr. Mahon shall have such authority as is necessary or appropriate to carry out his assigned duties. Mr. Mahon shall report to and be subject to direction and supervision by the Board.
- (d) none of the functions, duties and responsibilities to be performed by Mr. Mahon pursuant to this Agreement shall be deemed to include those functions, duties and responsibilities performed by Mr. Mahon in his capacity as director of the Company.

5. Compensation -- Salary and Bonus.

In consideration for services rendered by Mr. Mahon under this Agreement, the Company shall pay to Mr. Mahon a salary at an annual rate equal to:

- (a) during the period beginning on January 1, 2003 and ending on December 31, 2003, no less than \$_____;
- (b) during each calendar year that begins after December 31, 2003, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2003; or
- (c) for each calendar year that begins on or after a Change in Control, the product of Mr. Mahon's annual rate of salary in effect immediately prior to such calendar year, multiplied by the greatest of:
 - (i) 1.06;
 - (ii) the quotient of (A) the U.S. City Average All Items Consumer Price Index for All Urban Consumers (or, if such index shall cease to be published, such other measure of general consumer price levels as the Board may, in good faith, prescribe) for October of the immediately preceding calendar year, divided by (B) the U.S. City Average All Items Consumer Price Index for All Urban Consumers (or, if such index shall cease to be published, such other measure of general consumer price levels as the Board may, in good faith, prescribe) for October of the second preceding calendar year; and
 - (iii) the quotient of (A) the average annual rate of salary, determined as of the first day of such calendar year, of the officers of the Company (other than Mr. Mahon) who are assistant vice presidents or more senior officers, divided by (B) the average annual rate of salary, determined as of the first day of the immediately preceding calendar year, of the officers of the Company (other than Mr. Mahon) who are assistant vice presidents or more senior officers;

The salary payable under this section 5 shall be paid in approximately equal installments in accordance with the Company's customary payroll practices. Nothing in this section 5 shall be construed as prohibiting the payment to Mr. Mahon of a salary in excess of that prescribed under this section 5 or of additional cash or non-cash compensation in a form other than salary, to the extent that such payment is duly authorized by or under the authority of the Board. No portion of the compensation paid to Mr. Mahon pursuant to this Agreement shall be deemed to be compensation received by Mr. Mahon in his capacity as director of the Company.

6. Employee Benefit Plans and Programs; Other Compensation.

Except as otherwise provided in this Agreement, Mr. Mahon shall be treated as an employee of the Company and be entitled to participate in and receive benefits under the Company's Retirement Plan, Incentive Savings Plan, group life and health (including medical and major medical) and disability insurance plans, and such other employee benefit plans and programs, including but not limited to any long-term or short-term incentive compensation plans or programs (whether or not employee benefit plans or programs), as the Company may maintain from time to time, in accordance with the terms and conditions of such employee benefit plans and programs and compensation plans and programs and with the Company's customary practices. Following a Change in Control, all such benefits to Mr. Mahon shall be continued on terms and conditions substantially identical to, and in no event less favorable than, those in effect prior to the Change in Control.

7. Board Memberships and Personal Activities.

- (a) Mr. Mahon may serve as a member of the board of directors of such business, community and charitable organizations as he may disclose to the Board from time to time, and he may engage in personal business and investment activities for his own account; provided, however, that such service and personal business and investment activities shall not materially interfere with the performance of his duties under this Agreement.
- (b) Mr. Mahon may also serve as an officer or director of the Bank on such terms and conditions as the Company and the Bank may mutually agree upon, and such service shall not be deemed to materially interfere with Mr. Mahon's performance of his duties hereunder or otherwise result in a material breach of this Agreement. If Mr. Mahon is discharged or suspended, or is subject to any regulatory prohibition or restriction with respect to participation in the affairs of the Bank, he shall (subject to the Company's powers of termination hereunder) continue to perform services for the Company in accordance with this Agreement but shall not directly or indirectly provide services to or participate in the affairs of the Bank in a manner inconsistent with the terms of such discharge or suspension or any applicable regulatory order.

