
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, 2008

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 11-3297463
(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification number)

209 Havemeyer Street, Brooklyn, NY 11211
(Address of principal executive offices) (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 if the registrant is a well-known seasonal issuer, as defined in Rule 405 of the Securities Act. YES ___ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ___ NO

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 filing 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 (Section 229.405 of this chapter) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

LARGE ACCELERATED FILER ___ ACCELERATED FILER NON-ACCELERATED FILER ___ SMALLER REPORTING COMPANY ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): ___ Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately \$447.0 million based upon the \$16.51 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2008.

As of March 13, 2009, there were 34,179,900 shares of the registrant's common stock, \$0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement 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 21, 2009 and any adjournment thereof, and 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," "seek," "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 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 conditions or results to differ materially from those 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;
- changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;
- 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 Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York and operates twenty-three full-service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing them primarily in multifamily residential mortgage loans, commercial real estate loans, one- to four-family residential mortgage loans, construction and land acquisition 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 and other short-term investments. The Bank's primary sources of funds are deposits; loan amortization, prepayments and maturities; MBS amortization, prepayments and maturities; investment securities maturities and sales; 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 primary business of the Holding Company is the operation of its wholly-owned subsidiary, the 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 remains a qualified thrift lender ("QTL"). Pursuant to regulations of its primary regulator, the Office of Thrift Supervision ("OTS"), the Bank qualifies as 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, 2008, the Bank's QTL Ratio was 69.2%, and the Bank maintained more than 65% of its portfolio assets in qualified thrift investments throughout the year ended December 31, 2008.

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 receive no 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 Holding Company management.

The Company's website address is www.dime.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").

Market Area and Competition

The Bank has historically operated as a community-oriented financial institution providing financial services and loans primarily for multifamily housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York, and operates twenty-three full-service retail banking offices located in the NYC 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 NYC metropolitan area, although its overall lending area is larger, extending 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 were secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2008.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from other savings banks, commercial banks, mortgage banks and insurance companies. The Bank has faced sustained competition for the origination of multifamily residential and commercial real estate loans, which together comprised 94% of the Bank's loan portfolio at December 31, 2008. Management anticipates that the current level of competition for multifamily residential and commercial real estate loans will continue for the foreseeable future, which may inhibit the Bank's ability to maintain its current level and pricing of such loans.

The Bank gathers deposits in direct competition with other savings banks, commercial banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies with the stock market and mutual funds, especially during periods of strong performance in the 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 larger and more efficient competitors, the Bank's strategy to attract depositors has increasingly utilized targeted marketing and delivery of technology-enhanced, customer-friendly banking services while controlling operating expenses.

Banking competition occurs within an economic and financial marketplace that is largely beyond the control of any individual financial institution. 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 ("FOMC") 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 NYC metropolitan area. As home to several national companies in the financial and business services industries, and as a popular destination for domestic and international travelers, the NYC economy is particularly sensitive to the health of both the national and global economies. Both the NYC and global economies were greatly challenged during the year ended December 31, 2008, and remain so currently. Although the significant proportion of Bank loans secured by rent-regulated multifamily residential dwellings, as well as management's measured growth business strategy, have provided the Bank's some insulation from these economic downturns, sustained recessionary conditions would be expected to adversely impact the performance of the Bank's assets and deposit customer relationships.

Lending Activities

Loan Portfolio Composition. At December 31, 2008, the Bank's loan portfolio totaled \$3.29 billion, consisting primarily of mortgage loans secured by multifamily residential apartment buildings, including buildings organized under a cooperative form of ownership ("Underlying Cooperatives"); commercial properties; real estate construction and land acquisition; and one- to four-family residences and cooperative apartments. Within the loan portfolio, \$2.24 billion, or 68.2%, were classified as multifamily residential loans; \$848.2 million, or 25.8%, were classified as commercial real estate loans; \$130.7 million, or 4.0%, were classified as one- to four-family residential, including condominium or cooperative apartments; \$742,000, or 0.02%, were loans to finance multifamily 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 \$53.0 million, or 1.6%, were loans to finance real estate construction and land acquisition within the NYC metropolitan area. Of the total mortgage loan portfolio outstanding on December 31, 2008, \$2.77 billion, or 84.3%, were adjustable-rate loans ("ARMs") and \$514.8 million, or 15.7%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 80% were ARMs at December 31, 2008, the majority of which were contracted to reprice no later than 7 years from their origination date and carried a total amortization period of no longer than 30 years. At December 31, 2008, the Bank's loan portfolio additionally included \$2.2 million in consumer loans, composed of passbook loans, consumer installment loans, overdraft loans and mortgagor advances. As of December 31, 2008, \$2.65 billion, or 80.5% of the loan portfolio, was scheduled to mature or reprice within five years.

The Bank does not originate or purchase loans, either whole loans or collateral underlying MBS, that would be considered subprime loans (*i.e.*, mortgage loans advanced to borrowers who do not qualify for market interest rates because of problems with their income or credit history).

The types of loans the Bank may originate are subject to federal laws and regulations (See "Item 1. Business - Regulation – Regulation of Federal Savings Associations").

At December 31, 2008, the Bank had \$49.9 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2009. At December 31, 2007, the Bank had \$102.4 million of loan commitments that were accepted by the borrower. All of these commitments closed during 2008.

The Bank was servicing whole loans or loan participations totaling \$659.4 million at December 31, 2008 that it originated and sold to other financial institutions. The majority of this balance represented whole loans that were sold to, and are currently serviced for the Federal National Mortgage Association ("FNMA").

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,										
	2008	Percent of Total	2007	Percent of Total	2006	Percent of Total	2005	Percent of Total	2004	Percent of Total
Dollars in Thousands										
Real Estate loans:										
Multifamily residential	\$2,241,800	68.18%	\$1,948,765	67.78%	\$1,855,080	68.64%	\$1,872,163	71.69%	\$1,917,447	76.63%
Commercial real estate	848,208	25.80	728,129	25.32	666,927	24.68	576,561	22.08	424,060	16.95
One- to four-family	130,663	3.97	139,541	4.85	146,613	5.42	135,622	5.19	126,225	5.04
Cooperative apartment units	11,632	0.35	6,172	0.21	7,224	0.27	10,115	0.39	11,853	0.47
FHA/VA insured	742	0.02	1,029	0.04	1,236	0.05	2,694	0.10	4,209	0.17
Construction and land acquisition	52,982	1.61	49,387	1.72	23,340	0.86	12,098	0.46	15,558	0.62
Total mortgage loans	3,286,027	99.93	2,873,023	99.92	2,700,420	99.92	2,609,253	99.91	2,499,352	99.88
Other loans:										
Student loans	-	-	-	-	-	-	-	-	\$61	-
Depositor loans	\$1,059	0.03	\$1,122	0.04	\$1,172	0.04	\$1,160	0.04	1,318	0.06
Consumer installment and other	1,132	0.04	1,047	0.04	1,033	0.04	1,181	0.05	1,537	0.06
Total other loans	2,191	0.07	2,169	0.08	2,205	0.08	2,341	0.09	2,916	0.12
Gross loans	3,288,218	100.00%	2,875,192	100.00%	2,702,625	100.00%	2,611,594	100.00%	2,502,268	100.00%
Net unearned costs (fees)	3,287		1,833		1,048		501		(463)	
Allowance for loan losses	(17,454)		(15,387)		(15,514)		(15,785)		(15,543)	
Loans, net	\$3,274,051		\$2,861,638		\$2,688,159		\$2,596,310		\$2,486,262	
Loans serviced for others:										
One- to four-family and cooperative apartment	\$19,181		\$21,515		\$24,395		\$26,881		\$29,524	
Multifamily residential	640,200		541,868		494,770		386,781		295,800	
Total loans serviced for others	\$659,381		\$563,383		\$519,165		\$413,662		\$325,324	

Loan Originations, Purchases, Sales and Servicing. For the year ended December 31, 2008, total loan originations were \$1.09 billion. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. ARMs were approximately 96% of total loan originations during the period. The majority of both ARM and fixed-rate originations were multifamily residential and commercial real estate loans. Multifamily residential real estate loans are either retained in the Bank's portfolio or sold in the secondary market to FNMA, and occasionally to other third-party financial institutions. One- to four-family adjustable rate and fixed-rate mortgage loans with maturities up to 15 years are generally 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.

From December 2002 through December 31, 2008, the Bank sold multifamily residential loans to FNMA pursuant to a multifamily seller/servicing agreement entered into in December 2002. The Bank sold \$27.5 million, \$71.4 million and \$144.7 million of such loans to FNMA during the years ended December 31, 2008, 2007 and 2006, respectively. The Bank additionally sold one- to four- family loans totaling \$8.2 million and participation interests in multifamily loans totaling \$114.6 million to third party financial institutions during the year ended December 31, 2008. The Bank sold a \$6.1 million participation interest in one multifamily loan to a third party financial institution during the year ended December 31, 2007. At December 31, 2008, the Bank had an executed loan commitment to originate two loans totaling \$3.4 million that were intended for sale to FNMA. The Bank's contract for sale of new multifamily loans to FNMA expired on December 31, 2008.

The Bank currently has no arrangement pursuant to which it sells commercial real estate loans to the secondary market. During the year ended December 31, 2008, sales of fixed-rate one- to four-family mortgage loans totaled \$8.8 million, of which \$580,000 were sold to FNMA. The Bank also has an origination assistance agreement with an independent lending institution, PHH Mortgage ("PHH") whereby PHH processes and underwrites fixed-rate one- to four-family loans, the Bank funds the loans at origination and elects to either portfolio the loan or sell it to PHH. PHH retains full servicing of all loans, regardless of the Bank's ownership election. One to four-family loans sold to PHH totaled \$8.2 million during the year ended December 31, 2008.

The Bank generally retains the servicing rights in connection with loans it sells in the secondary market. As of December 31, 2008, the Bank was servicing \$659.4 million of loans for non-related institutions. The Bank generally receives a loan servicing fee equal to 0.25% of the outstanding principal balance on all loans sold to FNMA other than multifamily residential loans. The loan servicing fees on multifamily residential loans sold to FNMA 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, 2008, the Bank had recorded mortgage servicing rights ("MSR") of \$2.8 million associated with the sale of one- to four-family and multifamily residential loans to FNMA and other third party institutions.

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

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
	Dollars in Thousands				
Gross loans:					
At beginning of period	\$2,875,192	\$2,702,625	\$2,611,594	\$2,502,268	\$2,194,157
Real estate loans originated:					
Multifamily residential	786,918	391,882	388,102	312,026	774,832
Commercial real estate	226,605	124,262	133,099	203,841	187,655
One- to four-family (1)	36,962	27,425	19,070	41,143	36,363
Cooperative apartment units	7,178	-	210	465	1,048
Equity lines of credit	10,843	5,777	7,977	6,405	6,488
Construction and land acquisition	18,215	25,180	14,768	10,331	6,844
Total mortgage loans originated	1,086,721	574,526	563,226	574,211	1,013,230
Other loans originated	2,640	1,772	1,688	1,859	3,166
Total loans originated	1,089,361	576,298	564,914	576,070	1,016,396
Less:					
Principal repayments	523,788	326,103	328,453	358,255	557,134
Loans sold	150,983	77,628	145,430	108,489	151,151
Loans transferred to other real estate owned	1,564	-	-	-	-
Gross loans at end of period	\$3,288,218	2,875,192	\$2,702,625	\$2,611,594	\$2,502,268

(1) Includes Home Equity and Home Improvement Loans.