8. Working Facilities and Expenses.

Mr. Mahon's principal place of employment shall be at the Company's executive offices at the address first above written, or at such other location in the New York metropolitan area as determined by the Board. The Company shall provide Mr. Mahon, at his principal place of employment, with a private office, stenographic services and other support services and facilities suitable to his position with the Company and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Company shall provide Mr. Mahon with an automobile suitable to his position with the Company in accordance with its prior practices, and such automobile shall be used by Mr. Mahon in carrying out his duties under this Agreement, including commuting between his residence and his principal place of employment. The Company shall reimburse Mr. Mahon for his ordinary and necessary business expenses, including, without limitation, all expenses associated with his business use of the aforementioned automobile, fees for memberships in such clubs and organizations as Mr. Mahon and the Company shall mutually agree are necessary and appropriate for business purposes and travel and entertainment expenses incurred in connection with the performance of his duties under this Agreement, upon presentation to the Company of an itemized account of such expenses in such form as the Company may reasonably require. Mr. Mahon shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period.

9. Termination Giving Rise to Severance Benefits.

- (a) In the event that Mr. Mahon's employment with the Company shall terminate during the Employment Period other than on account of:
 - (i) a Termination for Cause (within the meaning of section 12(a) of this Agreement);
 - (ii) a voluntary resignation by Mr. Mahon other than a Resignation for Good Reason (within the meaning of section 12(b) of this Agreement);
 - (iii) a termination on account of Mr. Mahon's death; or
 - (iv) a termination after both of the following conditions exist: (A) Mr. Mahon has been absent from the full-time service of the Company on account of his Disability (as defined in section 11(b) of this Agreement) for at least six (6) consecutive months; and (B) Mr. Mahon shall have failed to return to work in the full-time service of the Company within thirty (30) days after written notice requesting such return is given to Mr. Mahon by the Company;

then the Company shall provide to Mr. Mahon the benefits and pay to Mr. Mahon the amounts provided under section 9(b) of this Agreement.

(b) In the event that Mr. Mahon's employment with the Company shall terminate under circumstances described in section 9(a) of this Agreement, the following benefits and amounts shall be paid or provided to Mr. Mahon (or, in the event of his death, to his estate):

(i) his earned but unpaid salary as of the date of the termination of his employment with the Company, payable when due but in no event later than thirty (30) days following his termination of employment with the Company;

(ii) (A) the benefits, if any, to which Mr. Mahon and his family and dependents are entitled as a former employee, or family or dependents of a former employee, under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the Company's officers and employees, in accordance with the terms of such plans and programs in effect on the date of his termination of employment, or if his termination of employment occurs after a Change in Control, on the date of his termination of employment or on the date of such Change in Control, whichever results in more favorable benefits as determined by Mr. Mahon, where credit is given for three additional years of service and age in determining eligibility and benefits for any plan and program where age and service are relevant factors, and (B) payment for all unused vacation days and floating holidays in the year in which his employment is terminated, at his highest annual rate of salary for such year;

(iii) continued group life, health (including hospitalization, medical and major medical, dental, accident and long-term disability insurance benefits), in addition to that provided pursuant to section 9(b)(ii) of this Agreement and after taking into account the coverage provided by any subsequent employer, if and to the extent necessary to provide Mr. Mahon and his family and dependents for a period of three years following termination of employment, coverage identical to and in any event no less favorable than the coverage to which they would have been entitled under such plans (as in effect on the date of his termination of employment, or, if his termination of employment occurs after a Change in Control, on the date of his termination of employment or during the one-year period ending on the date of such Change in Control, whichever results in more favorable benefits as determined by Mr. Mahon) if he had continued working for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement;

(iv) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the present value of the salary and the bonus that Mr. Mahon would have earned if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of salary (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) and the highest bonus as a percentage of the rate of salary provided for under this Agreement, where such present value is to be determined using a discount rate of six percent (6%) per annum, compounded, in the case of salary, with the frequency corresponding to the Company's regular payroll periods with respect to its officers, and, in the case of bonus, annually;

(v) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the excess, if any, of: (A) the present value of the benefits to which he would be entitled under any defined benefit plans maintained by, or covering employees of, the Company (including any "excess benefit plan" within the meaning of section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or other special or supplemental plan) as in effect on the date of his termination, if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement and been fully vested in such plan or plans and had continued working for the Company during the Remaining Unexpired Employment Period, such benefits to be determined as of the date of termination of employment by adding to the service actually recognized under such plans an additional period equal to the Remaining Unexpired Employment Period and by adding to the compensation recognized under such plans for the year in which termination of employment occurs all amounts payable under sections 9(b)(i), (iv) and (vii), over (B) the present value of the benefits to which he is actually entitled under any such plans maintained by, or covering employees of, the Company as of the date of his termination where such present values are to be determined using a discount rate of six percent (6%) per annum, compounded monthly, and the mortality tables prescribed under section 72 of the Internal Revenue Code of 1986 ("Code");