Loan Maturity and Repricing. The following table shows the earlier of the maturity or repricing period of the Bank's loan portfolio (including loans held for sale) at December 31, 2008. ARMs are shown as due in the period during which their 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 in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Sensitivity Gap."

At December 31, 2008

Real Estate Loans

	Multifamily Commercial Residential Real Estate	One- to Four- Family	Cooperative Apartment	FHA/VA Insured	Construction and Land Acquisition	Other Loans	Total Loans	
(Dollars In Thousands)								
Amount due to Mature or Reprice During the Year Ending:								
December 31, 2009	\$198,949	\$43,831	\$27,005	\$3,598	-	\$52,982	\$2,191	\$328,556
December 31, 2010	348,482	96,227	13,692	26	-	-	-	458,427
December 31, 2011	383,698	175,141	12,562	6,554	-	-	-	577,955
December 31, 2012	282,437	142,525	20,952	37	\$176	-	-	446,127
December 31, 2013	633,045	184,163	18,861	247	566	-	-	836,882
Sub-total	1,846,611	641,887	93,072	10,462	742	52,982	2,191	2,647,947
December 31, 2014 through December 31, 2018	352,650	158,589	20,765	595	-	-	-	532,599
December 31, 2019 and beyond	42,539	47,732	16,543	858	-	-	-	107,672
Total	\$2,241,800	\$848,208	\$130,380	\$11,915	\$742	\$52,982	\$2,191	\$3,288,218

The following table sets forth the outstanding principal balance in each loan category (including loans held for sale) at December 31, 2008 that is due to mature or reprice after December 31, 2009, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2009		Total
	Fixed	Adjustable	
(Dollars in Thousands)			
Mortgage loans:			
Multifamily residential	\$323,028	\$1,719,823	2,042,851
Commercial real estate	129,625	674,752	804,377
One- to four-family	43,573	59,802	103,375
Cooperative apartment	1,813	6,504	8,317
FHA/VA insured	742	-	742
Construction and land acquisition	-	-	-
Other loans	-	-	-
Total loans	\$498,781	\$2,460,881	\$2,959,662

Multifamily Residential Lending and Commercial Real Estate Lending. The majority of the Bank's lending activities consist of originating adjustable-rate and fixed-rate multifamily residential (i.e., buildings possessing a minimum of five residential units) and commercial real estate loans. The properties securing these loans are generally located in the Bank's primary lending area. At December 31, 2008, \$2.24 billion, or 68.2% of the Bank's gross loan portfolio, were multifamily residential loans. Of the multifamily residential loans, \$2.13 billion, or 95.2%, were secured by apartment buildings and \$107.4 million, or 4.8%, were secured by Underlying Cooperatives. The Bank also had \$848.2 million of commercial real estate loans in its portfolio at December 31, 2008, representing 25.8% of its total loan portfolio.

The Bank originated multifamily residential and commercial real estate loans totaling \$1.01 billion during the year ended December 31, 2008 and \$516.1 million during the year ended December 31, 2007. At December 31, 2008, the Bank had commitments accepted by borrowers to originate \$46.8 million of multifamily residential and commercial real estate loans, compared to \$96.3 million outstanding at December 31, 2007.

At December 31, 2008, multifamily residential 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 featuring a combination of residential and commercial units within the same building; and (3) fully commercial buildings. The underwriting procedures for each of these property types were substantially similar. Loans secured by fully residential apartment buildings were classified by the Bank as multifamily residential loans in all instances. Loans secured by fully commercial real estate were classified as commercial real estate loans in all instances. Loans secured by mixed-use properties were classified as either multifamily residential or commercial real estate loans based upon the percentage of the property's rental income received from its residential compared to its commercial tenants. If 50% or more of the rental income was received from residential tenants, the full balance of the loan was classified as multifamily residential. If less than 50% of the rental income was received from residential tenants, the full balance of the loan was classified as commercial real estate. At December 31, 2008, mixed use properties classified as multifamily residential or commercial real estate loans totaled \$1.08 billion.

Multifamily residential and commercial real estate loans in the Bank's portfolio generally range in amount from \$250,000 to \$4.0 million, and, at December 31, 2008, had an average loan size of approximately \$1.5 million. Multifamily residential loans in this range are generally secured by buildings that possess between 5 and 100 apartments. As of December 31, 2008, the Bank had a total of \$2.13 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units, representing approximately 65% of its real estate loan portfolio.

Multifamily 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 individual loan principal amounts. Repayment of multifamily residential loans is dependent, in significant 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, and insurance).

The underwriting standards for multifamily residential and commercial real estate loans generally require: (1) a maximum loan-to-value ratio of 80% 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 115%. The average loan-to-value and debt service ratios were 59% and 150%, respectively, on all multifamily and commercial real estate loans originated during the year ended December 31, 2008. The Bank additionally requires all multifamily and commercial real estate borrowers to represent that they are unaware of any environmental concerns related to the collateral. The Bank further considers the borrower's experience in owning or managing similar properties, the value of the collateral based upon the income approach, and the Bank's lending experience with the borrower. When originating multifamily residential and commercial real estate loans, the Bank utilizes rent or lease income and the borrower's credit history and business experience (See "Item 1. Business - Lending Activities - Loan Approval Authority and Underwriting" for a discussion of the Bank's underwriting procedures utilized in originating multifamily residential and commercial real estate loans).

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.

At December 31, 2008, the Bank had 447 multifamily residential and commercial real estate loans in portfolio with principal balances greater than \$2.0 million, totaling \$1.84 billion. Within this total were nineteen loans totaling \$271.0 million with outstanding balances greater than \$10.0 million. These 447 loans, while underwritten to the same standards as all other multifamily 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 multifamily residential and commercial real estate ARM 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 FHLB NY advance rate plus a spread typically approximating 225 basis points, but generally may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the majority of the life of the loans. The Bank also offers fixed-rate, self-amortizing, multifamily residential and commercial real estate loans with maturities of up to fifteen years.

Commercial real estate loans are generally viewed as exposing the Bank to a greater risk of loss than both one- to four-family and multifamily residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, repayment of such loans are generally subject to a greater extent to prevailing conditions in the real estate market or the economy. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon the success of the business. This increased risk is partially compensated for in the following manners: (i) the Bank requires, in addition to the security interest in the commercial real estate, a security interest in the personal property associated with the collateral and standby assignments of rents and leases from the borrower; and (ii) at December 31, 2008, approximately \$360.1 million of the Bank's commercial real estate loans were secured by mixed used properties that had some portion of residential units associated with the collateral property.

The Bank's three largest multifamily residential loans at December 31, 2008 were a \$31.4 million loan originated in September 2008 secured by seventeen mixed use buildings located in Manhattan, New York, containing, in aggregate, 401 residential units and 11 commercial units; a \$23.5 million loan originated in March 2004 secured by an eight-story, mixed-use

building located in Flushing, New York, containing 137 residential units and 4 commercial units; and a \$16.9 million loan originated in December 2004 secured by a mixed use building located in Manhattan, New York that contains 67 residential units and twelve commercial units.

The Bank's two largest commercial real estate loans at December 31, 2008 were a \$15.2 million loan originated in May 2005 secured by a three-story building located in Manhattan, New York containing 10 retail stores; and a \$13.5 million loan originated in February 2007 secured by a professional office building with 12 office rental units located in White Plains, New York. The Bank also owned two commercial real estate loans with an outstanding principal balance of \$12.5 million each at December 31, 2008, both of which were originated during 2008 and are located in Manhattan, New York. One of the loans is secured by an office building containing twenty-seven office rental units while the other loan is secured by a mixed use building with fourteen commercial units and nine apartments.

The Bank's largest aggregate amount of loans to one borrower was \$41.0 million at December 31, 2008, compared to a regulatory limit of \$45.5 million. The individual loans made to the largest individual borrower were secured by four buildings located in Manhattan, New York, containing 104 residential units and one commercial unit.

Small Mixed-Use Lending (Small Investment Property Loans). In 2003, the Bank began originating small investment property loans. Small investment property loans are typically sourced through brokers. Generally, small investment properties include owner and non-owner occupied one- to four-family residential, multifamily, or mixed-use properties under \$1.0 million in value. In the majority of cases, the appraised value of small investment properties is based upon a "comparable sales" methodology rather than the income approach methodology used in underwriting commercial real estate loans. Small investment property loans are required to be personally guaranteed by the borrowers. The appraisal methodology chosen can vary depending upon the attributes of the underlying collateral and/or the availability of comparable sales data. In cases where the comparable sales method of appraisal is used, loans can have debt service coverage ratios below 100%. In such cases, the Bank looks to the borrower's financial capacity to service the debt. Small investment property loans typically carry higher rates of interest in order to compensate the Bank for the assumed increased risk of default. Because these loans are required to be personally guaranteed, the Bank relies heavily on both the financial and credit information of borrowers in its' underwriting. Small commercial real estate loans can be underwritten to a maximum loan-to-value ratio of 80%. In the minority of cases where the income approach to appraised value is used, loans can be underwritten to a minimum debt service ratio of 110%. At December 31, 2008, the Bank held \$80.7 million of loans in portfolio classified as small investment property loans, or approximately 2.5% of the gross loan portfolio, with a weighted average FICO score of 711 and a weighted average loan-to-value ratio of 64%.

One- to Four-Family Residential 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 residential loans in the Bank's loan portfolio were obtained through the Bank's acquisitions of Financial Federal Savings Bank in 1999 and Pioneer Savings Bank, F.S.B. in 1996. The Bank originated \$37.0 million of one- to four-family mortgages during the year ended December 31, 2008, including home equity and home improvement loans. At December 31, 2008, \$130.7 million, or 4.0%, of the Bank's loans consisted of one- to four-family residential and cooperative apartment loans. The Bank is a participating seller/servicer with FNMA and generally underwrites its one- to four-family residential mortgage loans to conform with FNMA standards.

Although the collateral securing cooperative apartment loans is composed of shares in a cooperative corporation (*i.e.*, a corporation whose primary asset is the underlying building) 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 \$11.6 million, or 0.4% of total loans, as of December 31, 2008. Originations of cooperative unit loans totaled \$7.2 million during the year ended December 31, 2008.

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, indebtedness and certain other information are reviewed; (3) if necessary, additional financial information is required of the borrower; and (4) an appraisal of the real estate intended to secure the proposed loan is obtained from an independent appraiser approved by the Board of Directors. Loans underwritten by PHH additionally utilize these underwriting criteria (with the exception that the appraisals are completed by a rotating appraisal group certified by PHH). One to four-family loans sold to PHH totaled \$8.2 million during the year ended December 31, 2008.