(vi) within thirty (30) days following his termination of employment with the Company, a lump sum payment in an amount equal to the excess, if any, of (A) the present value of the benefits attributable to the Company's contribution to which he would be entitled under any defined contribution plans maintained by, or covering employees of, the Company (including any "excess benefit plan" within the meaning of section 3(36) of ERISA, or other special or supplemental plan) as in effect on the date of his termination, if he had worked for the Company during the Remaining Unexpired Employment Period at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement, and made the maximum amount of employee contributions, if any, required or permitted under such plan or plans, and been eligible for the highest rate in matching contributions under such plan or plans during the Remaining Unexpired Employment Period which is prior to Mr. Mahon's termination of employment with the Company, and been fully vested in such plan or plans, over (B) the present value of the benefits attributable to the Company's contributions to which he is actually entitled under such plans as of the date of his termination of employment with the Company, where such present values are to be determined using a discount rate of six percent (6%) per annum, compounded with the frequency corresponding to the Company's regular payroll periods with respect to its officers;

(vii) the payments that would have been made to Mr. Mahon under any incentive compensation plan maintained by, or covering employees of, the Company (other than bonus payments to which section 9(b)(iv) of this Agreement is applicable) if he had continued working for the Company during the Remaining Unexpired Employment Period and had earned an incentive award in each calendar year that ends during the Remaining Unexpired Employment Period in an amount equal to the product of (A) the maximum percentage rate of compensation at which an award was ever available to Mr. Mahon under such incentive compensation plan, multiplied by (B) the compensation that would have been paid to Mr. Mahon during each calendar year at the highest annual rate of compensation (assuming, if a Change in Control has occurred, that the annual increases under section 5(c) would apply) under the Agreement, such payments to be made at the same time and in the same manner as payments are made to other officers of the Company pursuant to the terms of such incentive compensation plan; provided, however, that payments under this section 9(b)(vii) shall not be made to Mr. Mahon for any year on account of which no payments are made to any of the Company's officers under any such incentive compensation plan; and

(viii) the benefits to which Mr. Mahon is entitled under the Company's Supplemental Executive Retirement Plan (or other excess benefits plan with the meaning of section 3(36) of ERISA or other special or supplemental plan) shall be paid to him in a lump sum, where such lump sum is computed using the mortality tables under the Company's tax-qualified pension plan and a discount rate of 6% per annum. The payments specified in section 9(b) (viii) shall be made within thirty (30) days after the date of Mr. Mahon's election, and if the amount may be increased by a subsequent Change in Control, any additional payment shall be made within thirty (30) days of such Change in Control.

(c) Mr. Mahon shall not be required to mitigate the amount of any payment provided for in this section 9 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this section 9 be reduced by any compensation earned by Mr. Mahon as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by Mr. Mahon to the Company, or otherwise except as specifically provided in section 9(b) (iii) of this Agreement or except as provided in section 28 to avoid duplication of payments. The Company and Mr. Mahon hereby stipulate that the damages which may be incurred by Mr. Mahon as a consequence of any such termination of employment are not capable of accurate measurement as of the date first above written and that the benefits and payments provided for in this Agreement constitute a reasonable estimate under the circumstances of all damages sustained as a consequence of any such termination of employment, other than damages arising under or out of any stock option, restricted stock or other non-qualified stock acquisition or investment plan or program, it being understood and agreed that this Agreement shall not determine the measurement of damages under any such plan or program in respect of any termination of employment.

10. Termination Without Severance Benefits.

In the event that Mr. Mahon's employment with the Company shall terminate during the Employment Period on account of:

- (a) Termination for Cause (within the meaning of section 12(a) of this Agreement);
- (b) voluntary resignation by Mr. Mahon other than a Resignation for Good Reason (within the meaning of section 12(b) of this Agreement); or
- (c) Mr. Mahon's death;

then the Company shall have no further obligations under this Agreement, other than the payment to Mr. Mahon (or, in the event of his death, to his estate) of his earned but unpaid salary as of the date of the termination of his employment, and the provision of such other benefits, if any, to which he is entitled as a former employee under the Company's employee benefit plans and programs and compensation plans and programs and payment for all unused vacation days and floating holidays in the year in which his employment is terminated, at his highest annual salary for such year.

11. Death and Disability.

(a) Death. If Mr. Mahon's employment is terminated by reason of Mr. Mahon's death during the Employment Period, this Agreement shall terminate without further obligations to Mr. Mahon's legal representatives under this Agreement, other than for payment of amounts and provision of benefits under sections 9(b) (i) and (ii); provided, however, that if Mr. Mahon dies while in the employment of the Company, his designated beneficiary(ies) shall receive a death benefit, payable through life insurance or otherwise, which is the equivalent on a net after-tax basis of the death benefit payable under a term life insurance policy, with a stated death benefit of three times Mr. Mahon's then Annual Base Salary.

(b) Disability. If Mr. Mahon's employment is terminated by reason of Mr. Mahon's Disability as defined in section 11(c) during the Employment Period, this Agreement shall terminate without further obligations to Mr. Mahon, other than for payment of amounts and provision of benefits under section 9(b) (i) and (ii); provided, however, that in the event of Mr. Mahon's Disability while in the employment of the Company, the Company will pay to him a lump sum amount equal to three times his then annual base salary.

(c) For purposes of this Agreement, "Disability" shall be defined in accordance with the terms of the Company's long term disability policy.

(d) Payments under this section 11 shall be made within 30 days after Mr. Mahon's death or termination due to Disability.

12. Definition of Termination for Cause and Resignation for Good Reason.

(a) Mr. Mahon's termination of employment with the Company shall be deemed a "Termination for Cause" if such termination occurs upon:

(i) Mr. Mahon's willful and continued failure to substantially perform his duties with the Company (other than any failure resulting from incapacity due to physical or mental illness or any actual or anticipated failure following notice by Mr. Mahon of an intended Resignation for Good Reason) after a written demand for substantial performance is delivered to him by the Board, which demand specifically identifies the manner in which the Board believes Mr. Mahon has not substantially performed his duties, and the failure to cure such breach within sixty (60) days following written notice thereof from the Company; or

(ii) the intentional and willful engaging in dishonest conduct in connection with his performance of services for the Company resulting in his conviction of or plea of guilty or nolo contendere to a felony, fraud, personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease-and-desist order.

No act, or failure to act, on Mr. Mahon's part shall be deemed willful unless done, or omitted to be done, not in good faith and without reasonable belief that such action or omission was in the best interest of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the written advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Mr. Mahon in good faith and in the best interests of the Company. Notwithstanding the foregoing, no termination of Mr. Mahon's employment shall be a Termination for Cause unless there shall have been delivered to Mr. Mahon a copy of a resolution duly adopted by the affirmative vote of a majority of the Board of Directors (or, following a Change in Control, an affirmative vote of three-quarters of the Board of Directors) at a meeting of the Board called and held for such purpose (after reasonable notice to Mr. Mahon and an opportunity for Mr. Mahon, together with his counsel, to be heard before the Board) finding that in good faith opinion of the Board circumstances described in section 12(a) (i) or (ii) exist and specifying the particulars thereof in detail.

(b) Mr. Mahon's termination of employment with the Company shall be deemed a Resignation for Good Reason if such termination occurs following any one or more of the following events:

(i) (A) the assignment to Mr. Mahon of any duties inconsistent with Mr. Mahon's status as Chairman of the Board and Chief Executive Officer of the Company or (B) a substantial adverse alteration in the nature or status of Mr. Mahon's responsibilities from those in effect immediately prior to the alteration;

(ii) a reduction by the Company in Mr. Mahon's annual base salary as in effect on the date first above written or as the same may be increased from time to time, unless such reduction was mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(iii) the relocation of the Company's principal executive offices to a location outside the New York metropolitan area or the Company's requiring Mr. Mahon to be based anywhere other than the Company's principal executive offices except for required travel on the Company's business to an extent substantially consistent with Mr. Mahon's business travel obligations at the date first above written;