The Bank generally sells its newly originated conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years. During the year ended December 31, 2008, the Bank sold one- to four-family mortgage loans totaling \$8.8 million to non-affiliates, of which \$8.2 were sold to PHH, and \$580,000 were sold to FNMA with servicing retained by

the Bank. As of December 31, 2008, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled \$19.2 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 \$500,000. At the time of origination, the combined balance of the first mortgage and home equity or home improvement loan may not exceed 75% of the appraised value of the collateral property at origination of the home equity or home improvement loan. On home equity and home improvement loans, the borrower pays an initial interest rate equal to the prime interest rate at the time of origination. After six months, the interest rate adjusts and ranges from the prime interest rate to 100 basis points above the prime interest rate in effect at the time. The interest rate on the loan can never fall below the rate at origination. The combined outstanding balance of the Bank's home equity and home improvement loans was \$31.3 million at December 31, 2008.

Equity Lines of Credit on Multifamily Residential and Commercial Real Estate Loans. Equity credit lines are available on multifamily 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 may be as high as 80% and the minimum debt service coverage ratio is 115%. On multifamily residential and commercial real estate equity lines of credit, the borrower pays an interest rate generally ranging from 100 to 200 basis points above the prime rate, based upon the loan-to-value ratio of the combined first mortgage and equity line at the time of origination of the equity line of credit. The outstanding balance of these equity loans (which are included in the \$31.3 million of total outstanding home equity and home improvement loans discussed in the previous paragraph) was \$14.2 million at December 31, 2008, on outstanding total lines of \$43.3 million.

Construction Lending. The Bank participates in various real estate construction loans. All of these construction projects are located in the NYC metropolitan area, and in most instances, involve multifamily residential properties that are underwritten to support the permanent debt with rental units. Although it has assumed up to 90% participation on some construction loan commitments, the Bank generally does not act as primary underwriting agent for any of these loans. The Bank does, however, carefully review the underwriting of these construction loans, and regularly inspects the construction progress and engineering reports prior to advancing funds. During the year ended December 31, 2008, the Bank funded \$18.2 million of construction loans. At December 31, 2008, the Bank had \$13.4 million in unfunded construction loan commitments.

Land Acquisition Loans. The Bank, in rare instances, funds the purchase of land by a borrower for either rehabilitation or development. These loans require that the loan to value ratio not exceed 70% at origination, and require a separate construction or permanent loan to be negotiated by the borrower for any future development activity. Land acquisition loans totaled \$7.7 million at December 31, 2008.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authorities for individual officers related to the various types of loan products offered by the Bank. In addition, the Bank maintains a Loan Operating Committee entrusted with loan approval authority. The Chief Executive Officer, President, Chief Financial Officer, Chief Investment Officer and Chief Lending Officer are members of the Loan Operating Committee. The Loan Operating Committee has authority to approve portfolio loan originations in amounts up to \$3.0 million and loans originated and sold to PHH in amounts up to \$4.0 million (although loans in excess of \$1.5 million are not currently offered by the Bank through the PHH program). Both the Loan Operating Committee and the Bank's Board of Directors must approve all portfolio loan originations exceeding \$3.0 million. All loans approved by the Loan Operating Committee are presented to the Bank's Board of Directors for its review.

Regulatory restrictions imposed on the Bank's lending activities limit the amount of credit that may be extended to any one borrower to 15% of unimpaired capital and unimpaired surplus. A single borrower may exceed the initial 15% limit, up to a final limit of 25%, if he or she secures the full amount of the outstanding loan balance in excess of the initial 15% limit with collateral in the form of readily marketable securities that have a reliable and continuously available price quotation. The Bank's highest individual borrower fell significantly below this limitation at December 31, 2008. (See "Item 1. Business - Regulation - Regulation of Federal Savings Associations - Loans to One Borrower").

Asset Quality

General

At both December 31, 2008 and December 31, 2007, the Company had neither whole loans nor collateral underlying MBS that would be considered subprime loans, *i.e.*, mortgage loans advanced to borrowers who do not qualify for market interest rates because of problems with their income or credit history. (See "Item 1 – Business – Lending Activities" for a

further discussion of the Bank's underwriting standards).

Monitoring and Collection 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 non-performing and otherwise delinquent 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 multifamily residential or commercial real estate loan, or fifteen days late in connection with 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.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank does not recognize the interest from the third month and evaluates whether the accrual of interest associated with the first two missed payments should be 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 satisfy the outstanding principal balance (including any outstanding advances related to the loan) 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 for a period of at least six months.

Generally, the Bank initiates foreclosure proceedings when a loan enters non-accrual status. After initiating foreclosure proceedings, the Bank procures current appraisal information in order 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 OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances.

Non-accrual loans

Within the Bank's portfolio, non-accrual loans totaled \$7.4 million and \$2.9 million at December 31, 2008 and December 31, 2007, respectively. During the year ended December 31, 2008, twelve loans totaling \$7.0 million were added to non-accrual status. Partially offsetting this increase were three loans totaling \$1.6 million that were transferred to other real estate owned ("OREO") and two non-accrual loans totaling \$876,000 that were satisfied during the period. The difficulties experienced in both the national real estate and financial services marketplaces combined to adversely impact the metropolitan NYC area multifamily and commercial real estate markets during 2008.

Impaired Loans

Statement of Financial Accounting Standards ("SFAS") 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"), provides guidelines for determining and measuring impairment in loans. 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, even during a period of delayed payment by the borrower, if the Bank ultimately expects to collect all amounts due, including interest accrued at the contractual rate. Generally, the Bank considers non-accrual and troubled-debt restructured multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans exceeding \$625,500, to be impaired. Non-accrual one-to four-family loans of \$625,500 or less, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment. Impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimate of the fair value of the collateral. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. The recorded investment in loans deemed impaired was approximately \$8.9 million, consisting of fifteen loans, at December 31, 2008, compared to \$2.8 million, consisting of six loans, at December 31, 2007, and \$3.5 million, consisting of six loans, at December 31, 2006. During the year ended December 31, 2008, fourteen impaired loans totaling \$8.5 million were added to impaired status, while five loans totaling \$2.4 million were removed from impaired status. Of the \$8.5 million added during the year, \$2.1 million represented problematic loans that remained on accrual status at December 31, 2008. The combination of their problem payment history and concerns over their realizable disposal value in the event of foreclosure, resulted in their

being deemed impaired at December 31, 2008, with a specific reserve being allocated to them within the allowance for loan losses. Of the \$2.4 million removed from impaired status, \$1.6 million represented transfers to OREO and \$876,000 represented satisfactions. During the year ended December 31, 2007, three impaired loans totaling \$2.0 million were removed from impaired status while three loans totaling \$1.2 million were added to impaired status. Since much of the activity occurred during the final six months of 2007, while the period-end balance of impaired loans declined from December 31, 2006 to December 31, 2007, the average balance was higher during the year ended December 31, 2007, as \$3.5 million of impaired loans added during the year ended December 31, 2006 had a greater impact on the average balance of impaired loans during 2007 than 2006. At December 31, 2008 and 2007, reserves totaling \$1.1 million and \$348,000, respectively, were allocated within the allowance for loan losses for impaired loans. At December 31, 2008, impaired loans exceeded non-accrual loans by \$1.5 million due to the \$2.1 million of impaired loans that remained on accrual status at December 31, 2008, which were partially offset by \$597,000 of one- to four-family and consumer loans, which, while on non-accrual status, were not deemed impaired since they had individual outstanding balances of \$625,500 or less.

Troubled-Debt Restructurings

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 OTS regulations 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, 2008 and 2007.

OREO

Property acquired by the Bank as a result of a foreclosure on a mortgage loan or deed in lieu of foreclosure is classified as OREO and recorded at the lower of the recorded investment in the related loan or the fair value of the property on 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 OREO. The Bank obtains a current appraisal on OREO property as soon as practicable after it takes possession and will generally reassess the value of OREO at least annually thereafter. At December 31, 2008, the Bank owned one OREO property with a recorded balance of \$300,000. At December 31, 2007, the Bank owned no OREO properties with a recorded balance.

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

	At December 31,				
	2008	2007	2006	2005	2004
Non-accrual loans	(Dollars in Thousands)				
One- to four-family	\$566	\$11	\$60	\$317	\$475
Multifamily residential	776	2,236	1,655	384	830
Commercial real estate	3,439	577	1,859		
Mixed Use	2,590	-	-	-	-
Cooperative apartment	26	27	26	229	-
Other	5	5	6	28	154
Total non-accrual loans	7,402	2,856	3,606	958	1,459
OREO	300	-	-	-	-
Total non-performing assets	7,702	2,856	3,606	958	1,459
Troubled-debt restructurings	-	-	-	-	-
Total non-performing assets and troubled-debt restructurings	\$7,702	\$2,856	\$3,606	\$958	\$1,459
Impaired loans	\$8,900	\$2,814	\$3,514	\$384	\$830
Ratios:					
Total non-accrual loans to total loans	0.22%	0.10%	0.13%	0.04%	0.06%
Total non-accrual loans and troubled-debt restructurings to total loans	0.22	0.10	0.13	0.04	0.06
Total non-performing assets to total assets	0.19	0.08	0.11	0.03	0.04
Total non-performing assets and troubled-debt restructurings to total assets	0.19	0.08	0.11	0.03	0.04

On January 30, 2009, the Bank re-acquired four loans with an aggregate carrying balance of \$5.8 million (net of aggregate specific reserves of \$3.0 million recognized on these loans). This \$5.8 million carrying balance is expected to be reflected as non-accrual loans / non-performing assets at March 31, 2009. (See "Item 1 – Business - Reserve Liability on the Recourse Exposure on Multifamily Loans Serviced for FNMA") for a further discussion of this re-acquisition.

Loans Delinquent 60 to 89 Days

The Bank had a total of 10 real estate and consumer loans, totaling \$4.8 million, delinquent 60-89 days (two consecutive missed payments) at December 31, 2008, compared to 7 such delinquent loans, totaling \$1.9 million, at December 31, 2007. The majority of the dollar amount of both non-accrual loans and loans delinquent 60-89 days were real estate loans. The growth in the dollar amount delinquent 60-89 days from December 31, 2007 to December 31, 2008 resulted primarily from a net increase of \$3.1 million of 60 to 89 day 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-accrual loans. However, given the considerable challenges facing the NYC area multifamily and commercial real estate markets at December 31, 2008, it is reasonable to expect that these delinquencies will remain above their December 31, 2007 level for the foreseeable future.

Classified Assets

OTS regulations and Bank policy require that loans and other assets possessing certain negative 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 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 risk sufficient 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, 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 requirements. All non-accrual and impaired loans and OREO are considered classified assets. In addition, the Bank maintains a "watch list," comprised of loans that, while performing, are characterized by weaknesses requiring special attention from management and are considered to be potential problem loans. This list can include loans that have either been classified as Substandard or Special Mention in previous years but have remained current for at least 6 months, loans that have experienced irregular payment histories, or troubled-debt restructurings to the extent that they do fall into either of the previous groups.

The 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 conclusions to the Bank's Board of Directors on a quarterly basis.