(iv) the failure by the Company, without Mr. Mahon's consent, to pay to Mr. Mahon, within seven (7) days of the date when due, (A) any portion of his compensation, or (B) any portion of an installment of deferred compensation under any deferred compensation program of the Company;

(v) the failure by the Company to continue in effect any compensation plan in which Mr. Mahon participates on or after January 1, 2003 which is material to his total compensation, including but not limited to the Retirement Plan and the Company's Incentive Savings Plan or any substitute plans unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue his participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of his participation relative to other participants, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(vi) the failure by the Company to continue to provide Mr. Mahon with benefits substantially similar to those enjoyed by Mr. Mahon as of January 1, 2003 under the Retirement Plan and the Company's Incentive Savings Plan or under any of the Company's life, health (including hospitalization, medical and major medical), dental, accident, and long-term disability insurance benefits, in which Mr. Mahon is participating, or the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Mr. Mahon of the number of paid vacation days to which he is entitled, on the basis of years of service with the Company, rank or otherwise, in accordance with the Company's normal vacation policy, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Company;

(vii) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in section 15(a) of this Agreement;

(viii) any purported termination of employment by the Company which is not effected pursuant the provisions of section 12(a) regarding Termination for Cause or on account of Disability;

(ix) a material breach of this Agreement by the Company, which the Company fails to cure within thirty (30) days following written notice thereof from Mr. Mahon;

(x) a change in the position to which Mr. Mahon reports.

13. Definition of Change in Control; Payment in the Event of a Change in Control.

(a) For purposes of this Agreement, a Change in Control of the Company shall mean:

(i) the occurrence of any event upon which any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than (A) a trustee or other fiduciary holding securities under an employee benefit plan maintained for the benefit of employees of the Company; (B) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (C) Mr. Mahon, or any group otherwise constituting a person in which Mr. Mahon is a member, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities issued by the Company representing 25% or more of the combined voting power of all of the Company's then outstanding securities; or

(ii) the occurrence of any event upon which the individuals who on the date first above written are members of the Board, together with individuals (other than any individual designated by a person who has entered into an agreement with the Company to effect a transaction described in section 13(a) or 13(c) of this Agreement) whose election by the Board or nomination for election by the Company's stockholders was approved by the affirmative vote of at least two-thirds of the members of Board then in office who were either members of the Board on the date first above written or whose nomination or election was previously so approved cease for any reason to constitute a majority of the members of the Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) the shareholders of the Company approve either:

(A) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(1) either (I) the members of the Board of the Company immediately prior to such merger or consolidation constitute at least a majority of the members of the governing body of the institution resulting from such merger or consolidation; or (II) the shareholders of the Company own securities of the institution resulting from such merger or consolidation representing 80% or more of the combined voting power of all such securities then outstanding in substantially the same proportions as their ownership of voting securities of the Company before such merger or consolidation; and

(2) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform the Company's obligations under this Agreement; or

(B) a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets; and

(iv) any event which would be described in section 13(a)(i), (ii) or (iii) if the term "Bank" were substituted for the term "Company" therein. Such event shall be deemed to be a Change in Control under the relevant provision of section 13(a)(i), (ii) or (iii).

It is understood and agreed that more than one Change in Control may occur at the same or different times during the Employment Period and that the provisions of this Agreement shall apply with equal force and effect with respect to each such Change in Control.

(b) Upon the occurrence during the Employment Period of a Change in Control, the Company shall, as promptly as practicable and in any event within five business days, pay to Mr. Mahon:

(i) a lump sum amount equal to the aggregate amount that would be payable to Mr. Mahon under sections 9(b)(i), (iv), (v), (vi), (vii) and (viii) of this Agreement computed as if Mr. Mahon had terminated employment in a Resignation for Good Reason on the date of the Change in Control but as if no Change in Control had occurred; plus

(ii) a lump sum amount equal to the present value of the excess of:

(A) a single life annuity, payable commencing at the earliest date on which Mr. Mahon would, if he retired, be eligible for unreduced early retirement benefits under the Bank's qualified defined benefit plan, in an amount equal to 16-2/3% of the aggregate base salary and annual bonus for the period of thirty-six consecutive calendar months of employment during the final 120 months of employment that yields the highest aggregate figure; over

(B) the aggregate single life annuity benefits, payable commencing at the earliest date on which Mr. Mahon would, if he retired, be eligible for unreduced early retirement benefits under the Bank's qualified defined benefit plan, under any qualified and non-qualified defined benefit plans of the Company or the Bank.

where base salary shall be determined without regard to pre-tax or after-tax deductions for benefits under sections 401(k), 401(m), 125 or 132(f) of the Code or otherwise and value shall be determined using the mortality table prescribed under section 72 of the Code and a discount rate of 6% per annum compounded annually.