At December 31, 2008, the Bank's watch list was comprised of 11 loans totaling \$2.7 million that remained on accrual status, compared to 7 such loans totaling \$1.8 million at December 31, 2007. The increase resulted from the addition of seven loans totaling \$1.9 million to the watch list during 2008, which were partially offset by two loans totaling \$1.1 million that entered non accrual status during the period.

At both December 31, 2008 and 2007, the Bank had no loans classified as either Doubtful or Loss. At December 31, 2008, the Bank had 27 loans totaling \$2.7 million designated Special Mention, compared to 31 loans totaling \$1.2 million at December 31, 2007, reflecting the increase in the watch list loan balance during the year ended December 31, 2008. At December 31, 2008, the Bank had \$7.3 million of assets classified as Substandard, compared to \$3.7 million at December 31, 2007.

At December 31, 2008 and 2007, no Company-held investment securities, MBS or other assets were classified as Special Mention, Substandard or Doubtful. GAAP rules that require the immediate recognition of unrealized losses on these assets that are deemed other-than-temporarily impaired prevent them from satisfying the criteria of a classified asset under OTS regulations and Bank policy.

The following table sets forth the Bank's aggregate carrying value of assets classified as either Substandard or Special Mention at December 31, 2008:

	Special Mention		Substandard	
	Number	Amount	Number	Amount
	(Dollars in Thousands)			
Mortgage Loans:				
Multifamily residential	3	\$1,550	2	\$1,553
One- to four-family	1	57	6	1,473
Cooperative apartment	4	153	1	26
Commercial real estate	3	920	5	3,955
Total Mortgage Loans	11	2,680	14	\$7,007
Other loans	16	8	9	5
OREO	-	-	1	300
Total	27	\$2,688	24	\$7,312

Problem Loans Serviced for Other Financial Institutions That are Subject to Recourse Exposure

The Bank services a pool of multifamily loans sold to FNMA with an outstanding principal balance of \$519.8 million at December 31, 2008. This pool of loans was subject to a recourse exposure totaling \$21.9 million at December 31, 2008. Within this pool of loans, the Bank had not received a payment from the borrower in excess of 90 days on loans totaling \$23.7 million at December 31, 2008, and has identified another \$3.6 million of other problem loans. Under the terms of the servicing agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans until the earlier of the following events: (1) the loans have been fully satisfied or enter OREO status; or (2) the recourse exposure is fully exhausted.

Allowance for Loan Losses

GAAP requires the Bank to maintain an appropriate allowance for loan losses. The Loan Loss Reserve Committee is charged with, among other functions, 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 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 Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				
Total loans outstanding at end of period ⁽¹⁾	\$3,291,505	\$2,877,025	\$2,703,673	\$2,612,095	\$2,501,805
Average total loans outstanding ⁽¹⁾	\$3,090,032	\$2,777,220	\$2,651,601	\$2,535,574	\$2,397,187
Allowance for loan losses:					
Balance at beginning of period	\$15,387	\$15,514	\$15,785	\$15,543	\$15,018
Provision for loan losses	2,006	240	240	340	280
Charge-offs					
Multifamily residential	(501)	-	-	-	-
Commercial real estate	(85)	-	-	-	-
One- to four-family	-	-	(2)	-	(3)
FHA/VA insured	-	-	-	-	-
Cooperative apartment	-	-	-	-	-
Other	(26)	(28)	(48)	(76)	(155)
Total charge-offs	(612)	(28)	(50)	(76)	(158)
Recoveries	29	19	23	31	25
Reserve for loan commitments transferred (to) from other liabilities	644	(358)	(484)	(53)	378
Balance at end of period	\$17,454	\$15,387	\$15,514	\$15,785	\$15,543
Allowance for loan losses to total loans at end of period	0.53%	0.53%	0.57%	0.60%	0.62%
Allowance for loan losses to total non-performing loans at end of period	235.80	538.76	430.23	1,647.70	1,065.32
Allowance for loan losses to total non-performing loans and troubled-debt restructurings at end of period	235.80	538.76	430.23	1,647.70	1,065.32
Ratio of net charge-offs to average loans outstanding during the period	0.02%	-	-	-	-

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

Based upon its evaluation of the loan portfolio, management believes that the Bank maintained its allowance for loan losses at a level appropriate to absorb losses inherent within the Bank's loan portfolio as of the balance sheet dates. 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 a borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. Although 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 processes, 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 upon judgments different from those of management.

The allowance for loan losses was \$17.5 million at December 31, 2008 compared to \$15.4 million at December 31, 2007. During the year ended December 31, 2008, the Bank recorded a provision of \$2.0 million to the allowance for loan losses. In addition at December 31, 2008, the Bank re-designated \$644,000 of its reserves on loan origination commitments to its allowance for loan losses due to a decrease in loan commitments outstanding at December 31, 2008. The Bank also recorded net charge-offs of \$583,000 during the year ended December 31, 2008. The Bank did not make any changes to the major assumptions underlying the determination of its allowance for loan losses during the year ended December 31, 2008. Both the provision and the increase in the allowance for loan losses during the year ended December 31, 2008 primarily reflected the following items: 1) the significant growth in the Bank's loan portfolio that occurred during the year ended December 31, 2008; and 2) the increase in non-accrual and other problem loans from December 31, 2007 to December 31, 2008, coupled with deteriorating conditions in the Bank's local real estate marketplace that resulted in a higher level of estimated loan loss reserves on these non-accrual and other problem loans.

The deterioration in the overall real estate market in the NYC metropolitan area that occurred late in 2008, particularly in relation to commercial and office building properties, may result in higher expected loss allocations being applied on all loans in the determination of the allowance for loan losses during the year ending December 31, 2009 than were applied at December 31, 2008.

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,									
	2008		2007		2006		2005		2004	
	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)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)
	(Dollars in Thousands)									
Impaired loans	\$1,056	0.27%	\$348	0.10%	\$351	0.13%	\$38	0.01%	\$83	0.04%
Multifamily residential	10,583	68.08	9,381	67.72	8,948	68.62	10,137	71.75	11,753	76.72
Commercial real estate	4,695	25.65	4,449	25.31	5,208	24.61	4,759	22.10	3,161	16.98
One-to four- family	306	3.97	347	4.86	496	5.43	496	5.20	436	5.05
Cooperative apartment	95	0.35	33	0.21	45	0.27	59	0.39	65	0.47
Construction and land acquisition	680	1.61	764	1.72	392	0.86	196	0.46	-	0.62
Other	39	0.07	65	0.08	74	0.08	100	0.09	45	0.12
Total	\$17,454	100.00%	\$15,387	100.00%	\$15,514	100.00%	\$15,785	100.00%	\$15,543	100.00%

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

Reserve Liability on the Recourse Exposure on Multifamily Loans Serviced for FNMA

The Bank has a recourse exposure associated with multifamily loans that it sold to FNMA between December 2002 and December 31, 2008, and maintains a related reserve liability. The reserve liability reflects the estimate of future losses that are deemed probable to occur on this loan pool at each period end. In determining the estimate of probable future losses, the Bank utilizes a methodology similar to the calculation of its allowance for loan losses. For all performing loans within the FNMA serviced pool, the reserve recognized is the present value of the estimated future losses calculated based upon the historical loss experience for comparable multifamily loans owned by the Bank. For problem loans within the pool, the estimated future losses are determined in a manner consistent with impaired or classified loans within the Bank's loan portfolio.

The following is a summary of the aggregate balance of multifamily loans serviced for FNMA, the period-end balance of total recourse exposure associated with these loans, and activity related to the reserve liability:

	At or for the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				
Outstanding balance of multifamily loans serviced for FNMA at period end	\$519,831	\$535,793	\$494,770	\$386,781	\$295,800
Total recourse exposure at end of period	21,865	20,409	18,495	15,564	12,754
Reserve Liability on the Recourse Exposure					
Balance at beginning of period	\$2,436	\$2,223	\$1,771	\$1,543	\$761
Additions for loans sold during the period ¹	101	213	452	228	782
Provision for losses on problem loans ¹	3,946	-	-	-	-
Charge-offs	(910)	-	-	-	-
Balance at period end	\$5,573	\$2,436	\$2,223	\$1,771	\$1,543

¹ Amount recognized as a portion of mortgage banking income during the period.

Absent extenuating circumstances, the \$910,000 of charge-offs recognized in 2008, and the full reserve liability balance of \$5.6 million at December 31, 2008, would have represented likely future loss claims, and upon ultimate settlement of the loans, the Bank would have sought to reduce the \$21.9 million total recourse exposure. However, of the \$5.6 million reserve liability that existed at December 31, 2008, \$1.4 million related to a loan that the Bank was required to repurchase under the terms of its seller/servicer agreement with FNMA at the initial purchase price. This loan also accounted for \$146,000 of the \$910,000 in charge-offs recognized during 2008. The re-acquisition of this loan was completed on January 30, 2009, and the Bank understands that no losses associated with this loan shall reduce the \$21.9 million total recourse exposure.

In addition, on January 30, 2009, the Bank re-acquired three other problem loans from FNMA (all associated with one common borrower), on which aggregate charge-offs of \$701,000 were recognized during the year ended December 31, 2008, and on which a specific reserve of \$1.6 million was included in the \$5.6 million reserve liability at December 31, 2008. Under the terms of the re-acquisition agreement, upon ultimate resolution of these loans, 50% of their aggregate losses will reduce the \$21.9 million total recourse exposure. In exchange for this concession, the Bank received the potential right to reduce the \$21.9 total recourse exposure commencing on January 1, 2015.

Subsequent to the re-acquisition of these four loans, the reserve liability on the recourse exposure had a balance approximating \$2.6 million.

Reserve for Loan Commitments

At December 31, 2008, the Bank maintained a reserve of \$572,000 associated with loan commitments accepted by the borrower at December 31, 2008. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve are achieved via a transfer of reserves from the Bank's allowance for loan losses, with any subsequent resulting shortfall in the allowance for loan losses satisfied through the quarterly provision for loan losses. Any decreases in the loan commitment reserve are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

Investment Activities

Investment Strategies of the Holding Company. At December 31, 2008, the Holding Company's principal asset was its \$349.7 million investment in the Bank's common stock. Other Holding Company investments are intended primarily to provide future liquidity which may be utilized for general business activities. These 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 and \$72.2 million trust preferred securities borrowing; (3) subject to applicable dividend restriction 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's investment policy calls for investments in relatively short-term, liquid securities similar to those permitted by the securities investment policy of the Bank. The Holding Company cannot assure that it will engage in any of these activities in the future.

Investment Policy of the Bank. The investment policy of the Bank, which is adopted by its Board of Directors, is designed to help achieve the Bank's overall asset/liability management objectives while complying with applicable OTS regulations. Generally, when selecting 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 debt, 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 to which the Bank sells federal funds.

Investment strategies are implemented by the Asset and Liability Management Committee ("ALCO"), which is comprised of the Chief Financial Officer, Chief Investment Officer, Treasurer and other senior 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, and effectively manage both interest rate risk and liquidity. The strategies are reviewed monthly by the ALCO and reported regularly to the Board of Directors.

The Holding Company or the Bank may, with respective Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2008 and 2007, neither the Holding Company nor the Bank held any derivative instruments or embedded derivative instruments that required bifurcation.

MBS. 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 as a result of the cost of payment guarantees and credit enhancements which 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 loans and thus affect both the prepayment speed and value of such securities. MBS, however, 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. At December 31, 2008 and 2007, respectively, all MBS owned by the Company possessed the highest possible investment credit rating.

The Company's consolidated investment in MBS totaled \$301.4 million, or 7.4% of total assets, at December 31, 2008, the majority of which was owned by the Bank. The majority of the MBS portfolio was comprised of pass-through securities guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Agency ("GNMA") or FNMA. These securities approximated 68% of the total MBS portfolio at December 31, 2008. At December 31, 2008, this portion of the portfolio was comprised of \$117.5 million of FHLMC or FNMA securities that are fixed for a period of five, seven or ten years and then reset annually thereafter, \$88.2 million of seasoned fixed-rate FNMA pass-through securities with an average estimated duration of less than 3.0 years, \$1.0 million of GNMA ARM pass-through securities with a weighted average term to next rate adjustment of less than one year, and a \$1.4 million FNMA 18-year balloon MBS.

At December 31, 2008, included in the MBS portfolio were \$93.2 million in Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs") owned by the Bank. All of the CMOs and REMICs were U.S agency guaranteed obligations, with the exception of three CMOs that were issued by highly rated 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, 2008, the aggregate fair value of the agency guaranteed CMOs and REMICs approximated their cost basis. The three private financial institution issued CMOs had an aggregate cost basis of \$8.4 million and an aggregate unrealized loss of \$539,000 at December 31, 2008.

The MBS portfolio included one pass-through security issued by a private financial institution with a cost basis of \$4.5 million and a fair value of \$4.2 million at December 31, 2008. This security possessed the highest possible credit rating at December 31, 2008, and continues to perform in accordance with its contractual terms. The credit rating of this security was downgraded subsequent to December 31, 2008. Despite this downgrade, the security continues to perform in accordance with its contractual terms, and is expected to return all contractual principal and interest.

GAAP requires that investments in equity securities have readily determinable fair values and investments in debt securities 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 Holding Company nor the Bank owned any securities classified as trading securities during the twelve months ended December 31, 2008, 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 loss, net of deferred taxes. At December 31, 2008, the Holding Company and the Bank owned, on a combined basis, \$318.0 million of securities classified as available-for-sale, which represented 7.8% of total assets. Based upon the size of the available-for-sale portfolio, future variations in the market value of the available-for-sale portfolio could result in fluctuations in the Company's consolidated stockholders' equity.

The Company typically classifies MBS as available-for-sale, in recognition of the greater prepayment uncertainty associated with these securities, and carries them at fair market value. The fair value of MBS available-for-sale was \$1.6 million above their amortized cost at December 31, 2008.

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

	For the Year Ended December 31,		
	2008	2007	2006
	Dollars in Thousands		
Amortized cost at beginning of period	\$164,503	\$160,096	\$199,931
(Sales) Purchases, net	183,849	37,992	-
Principal repayments	(48,155)	(33,329)	(39,420)
Premium amortization, net	(469)	(256)	(415)
Amortized cost at end of period	\$299,728	\$164,503	\$160,096

Corporate Debt Obligations. Both the Holding Company and the Bank may invest in investment-grade debt obligations of various corporations. 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 stockholders' equity.

At December 31, 2008, the Company's investment in corporate debt obligations was comprised solely of eight securities that were secured by the preferred debt obligations of a pool of U.S. banks (with a small portion secured by debt obligations of insurance companies). These pooled trust preferred securities had an aggregate cost basis of \$16.6 million and a recorded balance of \$10.9 million. On September 1, 2008, the Bank transferred these eight securities from its available-for-sale portfolio to its held-to-maturity portfolio. Based upon the lack of an orderly market for these securities, management determined that a formal election to hold these securities to maturity was consistent with its initial investment decision. On the date of transfer, the unrealized loss of \$8.4 million that existed on these securities continued to be recognized as a component of accumulated other comprehensive loss within the Company's consolidated stockholders' equity (net of the deferred tax benefit), and was expected to be amortized over the remaining average life of the securities, which approximated 25.7 years on a weighted average basis. During the period September 1, 2008 through December 31, 2008, amortization of this unrealized loss totaled \$134,000, and \$2.6 million was reversed related to two securities (discussed in the following paragraph) for which an other-than temporary impairment charge was recognized during the period. At December 31, 2008, the remaining unrealized loss will be amortized during the remaining contractual life of these securities, which have contractual maturities ranging from April 3, 2032 through September 22, 2037.

During the year ended December 31, 2008, the Company recorded a pre-tax other-than temporary impairment charge of \$3.2 million related to two of these pooled trust preferred securities. As of December 31, 2008, these securities were performing in accordance with their contractual terms and had paid all contractual cash flows since the Bank's initial investment. In management's judgment, however, the credit quality of the collateral pool underlying the two securities had deteriorated to the point that full recovery of the Bank's initial investment was considered uncertain. Consequently, an other-than temporary impairment charge was deemed warranted as of December 31, 2008. This pre-tax other-than temporary impairment charge was reflected in the Company's consolidated results of operations.

Subsequent to the recognition of the impairment on the two securities, the total remaining cost basis of the Company's investment in pooled trust preferred debt obligations of banks or insurance companies totaled \$16.6 million at December 31, 2008. There was no orderly market for pooled trust preferred securities at December 31, 2008. As a result, the fair value of the eight securities was estimated utilizing a cash flow valuation methodology, and was determined to be \$7.5 million below the \$16.6 million aggregate cost basis. Despite the significant decline in the market value of these securities, management believes that the \$10.8 million of unrealized losses on the pooled trust preferred securities at December 31, 2008 were temporary, and that the full value of these investments will be realized once the market dislocations have been removed or as the securities continue to satisfy their contractual payments of principal and interest. In making this determination, management considered the following:

In addition to satisfying all contractual payments since inception, each of the securities that possessed an unrealized loss at December 31, 2008 demonstrated the following beneficial credit characteristics:

- All securities have maintained an investment grade rating since inception from at least one rating agency
- Each security has a diverse pool of underlying issuers
- None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
- Each security features either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
- Each security is characterized by some level of over-collateralization

Based upon an internal review of the collateral backing these securities, which accounted for current and prospective deferrals, each of the securities can reasonably be expected to continue making contractual payments.

Municipal Agencies. At December 31, 2008, the Bank had an investment in municipal agency obligations totaling \$10.1 million, all of which were acquired during 2007. At December 31, 2008, the aggregate market value of these securities exceeded their amortized cost basis by \$202,000, and the securities possessed a weighted average tax-adjusted yield approximating 5.6%. In February 2009, the Company sold its entire portfolio of municipal agency obligations, recognizing a pre-tax net gain of \$431,000 on the sale.

Equity Investments. The Company's consolidated investment in equity securities totaled \$5.4 million at December 31, 2008, comprised of various equity mutual fund investments. At December 31, 2008, the aggregate fair value of these mutual fund investments was \$2.6 million below their cost basis. Three of these mutual funds, which totaled \$2.1 million of the \$2.6 million aggregate equity investment unrealized loss at December 31, 2008, were in a continuous unrealized loss position for a period in excess of twelve months as of December 31, 2008. Two of these three mutual funds were comprised solely of U.S. equities and carried a high correlation to the performance of the Standard and Poors 500 Equity Index. The third mutual fund was comprised of international equities and bears a high correlation to the performance of the MSCI Equity index. Each of these mutual funds have regularly demonstrated the ability to recover to their cost basis during periods in which the correlating equity market indexes performed favorably. Management performed an historical analysis of the average period for which a declining (or "bear") market has continued for both the Standard and Poors 500 and MSCI Equity indexes. Based upon this analysis, management believes that each of these securities were not other than temporarily impaired at December 31, 2008, as the correlating indexes to be reasonably expected to recover within a period permitting the unrealized losses could be deemed temporary (less than two years based upon historical experience). The Company has the intent and ability to hold the securities until recovery.

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,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
MBS:	Dollars in Thousands					
FHLMC pass through certificates	144,688	146,358	31,174	31,611	-	-
FNMA pass through certificates	55,526	56,569	12,677	12,646	9,862	9,488
GNMA pass through certificates	1,057	1,041	1,266	1,279	1,773	1,792
Private issuer MBS	4,474	4,138	-	-	-	-
Agency issued CMOs and REMICs	85,631	85,432	107,725	105,716	133,404	128,520
Private issuer CMOs and REMICs	8,352	7,813	11,661	11,512	15,057	14,637
Total MBS	299,728	301,351	164,503	162,764	160,096	154,437
Investment securities:						
U.S. Treasury and agency	1,035	1,036	-	-	-	-
Municipal agencies	9,931	10,133	10,031	10,108	235	235
Corporate debt obligations and mutual funds	24,618	14,515	24,750	24,067	29,503	29,548
Total investment securities	35,584	25,684	34,781	34,175	29,738	29,783
Net unrealized loss (1)	(798)	-	(2,345)	-	(5,614)	-
Total securities, net	\$334,514	\$327,035	\$196,939	\$196,939	\$184,220	\$184,220

(1) The net unrealized loss relates to available-for-sale securities in accordance with SFAS 115, "Accounting for Investments in Debt and Equity Securities." ("SFAS 115"). The net unrealized loss is presented in order to reconcile the amortized cost of the available-for-sale securities portfolio to the recorded value reflected in the Company's Consolidated Statements of Financial 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,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Dollars in Thousands						
Held-to-Maturity:						
Pooled trust preferred securities	\$16,561	\$9,082	-	-	-	-
Municipal agency	-	-	80	80	235	235
Total Held-to-Maturity	\$16,561	\$9,082	\$80	\$80	\$235	\$235
Available-for-Sale:						
MBS:						
Agency issued MBS	\$201,271	\$203,968	\$45,117	\$45,536	\$11,635	\$11,280
Private issuer MBS	4,474	4,138	-	-	-	-
Agency issued CMOs and REMICs	85,631	85,432	107,725	105,716	133,404	128,520
Private issuer CMOs and REMICs	8,352	7,813	11,661	11,512	15,057	14,637
Total MBS available-for-sale	299,728	301,351	164,503	162,764	160,096	154,437
Investment securities	19,023	16,602	34,701	34,095	29,503	29,548
Net unrealized loss (1)	(798)	-	(2,345)	-	(5,614)	-
Total Available-for-Sale	\$317,953	\$317,953	\$196,859	\$196,859	\$183,985	\$183,985
Total securities, net	\$334,514	\$327,035	\$196,939	\$196,939	\$184,220	\$184,220

(1) The net unrealized loss relates to available-for-sale securities in accordance with SFAS 115. The net unrealized loss is presented in order to reconcile the amortized cost of the available-for-sale securities portfolio to the recorded value reflected in the Company's Consolidated Statements of Condition.