Such payments shall be paid whether or not Mr. Mahon's employment has terminated. The Company may require, as a condition of its obligation to make such payments, that Mr. Mahon execute and deliver to the Company a release, in such form and manner as the Company may reasonably require, relieving the Bank of any obligation it might then have, whether pursuant to an employment contract or otherwise, to pay severance benefits to Mr. Mahon in connection with a subsequent termination of employment. Such a release shall not relieve the Bank of any obligation that it may have to provide for Mr. Mahon and his family and dependents the accrued post-termination benefits to which they are entitled under any compensation or benefit plan or program of the Bank.

14. No Effect on Employee Benefit Plans or Programs.

Except as expressly provided in this Agreement, the termination of Mr. Mahon's employment during the Employment Period or thereafter, whether by the Company or by Mr. Mahon, shall have no effect on the rights and obligations of the parties hereto under the Company's or the Bank's Retirement Plan and the Company's Incentive Savings Plan, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans or such other employee benefit plans or programs, or compensation plans or programs (whether or not employee benefit plans or programs) and, following the conversion of the Company to stock form, any stock option and appreciation rights plan, employee stock ownership plan and restricted stock plan, as may be maintained by, or cover employees of, the Company from time to time.

15. Successors and Assigns.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be deemed to constitute a material breach of the Company's obligations under this Agreement.

(b) This Agreement will inure to the benefit of and be binding upon Mr. Mahon, his legal representatives and testate or intestate distributees, and the Company, their respective successors and assigns, including any successor by merger or consolidation or a statutory receiver or any other person or firm or corporation to which all or substantially all of the respective assets and business of the Company may be sold or otherwise transferred.

16. Notices.

Any communication required or permitted to be given under this Agreement, including any notice, direction, designation, consent, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally, or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below or at such other address as one such party may by written notice specify to the other party:

If to Mr. Mahon:

[Home address.

If to the Company:

Dime Community Bancshares, Inc.
Attention: Corporate Secretary

209 Havemeyer Street

Brooklyn, New York 11211

with a copy to:

Thacher Proffitt & Wood
Attention: W. Edward Bright, Esq.

Two World Trade Center, 39th Floor

New York, New York 10048

17. Indemnification and Attorneys' Fees.

The Company shall pay to or on behalf of Mr. Mahon all reasonable costs, including legal fees, incurred by him in connection with or arising out of his consultation with legal counsel or in connection with or arising out of any action, suit or proceeding in which he may be involved, as a result of his efforts, in good faith, to defend or enforce the terms of this Agreement; provided, however, that this section 17 shall not obligate the Company to pay costs and legal fees on behalf of Mr. Mahon under this Agreement in excess of \$50,000.

18. Excise Tax Indemnification.

(a) If Mr. Mahon's employment terminates under circumstances entitling him (or in the event of his death, his estate) to the Additional Termination Entitlements, the Company shall pay to Mr. Mahon (or in the event of his death, his estate) an additional amount intended to indemnify him against the financial effects of the excise tax imposed on excess parachute payments under section 280G of the Code (the "Tax Indemnity Payment"). The Tax Indemnity Payment shall be determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

- E = the percentage rate at which an excise tax is assessed under section 4999 of the Code;
- P = the amount with respect to which such excise tax is assessed, determined without regard to this section 16;
- FI = the highest marginal rate of income tax applicable to Mr. Mahon under the Code for the taxable year in question;
- SLI = the sum of the highest marginal rates of income tax applicable to Mr. Mahon under all applicable state and local laws for the taxable year in question; and
- M = the highest marginal rate of Medicare tax applicable to Mr. Mahon under the Code for the taxable year in question.