The following table presents the amortized cost, fair value and weighted average yield of available-for-sale investment securities and MBS (exclusive of equity investments) at December 31, 2008, categorized by remaining period to contractual maturity. With respect to MBS, the entire carrying amount of each security at December 31, 2008 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 approximated 2.7 years as of December 31, 2008 when giving consideration to anticipated repayments or possible prepayments, which is significantly 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 the lesser of 1% of total assets or 15% of the Bank's equity at December 31, 2008.

	Amortized Cost	Fair Value	Weighted Average Tax Equivalent Yield
	(Dollars in Thousands)		
MBS:			
Due within 1 year	-	-	-
Due after 1 year but within 5 years	-	-	-
Due after 5 years but within 10 years	\$112,448	\$112,789	4.17%
Due after ten years	187,280	188,562	4.90
Total	299,728	301,351	4.63
Municipal agency:			
Due within 1 year	-	-	-
Due after 1 year but within 5 years	348	361	5.72
Due after 5 years but within 10 years	9,583	9,772	5.62
Due after ten years	-	-	-
Total	9,931	10,133	5.62
Agency obligations:			
Due within 1 year	-	-	-
Due after 1 year but within 5 years	-	-	-
Due after 5 years but within 10 years	1,035	1,036	1.75
Due after ten years	-	-	-
Total	1,035	1,036	1.75
Total:			
Due within 1 year	-	-	-
Due after 1 year but within 5 years	348	351	5.72
Due after 5 years but within 10 years	123,066	123,597	4.26
Due after ten years	187,280	188,562	4.90
Total	\$310,694	\$312,520	4.65%

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, FHLBNY advances and borrowings in the form of REPOS entered into with various financial institutions, including the FHLBNY. From December 2002 through December 31, 2008, the Bank also sold selected multifamily residential and mixed-use loans (or participations in such loans) to either FNMA or third party financial institutions, and all long-term, one- to four-family residential real estate loans directly to FNMA or PHH. The Company may additionally issue debt under appropriate circumstances.

Deposits. The Bank offers a variety of deposit accounts possessing a range of interest rates and terms. At December 31, 2008, the Bank offered, and presently offers, savings, money market, interest bearing and non-interest bearing checking 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 nearly all of its deposits. At December 31, 2008, the Bank had deposit liabilities of \$2.26 billion, up \$80.1 million from December 31, 2007 (See "Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"). Within total deposits at December 31, 2008, \$410.7 million, or 18.2%, consisted of CDs with a minimum denomination of one-hundred thousand dollars. Individual Retirement Accounts totaled \$131.5 million, or 5.8% of total deposits on that date.

The Bank is authorized to accept brokered CDs up to an aggregate limit of \$120.0 million. At December 31, 2008 and 2007, the Bank had no brokered CDs.

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

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Deposits	\$3,158,031	\$3,098,739	\$1,826,641
Withdrawals	3,137,956	3,003,034	1,789,552
Deposits greater than Withdrawals	\$20,075	\$95,705	\$37,089
Interest credited	59,978	75,761	56,671
Total increase in deposits	\$80,053	\$171,466	\$93,760

At December 31, 2008, the Bank had \$410.7 million in CDs with a minimum denomination of one-hundred thousand dollars as follows:

Maturity Period	Amount	Weighted Average Rate
(Dollars in Thousands)		
Within three months	\$79,692	3.37%
After three but within six months	96,310	3.79
After six but within twelve months	181,777	3.94
After 12 months	52,932	3.94
Total	\$410,711	3.79%

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, 2008			At December 31, 2007			At December 31, 2006		
	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	\$270,321	11.96%	0.57%	\$274,067	12.57%	0.55%	\$298,522	14.86%	0.59%
Certificates of deposit	1,153,166	51.02	3.69	1,077,087	49.41	4.61	1,064,669	53.01	4.76
Money market accounts	633,167	28.02	2.63	678,759	31.14	4.04	514,607	25.62	3.56
Interest bearing checking accounts	112,687	4.99	2.10	58,414	2.68	2.28	35,519	1.77	1.08
Non-interest bearing checking accounts	90,710	4.01	-	91,671	4.20	0.15	95,215	4.74	-
Totals	\$2,260,051	100.00%	2.79%	\$2,179,998	100.00%	3.67%	\$2,008,532	100.00%	3.54%

The following table presents, by interest rate ranges, the dollar amount of CDs outstanding at the dates indicated and the period to maturity of the CDs outstanding at December 31, 2008:

Interest Rate Range	Period to Maturity at December 31, 2008				Total at December 31, 2008	Total at December 31, 2007	Total at December 31, 2006
	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years			
(Dollars in Thousands)							
2.00% and below	\$40,814	\$112	\$4	-	\$40,930	\$21,824	\$69,396
2.01% to 3.00%	230,151	6,919	-	-	237,070	21,927	77,401
3.01% to 4.00%	391,944	100,849	11,602	-	504,395	230,593	63,645
4.01% to 5.00%	308,016	13,417	32,819	-	354,252	509,360	142,657
5.01% and above	15,301	1,138	80	-	16,519	293,383	711,570
Total	\$986,226	\$122,435	\$44,505	\$-	\$1,153,166	\$1,077,087	\$1,064,669

Borrowings. The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges offered to FHLBNY shareholders is the ability to secure advances from the FHLBNY under various lending programs at competitive interest rates. The Bank's borrowing line equaled \$1.42 billion at December 31, 2008.

The Bank had FHLBNY advances totaling \$1.02 billion and \$706.5 million at December 31, 2008 and 2007, respectively. At December 31, 2008, the Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such advances.

REPOS totaled \$230.0 million and \$155.1 million, respectively, at December 31, 2008 and 2007. 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 are provided primarily by cash received from the maturing securities.

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

REPOS:

	At or for the Year Ended December 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Balance outstanding at end of period	\$230,000	\$155,080	\$120,235
Average interest cost at end of period	4.32%	4.53%	3.54%
Average balance outstanding during the period	\$227,764	\$132,685	\$134,541
Average interest cost during the period	3.80%	4.11%	1.95%(1)
Carrying value of underlying collateral at end of period	\$251,744	\$163,116	\$126,830
Estimated fair value of underlying collateral	\$251,744	\$163,116	\$126,830
Maximum balance outstanding at month end during period	\$265,000	\$155,160	\$205,455

(1) During the year ended December 31, 2006, the Company prepaid certain REPOS, resulting in a reduction of \$2,176 in interest expense. Excluding this reduction, the average cost of REPOS would have been 3.56% during the year ended December 31, 2006.

FHLBNY Advances:

	At or for the Year Ended December 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Balance outstanding at end of period	\$1,019,675	\$706,500	\$571,500
Average interest cost at end of period	3.85%	4.07%	4.37%
Weighted average balance outstanding during the period	\$877,651	\$520,972	\$565,612
Average interest cost during the period	4.00%	4.30%	4.69%(1)
Maximum balance outstanding at month end during period	\$1,066,675	\$706,500	\$596,500

(1) Amounts include the effects of prepayment expenses paid on FHLBNY advances. Excluding prepayment expenses of \$1.4 million, the average interest cost on FHLBNY advances was 4.45% during the year ended December 31, 2006. The Bank did not prepay any FHLBNY advances during the years ended December 31, 2008 or 2007.

During the year ended December 31, 2006, the Company engaged in two separate borrowing restructuring transactions. In the initial transaction, the Company restructured \$145.0 million of its borrowings in order to lower their average cost. Since portions of the original borrowings were satisfied at a discount, the Company recorded a non-recurring reduction of \$43,200 in interest expense related to the prepayment.

In the second transaction, the Company restructured \$170.0 million of wholesale borrowings. Under this restructuring, \$120.0 million of REPOS and \$50.0 million in FHLBNY advances were prepaid and replaced. The prepaid borrowings had a weighted average interest rate of 4.53%, and were replaced with a combination of REPOS and FHLBNY advances having an initial weighted average interest rate of 3.79%. The replacement FHLBNY advances have a 4.4% fixed rate of interest, a final maturity of ten years and are callable by the FHLBNY after an initial period (the "Lockout Period") of one, two or three years. The replacement REPOS have a ten-year maturity and a Lockout Period of either one or two years. During the Lockout Period, the REPOS are variable rate (indexed to 3-month LIBOR), and have embedded interest rate caps and floors that ensure their reset interest rate will not exceed their initial interest rate. After the Lockout Period, if not called by the lender, the REPOS convert to an average fixed rate of 4.90%. The Company recorded a non-recurring reduction of \$764,000 in interest expense related to the prepayment.

Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of eight wholly-owned corporations, two of which are directly owned by the Holding Company and six of which are directly owned by the Bank. Havemeyer Equities Inc., a corporation formerly owned by the Bank, was dissolved in 2007. The following table presents an overview of the Holding Company's subsidiaries, other than the Bank, as of December 31, 2008:

Subsidiary	Year/ State of Incorporation	Primary Business Activities
Direct Subsidiaries of the Holding Company:		
842 Manhattan Avenue Corp.	1995/ New York	Management and ownership of real estate. Currently inactive
Dime Community Capital Trust I	2004/ Delaware	Statutory Trust (1)
Direct Subsidiaries of the Bank:		
Boulevard Funding Corp.	1981 / New York	Management and ownership of real estate
Havemeyer Investments, Inc.	1997 / New York	Sale of non-FDIC insured investment products
DSBW Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in multifamily 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
Dime Reinvestment Corporation	2004 / Delaware	Community Development Entity. Currently inactive.
195 Havemeyer Corp.	2008 / New York	Management and ownership of real estate

(1) Dime Community Capital Trust I was established for the exclusive purpose of issuing and selling \$72.2 million of capital securities and using the proceeds to acquire \$72.2 million of junior subordinated debt securities issued by the Holding Company. The junior subordinated debt securities (referred to later in this Annual Report as "trust preferred securities payable," bear an interest rate of 7.0%, mature on April 14, 2034 and are the sole assets of Dime Community Capital Trust I. In accordance with revised interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," Dime Community Capital Trust I is not consolidated with the Holding Company for financial reporting purposes.

Personnel

As of December 31, 2008, the Company had 363 full-time employees and 90 part-time employees. The employees are not represented by a collective bargaining unit, and 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 general description of material tax matters and does not purport to be a comprehensive review of the tax rules applicable to the Company.

General. The Company 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 a consolidated income tax return on a December 31st fiscal year basis using the accrual method of accounting and is 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 in excess of \$500 million), is: (i) unable to make additions to its tax bad debt reserve, (ii) permitted to deduct bad debts only as they occur, and (iii) 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. At the time of enactment of the recapture requirement, the Bank had already provided a deferred income tax liability for the bad debt reserve for financial reporting purposes. There was thus no adverse impact to the Bank's financial condition or results of operations as a result of the legislation.

Distributions. Non-dividend distributions to shareholders of the Bank are considered distributions from the Bank's "base year tax bad debt reserve" (*i.e.*, its reserve as of December 31, 1987, to the extent thereof), and then from its supplemental reserve for losses on loans. Non-dividend distributions include distributions: (i) in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes; (ii) for redemption of stock; and (iii) for partial or complete liquidation.

An amount based on the total non-dividend distributions paid will be included in the Bank's taxable income in the year of distribution. 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, assuming a 35% federal corporate income tax rate, approximately one and one-half times the amount of such distribution (but not in excess of the amount of the above-mentioned reserves) would be includable in income for federal income tax purposes. (See "Item 1 – Business - Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions," for a discussion of 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 base year tax bad debt reserves. Dividends paid out of current or accumulated earnings and profits will not be included in the Bank's income.

Corporate Alternative Minimum Tax. The Bank's current federal rate is 35% of taxable income. The Internal Revenue Code of 1986, as amended (the "Code") imposes a tax 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 or deduction 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 based on one of several alternative methods, whichever results in the greatest tax. These methods are as follows: 1) entire net income, which is federal taxable income with adjustments; 2) 1% of assets; or 3) the alternative minimum tax of 3% (after the exclusion of certain preferential items).

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 tax bad debt reserves for purposes of computing its entire net income.

The Bank is permitted a deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property. The deduction 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. The Bank reviews the most appropriate method of calculating the deduction attributable to an addition to the tax bad debt reserves each year.

The portion of the NYS tax 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 tax bad debt reserves for such distributions. The tax bad debt reserve is additionally subject to recapture in the event that the Bank fails either to satisfy a thrift definitional test relating to the composition of its assets or to maintain a thrift charter.

In general, the Holding Company is not required to pay NYS tax on dividends and interest received from the Bank.

The statutory NYS tax rate for the year ended December 31, 2008 approximated 8.63% of taxable income. This rate included a metropolitan commuter transportation district surcharge.

City of New York. The Holding Company and the Bank are both subject to a NYC banking corporation tax based on one of several methods, whichever results in the greatest tax. These methods are as follows: 1) entire net income allocated to NYC, which is federal taxable income with adjustments; 2) 1% of assets; or 3) the alternative minimum tax of 3% (after the exclusion of certain preferential items).

NYC generally conforms its tax law to NYS tax law in the determination of taxable income (including the laws relating to tax bad debt reserves). NYC tax law, however, 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 exempt from Delaware corporate income tax, however, 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 FDIC under the Deposit Insurance Fund ("DIF"). The Bank must file reports with the OTS concerning its activities and financial condition, and must obtain regulatory approval 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 DIF 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, both the SEC, under the federal securities laws, and 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 Owners' Loan Act, as amended ("HOLA"), and the regulations of the OTS enacted thereunder. Pursuant thereto, 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 activities. The investment powers are subject to various limitations, including a: (i) prohibition against the acquisition of any corporate debt security not rated in one of the four highest rating categories; (ii) limit of 400% of capital on the aggregate amount of loans secured by non-residential real property; (iii) 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; (iv) limit of 35% of assets on the aggregate amount of consumer loans and commercial paper and corporate debt securities; (v) limit of 5% of assets on non-conforming loans (*i.e.*, loans in excess of specified amounts); and (vi) 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.

Emergency Economic Stabilization Act of 2008 (the "EESA")

The U.S. and global economies are experiencing significantly reduced activity as a result of, among other factors, disruptions in the financial system during the past year as well as a various other recessionary conditions. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been significantly adversely affected as a result.

In response to the financial crises affecting the banking system and financial markets, the EESA was enacted on October 3, 2008. Pursuant to the EESA, the U.S. Department of Treasury ("Treasury") was granted the authority to, among others, establish the Troubled Asset Relief Program ("TARP") to purchase up to \$700 billion of certain troubled assets, including mortgages, MBS and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

In the case of a publicly-traded financial institution that sells troubled assets into the TARP, the Treasury must receive a warrant giving the Treasury the right to receive nonvoting common stock or preferred stock in such financial institution, or voting stock with respect to which the Treasury agrees not to exercise voting power, subject to certain de minimis exceptions. Further, all financial institutions that sell troubled assets to the TARP and satisfy certain conditions will also be subject to certain executive compensation restrictions, which differ depending on how the troubled assets are acquired under the TARP.

In addition to establishing the TARP, the EESA also requires that the Secretary of the Treasury establish a program that will guarantee the principal of, and interest on, troubled assets originated or issued prior to March 14, 2008 in order to help restore liquidity and stability to the financial system. The Secretary of the Treasury will establish premiums for

financial institutions that participate in this program and may provide for variations in such rates in accordance with the credit risk associated with the particular troubled asset being guaranteed.

Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program")

Under the TARP, on October 14, 2008, the Treasury announced the TARP Capital Purchase Program to strengthen the capital and liquidity positions of viable institutions and encourage banks and thrifts to increase lending to creditworthy borrowers. Under the TARP Capital Purchase Program, qualifying financial institutions are able to sell senior preferred shares to the Treasury, which will qualify as Tier 1 capital for regulatory capital purposes. The minimum amount of preferred shares that may be issued is equal to 1% of the institution's risk-weighted assets, and the maximum is the lesser of \$25 billion or 3% of the institution's risk-weighted assets. The Treasury would also receive warrants to purchase common stock of the participating institution with an aggregate market price equal to 15% of the senior preferred investment. In addition, qualifying financial institutions would also be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the program.

On January 5, 2009, after receiving approval of its application from the Treasury, the Company announced that it had decided to forego participation in the TARP Capital Purchase Program. The Company conducted extensive financial analysis, and concluded that the benefits of the TARP Capital Purchase Program to the Company and its shareholders were mitigated by several factors, including the Company's strong capital levels and historically prudent investment and underwriting practices, and the potential dilution to both earnings and book value that participation in the TARP Capital Purchase Program would have created over the next three to five years.

Temporary Liquidity Guarantee Program

On November 21, 2008, the FDIC adopted the Temporary Liquidity Guarantee Program ("TLGP") pursuant to its authority to prevent "systematic risk" in the U.S banking system. The TLGP was announced by the FDIC on October 14, 2008 as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLGP, the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008 and before June 30, 2009 under the Debt Guarantee Program ("DGP") and (ii) fully insure non-interest bearing transaction deposit accounts held at participating FDIC-insured institutions, through December 31, 2009 under the Transaction Account Guarantee Program ("TAGP"). The Company elected not to participate in the TLGP.

Eligible institutions were covered under the TLGP at no cost for the first 30 days. Institutions that did not desire to continue to participate in one or both parts of the TLGP were required to notify the FDIC of their election to opt out on or before December 5, 2008. Institutions that did not opt out are subject to a fee of 50 to 100 basis points per annum based on the length of maturity of senior unsecured debt issued under the DGP. Under the TAGP, a 10 basis point surcharge will be added to the institution's current insurance assessment, quarterly, for balances in non-interest bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000. The TLGP was scheduled to expire in June of 2009, however, on February 10, 2009 the FDIC announced its intention to extend the TLGP through October 2009 for an additional premium.

On January 16, 2009, in an effort to further strengthen the financial system and U.S economy, the FDIC announced that it will soon propose rule changes to the TLGP to extend the maturity of the guarantee from three to up to 10 years where the debt is supported by collateral and the issuance supports new consumer lending. Until the details of this extended program are finalized and published, management cannot determine to what extent, if any, the Company would participate in this program. The Company did not elect to participate in the TLGP.

It is presently unclear what impact the EESA, the TARP Capital Purchase Program, the TLGP, other previously announced liquidity and funding initiatives of the Federal Reserve and other agencies, and any additional programs that may be initiated in the future will have on the financial markets and the other difficulties described above, including the current extreme levels of volatility and limited credit availability, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further negative effects could have an adverse impact on the Company and its business.

Interagency Guidance on Nontraditional Mortgage Product Risks. On October 4, 2006, the OTS and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risks (the "Nontraditional Mortgage Product Guidance"). The Nontraditional Mortgage Product Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest only loans. The Nontraditional Mortgage Product Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Nontraditional Mortgage Product Guidance indicates that originating interest only loans with reduced documentation is considered a layering of risk and that institutions

are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Nontraditional Mortgage Product Guidance indicates that a lender may accept a borrower's statement as to the borrower's income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

Statement on Subprime Lending. On June 29, 2007, the OTS and other federal bank regulatory agencies issued a final Statement on Subprime Mortgage Lending (the "Subprime Mortgage Statement") to address the growing concerns facing the subprime mortgage market, particularly with respect to rapidly rising subprime default rates that may indicate borrowers do not have the ability to repay adjustable-rate subprime loans originated by financial institutions. In particular, the agencies express concern in the Subprime Mortgage Statement that current underwriting practices do not take into account that many subprime borrowers are not prepared for "payment shock" and that current subprime lending practices compound the risk for financial institutions. The Subprime Mortgage Statement describes the prudent safety and soundness and consumer protection standards that financial institutions should follow to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to the expiration of the initial fixed interest rate period without penalty. The Subprime Mortgage Statement also reinforces the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the federal bank regulatory agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to meet their contractual payment obligations on their home loans.

The Company has never originated subprime loans. The Company has evaluated the Nontraditional Mortgage Product Guidance and the Subprime Mortgage Statement and determined its risk management practices, underwriting guidelines and consumer protection standards to be in compliance.

Loans to One Borrower. Under HOLA, savings associations are generally subject to limits on loans to one borrower identical to those imposed on national banks. Generally, pursuant to these limits, a savings association may not advance a loan or extend credit to a single or related group of borrowers in excess of 15% of the association's unimpaired capital and unimpaired surplus. Additional amounts may be advanced, not in excess of 10% of unimpaired capital and unimpaired 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, 2008, the Bank's limit on loans to one borrower was \$45.5 million. The Bank's largest aggregate amount of loans to one borrower on that date was \$41.0 million and the second largest borrower had an aggregate loan balance of \$37.4 million.

QTL Test. HOLA requires savings associations 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: (i) specified liquid assets up to 20% of total assets, (ii) certain intangibles, including goodwill, credit card relationships and purchased MSR, and (iii) 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; and small business, education, 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, 2008, the Bank maintained 69.2% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2008, 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 (i) engaging in any new activity not permissible for a national bank, (ii) paying dividends not permissible under national bank regulations, and (iii) 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 ("BHCA"). A savings association that has failed the QTL test may requalify under the QTL test and be relieved of the limitations; however, it 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 will be required to terminate any activity, and dispose of any investment, not permissible for a national bank.

Capital Requirements. OTS regulations require savings associations to satisfy three minimum capital standards: (i) a tangible capital ratio of 1.5%; (ii) a risk-based capital ratio of 8%; and (iii) a leverage capital ratio. For depository institutions that have been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating System, the minimum required leverage capital ratio is 3%. For any other depository institution, the minimum required leverage capital ratio is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution. In assessing an institution's capital adequacy, the OTS takes into consideration not only these numeric factors but qualitative factors as well, and possesses the authority to establish increased capital requirements for individual institutions when necessary.

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. Current 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 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 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 OTS guidelines regarding NPV analysis. The OTS has not imposed any such requirements on the Bank.