Such computation shall be made at the expense of the Company by a member of the firm of Thacher Proffitt & Wood, or by an attorney or a firm of independent certified public accountants selected by Mr. Mahon and reasonably satisfactory to the Company (the "Tax Advisor") and shall be based on the following assumptions: (i) that a change in ownership, a change in effective ownership or control, or a change in ownership of a substantial portion of assets, of the Bank or the Company has occurred within the meaning of section 280G of the Code (a "280G Change of Control"); (ii) that all direct or indirect payments made to or benefits conferred upon Mr. Mahon on account of his termination of employment are "parachute payments" within the meaning of section 280G of the Code; and (iii) that no portion of such payments is reasonable compensation for services rendered prior to Mr. Mahon's termination of employment.

(b) With respect to any payment that is presumed to be a parachute payment for purposes of section 280G of the Code, the Tax Indemnity Payment shall be made to Mr. Mahon on the earlier of the date the Company, the Bank or any direct or indirect subsidiary or affiliate of the Company or the Bank is required to withhold such tax or the date the tax is required to be paid by Mr. Mahon, unless, prior to such date, the Company delivers to Mr. Mahon the written opinion, in form and substance reasonably satisfactory to Mr. Mahon, of the Tax Advisor or of an attorney or firm of independent certified public accountants selected by the Company and reasonably satisfactory to Mr. Mahon, to the effect that Mr. Mahon has a reasonable basis on which to conclude that (i) no 280G Change in Control has occurred, or (ii) all or part of the payment or benefit in question is not a parachute payment for purposes of section 280G of the Code, or (iii) all or a part of such payment or benefit constitutes reasonable compensation for services rendered prior to the 280G Change of Control, or (iv) for some other reason which shall be set forth in detail in such letter, no excise tax is due under section 4999 of the Code with respect to such payment or benefit (the "Opinion Letter"). If the Company delivers an Opinion Letter, the Tax Advisor shall recompute, and the Company shall make, the Tax Indemnity Payment in reliance on the information contained in the Opinion Letter.

(c) In the event that Mr. Mahon's liability for the excise tax under section 4999 of the Code for a taxable year is subsequently determined to be different than the amount with respect to which the Tax Indemnity Payment is made, Mr. Mahon or the Company, as the case may be, shall pay to the other party at the time that the amount of such excise tax is finally determined, an appropriate amount, plus interest, such that the payment made under section 18(b), when increased by the amount of the payment made to Mr. Mahon under this section 18(c), or when reduced by the amount of the payment made to the Company under this section 18(c), equals the amount that should have properly been paid to Mr. Mahon under section 18(a). The interest paid to the Company under this section 18(c) shall be determined at the rate provided under section 1274(b)(2)(B) of the Code. The payment made to Mr. Mahon shall include such amount of interest as is necessary to satisfy any interest assessment made by the Internal Revenue Service and an additional amount equal to any monetary penalties assessed by the Internal Revenue Service on account of an underpayment of the excise tax. To confirm that the proper amount, if any, was paid to Mr. Mahon under this section 16, Mr. Mahon shall furnish to the Company a copy of each tax return which reflects a liability for an excise tax, at least 20 days before the date on which such return is required to be filed with the Internal Revenue Service. Nothing in this Agreement shall give the Company any right to control or otherwise participate in any action, suit or proceeding to which Mr. Mahon is a party as a result of positions taken on his federal income tax return with respect to his liability for excise taxes under section 4999 of the Code.

19. Severability.

A determination that any provision of this Agreement is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

20. Waiver.

Failure to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such term, covenant, or condition. A waiver of any provision of this Agreement must be made in writing, designated as a waiver, and signed by the party against who its enforcement is sought. Any waiver or relinquishment of such right or power at any one or more times shall not be deemed a waiver or relinquishment of such right or power at any other time or times.

21. Counterparts.

This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

22. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York, without reference to conflicts of law principles.

23. Headings and Construction.

The headings of sections in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section. Any reference to a section number shall refer to a section of this Agreement, unless otherwise stated.

24. Entire Agreement; Modifications.

This instrument contains the entire agreement of the parties relating to the subject matter hereof, and supersedes in its entirety any and all prior agreements, understandings or representations relating to the subject matter hereof, including the Employment Agreement dated June 26, 1996 between the Bank and Mr. Mahon, as amended. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto.

25. Arbitration Clause.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in New York, New York, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; the expense of such arbitration shall be borne by the Company.

26. Provisions of Law.

Notwithstanding anything herein contained to the contrary, any payments to Mr. Mahon by the Company, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

27. Guarantee.

The Company hereby agrees to guarantee the payment by the Bank of any benefits and compensation to which the Executive is or may be entitled to under the terms and conditions of the employment agreement dated as of the 26th day of June, 1996 between the Bank and Mr. Mahon, a copy of which is attached hereto as Exhibit A.

28. Non-duplication.

In the event that Mr. Mahon shall perform services for the Bank or any other direct or indirect subsidiary of the Company, any compensation or benefits provided to Mr. Mahon by such other employer shall be applied to offset the obligations of the Company hereunder, it being intended that this Agreement set forth the aggregate compensation and benefits payable to Mr. Mahon for all services to the Company and all of its direct or indirect subsidiaries.

29. Waiver of Prior Rights.

Mr. Mahon hereby permanently and irrevocably waives any right that he now has or may have had to collect termination benefits under the Prior Agreement or the Amended and Restated Employment Agreement between the Bank and Mr. Mahon made and entered into as of June 26, 1996, as amended, by virtue of any act, omission, fact, event or circumstance whatsoever, whether or not known to Mr. Mahon, that occurred or was in existence on December 31, 2002, including but not limited to the cessation of benefit accruals under the qualified and non-qualified defined benefit plans of the Company and the Bank and the renegotiation of the outstanding securities acquisition loan under the Company's Employee Stock Ownership Plan. The Bank shall be a third party beneficiary of this Agreement with full powers to enforce the waiver contained herein for its benefit.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and Mr. Mahon has hereto set his hand, all as of the day and year first above written.

J. MAHON

KENNETH

ATTEST

DIME COMMUNITY BANCSHARES, INC.

By:

By:

Assistant Secretary

for the Board of Directors

[Seal]

EXHIBIT 21.1

Subsidiaries of Dime Community Bancshares, Inc.

The following are the significant subsidiaries of Dime Community Bancshares, Inc.

Name: The Dime Savings Bank of Williamsburgh

Jurisdiction of incorporation: United States of America

Names under which it does business:

The Dime Savings Bank of Williamsburgh

Name: 842 Manhattan Avenue Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

842 Manhattan Avenue Corporation

Subsidiaries of The Dime Savings Bank of Williamsburgh

The following are the significant subsidiaries of The Dime Savings Bank of Williamsburgh.

Name: DSBW Preferred Funding Corporation

Jurisdiction of incorporation: Delaware

Names under which it does business:

DSBW Preferred Funding Corporation

Name: Havemeyer Equities, Inc.

Jurisdiction of incorporation: New York

Names under which it does business:

Havemeyer Equities, Inc.

#

Name: Havemeyer Investments, Inc.

Jurisdiction of incorporation: New York

Names under which it does business:

Havemeyer Investments, Inc.

The remaining subsidiaries, which are all direct or indirect subsidiaries of The Dime Savings Bank of Williamsburgh would not, when considered in the aggregate as a single subsidiary, constitute a significant subsidiary as defined in 17 C.F.R. 210.1-02 (v) Rule 1-02(v) of Regulation S-X as of December 31, 2003. For a description of the Registrant's subsidiaries, see Item 1 - "Business," "Subsidiary Activities," of the Form 10-K.

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CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO 17 CFR 240.13a-14

I, Vincent F. Palagiano, certify that:

1. I have reviewed this annual report on Form 10-K of Dime Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2004

/s/ VINCENT F. PALAGIANO

Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO 17 CFR 240.13a-14

I, Kenneth J. Mahon, certify that:

1. I have reviewed this annual report on Form 10-K of Dime Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2004

/s/ KENNETH J. MAHON

Kenneth J. Mahon
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K (the "Report") for the year ended December 31, 2003 of Dime Community Bancshares, Inc., (the "Company") as filed with the Securities and Exchange Commission on the date hereof, I, Vincent F. Palagiano, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 11, 2004

Date

By: /s/ VINCENT F. PALAGIANO

Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

This certification accompanies this Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K (the "Report") for the year ended December 31, 2003 of Dime Community Bancshares, Inc., (the "Company") as filed with the Securities and Exchange Commission on the date hereof, I, Kenneth J. Mahon, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 11, 2004

Date

By: /s/ KENNETH J. MAHON

Kenneth J. Mahon
Executive Vice President and Chief Financial Officer

This certification accompanies this Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.