The table below presents the Bank's regulatory capital compared to OTS regulatory capital requirements:

	As of December 31, 2008			
	Actual		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
Tangible	\$304,455	7.63%	\$59,873	1.5%
Leverage Capital	304,455	7.63	159,662	4.0
Total Risk-based capital	303,033	11.43	212,140	8.0

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

	At December 31, 2008		
	Tangible Capital	Leverage Capital	Total Risk-Based Capital
	(Dollars in Thousands)		
GAAP capital	\$350,715	\$350,715	\$350,715
Non-allowable assets:			
MSR	(281)	(281)	(281)
Accumulated other comprehensive loss	9,659	9,659	9,659
Goodwill	(55,638)	(55,638)	(55,638)
Tier 1 risk-based capital	304,455	304,455	304,455
Adjustment for recourse provision on loans sold	-	-	(18,876)
General valuation allowance	-	-	17,454
Total (Tier 2) risk based capital	304,455	304,455	303,033
Minimum capital requirement	59,873	159,662	212,140
Regulatory capital excess	\$244,582	\$144,793	\$90,893

Limitation on Capital Distributions. OTS regulations 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, 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 determines that the association is in need of greater than customary supervision or that a proposed distribution would constitute an unsafe or unsound practice. Further, under OTS prompt corrective action regulations, the Bank would be prohibited from making a capital distribution if, after the distribution, the Bank would fail to satisfy its minimum capital requirements, as described above (See "Item 1 – Business - 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 "Part II - Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for further discussion). At December 31, 2008, the Bank's liquid assets approximated 14.12% 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. Savings and loan holding companies are also required to pay semi-annual assessments to the OTS. For the year ended December 31, 2008, assessments paid for the Bank and Holding Company totaled \$622,000.

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: (i) in states that expressly authorize branches of savings associations located in another state, and (ii) 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 "Item 1 – Business - Regulation - Regulation of Federal Savings Associations - QTL Test"). HOLA and OTS regulations preempt 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 most appropriate 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 satisfying the credit needs of its community and consider such record in its evaluation of certain applications by the association. The assessment is composed of three tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) 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 (iii) 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 additionally require that the Bank publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by OTS regulations, Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act ("FRA"), Regulation W issued by the Federal Reserve Board ("FRB"), as well as additional limitations adopted by the Director of the OTS. OTS regulations regarding transactions with affiliates conform to Regulation W. These provisions, among other matters, prohibit, limit or place restrictions upon a savings institution extending credit to, or entering into certain transactions with, its affiliates, which, for the Bank, would include the Holding Company, principal shareholders, directors and executive officers.

OTS regulations include additional restrictions on savings associations under Section 11 of HOLA, including provisions prohibiting a savings association from: (i) advancing a loan to an affiliate engaged in non-bank holding company activities; and (ii) purchasing or investing in securities issued by an affiliate that is not a subsidiary. OTS regulations also include certain exemptions from these prohibitions. The FRB and the OTS require each depository institution that is subject to Sections 23A and 23B to implement policies and procedures to ensure compliance with Regulation W and the OTS regulations regarding transactions with affiliates.

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 any loan by an insured depository institution, such as the Bank, if the loan 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 enacted thereunder. Among other matters, these provisions require that extensions of credit to insiders: (i) 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 (ii) not exceed certain amount limitations individually and in the aggregate, which limits are based, in part, on the amount of the association's capital. Regulation O additionally requires that extensions of credit in excess of certain limits be approved in advance by the association's board of directors. The Holding Company and Bank both presently prohibit loans to Directors and executive management.

Enforcement. Under 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 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 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 has 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 "Item 1 – Business - 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 have adopted regulations prescribing standards for extensions of credit that are (i) secured by real estate, or (ii) 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 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 contain a number of lending situations in which exceptions to the loan-to-value standards are permitted.

In 2006, the OTS adopted guidance entitled "Concentrations in Commercial Real Estate (CRE) Lending, Sound Risk Management Practices" (the "CRE Guidance"), to address concentrations of commercial real estate loans in savings associations. The CRE Guidance reinforces and enhances the OTS existing regulations and guidelines for real estate lending

and loan portfolio management, but does not establish specific commercial real estate lending limits. Rather, the CRE Guidance seeks to promote sound risk management practices that will enable savings associations to continue to pursue commercial real estate lending in a safe and sound manner. The CRE Guidance applies to savings associations with an accumulation of credit concentration exposures and asks that the associations quantify the additional risk such exposures may pose. Such quantification should include the stratification of the commercial real estate portfolio by, among other qualities, property type, geographic market, tenant concentrations, tenant industries, developer concentrations and risk rating. In addition, an institution should perform periodic market analyses for the various property types and geographic markets represented in its portfolio. Further, an institution with commercial real estate concentration risk should also perform portfolio level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings and capital. The Bank commenced implementation of the requirements and suggestions set forth in the CRE Guidance during 2007 and 2008, and will expand this process in 2009.

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 its capital: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Generally, a capital restoration plan must be filed with the OTS within 45 days of the date an association receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, the institution becomes subject to various mandatory supervisory actions, including restrictions on growth of assets and other forms of expansion. Generally, under the OTS regulations, a federally chartered savings association is treated as well capitalized if its total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 6% or greater, its leverage ratio is 5% or greater, and it is not subject to any order or directive by the OTS to meet a specific capital level. As of December 31, 2008, the Bank satisfied all criteria necessary to be categorized "well capitalized" under the prompt corrective action regulatory framework.

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. Traditionally, the FDIC provided insurance of up to \$100,000 per depositor. On October 3, 2008, the FDIC announced a temporary increase in deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009, in response to the problems affecting the banking system and financial markets.

Savings associations are required to pay a deposit insurance premium. The amount of the premium is determined based upon a risk-based assessment system, which was amended effective January 1, 2007. During the years ended December 31, 2006 and 2005, the Bank was not required to pay any assessments on its deposits under the previously existing FDIC policies. Under the amended system, the FDIC assigns an institution to one of four risk categories entitled Risk Category I, II, III and IV, with Risk Category I considered most favorable and Risk Category IV considered least favorable. Risk Category I contains all well capitalized institutions with capital adequacy, asset quality, management, earnings, and liquidity component ratings ("CAMEL Component Ratings") of either 1 or 2. Risk Category II contains all institutions that are adequately capitalized and possess CAMEL Component Ratings of either 1, 2 or 3. Risk Category III contains either undercapitalized institutions that have CAMEL Composite Ratings of 1, 2 or 3 or adequately capitalized institutions that have CAMEL Composite Ratings of 4 or 5. Risk Category IV contains all institutions that are undercapitalized and have a CAMEL Composite Ratings of 4 or 5. The Bank currently falls within Risk Category I. Base assessment rates for institutions within Risk Category I range from 2 to 4 basis points, depending upon a combination of the institution's CAMEL Component Ratings and financial ratios. The base assessment rates are fixed at 7 basis points, 25 basis points and 40 basis points for institutions within Risk Categories II, III and IV, respectively. The FDIC has the flexibility to adjust rates, without further notice-and-comment rulemaking, provided that no such adjustment can be greater than 3 basis points from one quarter to the next, adjustments cannot result in rates more than 3 basis points above or below the base rates and rates cannot be negative. Effective January 1, 2007, the FDIC set the assessment rates at 3 basis points above the base rates. Assessment rates, therefore, currently range from 5 to 43 basis points of deposits. The assessment rate for the Bank's deposits approximated 5 basis points.

In November 2006, the FDIC notified the Bank that it was granted a credit of \$1.6 million to apply against its insurance premiums commencing in 2007. This credit resulted from final implementation of a provision of the Federal Deposit Insurance Reform Act of 2005 that compensated financial institutions such as the Bank that were required to pay insurance premiums prior to 1996 while other financial institutions that had units that operated under industrial loan company and thrift charters were not. This credit was used to offset 100% of the 2007 deposit insurance assessment. The \$466,000 remaining credit was utilized to offset a portion of the deposit insurance assessments in 2008. Total FDIC deposit insurance costs recognized by the Bank in excess of the credit were \$643,000 during the year ended December 31, 2008.

The Deposit Insurance Funds Act of 1996 amended the FDIA to recapitalize the SAIF (which was merged with the BIF into the newly-formed DIF on March 31, 2006) 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 from the funds to compensate depositors of federally-insured depository institutions that experienced bankruptcy and dissolution during the 1980's and 1990's. The assessment rate is adjusted quarterly and was 0.0114% of total deposits of the Bank for the fourth quarter of 2007 and the first quarter of 2008. The Bank's total expense in 2008 for the FICO bonds assessment was \$257,000.

The FDIC established 1.25% of estimated insured deposits as the designated reserve ratio of the DIF. The FDIC is authorized to change the assessment rates as necessary, subject to the previously discussed limitations, to maintain the required reserve ratio of 1.25%. As a result of the recent failures of a number of banks and thrifts, there has been a significant increase in the loss provisions of the DIF of the FDIC. This has resulted in a decline in the DIF reserve ratio. Because the DIF reserve ratio declined below 1.15% and is expected to remain below 1.15%, the FDIC was required to establish a restoration plan in October, 2008 to restore the reserve ratio to 1.15% within five years., which term has now been extended to 7 years pursuant to a final rule adopted by the FDIC on February 27, 2009. In order to restore the reserve ratio to 1.15%, the FDIC adopted a final rule in October, 2008 that increased risk-based assessment rates uniformly by 7 basis points (annualized) for the first quarter of 2009. In addition, on February 27, 2009, the FDIC adopted a final rule further modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2009, at 12 to 45 basis points depending on an institution's risk category, with adjustments resulting in increased assessment rates generally for institutions with a significant reliance on secured liabilities and brokered deposits. The Bank estimates that its total assessments will range between 15 and 17 basis points during the year ending December 31, 2009.

On February 27, 2009, the FDIC also adopted an interim rule imposing a 20 basis point emergency special assessment on the industry on June 30, 2009, to be collected on September 30, 2009. The interim rule would also permit the FDIC to impose an emergency special assessment of up to 10 basis points after June 30, 2009, if necessary to maintain public confidence in federal deposit insurance.

Based upon the Bank's deposit insured balances at December 31, 2008, the adopted increases in assessments will result in pre-tax assessment expense of approximately \$3.5 million to \$4.0 million during 2009, and the 20 basis point proposed special assessment would result in aggregate additional pre-tax expense of approximately \$4.5 million.

Privacy and Security Protection. The OTS has adopted regulations implementing the privacy protection provisions of The Gramm- Leach-Bliley Act of 1999 ("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.

The Bank is additionally subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the federal banking 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, and protect against anticipated threats or hazards to the security or integrity of such records and unauthorized access to or use of such records or information that could result in substantial customer harm or inconvenience.

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, of these bills 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 materially affect or restrict the Bank's Internet operations.

Insurance Activities. As a federal savings association, the Bank is generally permitted to engage in certain insurance activities through subsidiaries. OTS regulations 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.

Federal Home Loan Bank ("FHLB") 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 FHLBNY Class B stock. The Class B stock has a par value of \$100 per share and is redeemable upon five years notice, subject to certain conditions. The Class B stock has two subclasses, one for membership stock purchase requirements and the other for activity-based stock purchase requirements. The minimum stock investment requirement in the FHLBNY Class B stock is the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For the Bank, the membership stock purchase requirement is 0.2% of "mortgage-related assets," as defined by the FHLBNY, which consist primarily of residential mortgage loans and MBS held by the Bank. The activity-based stock purchase requirement for the Bank is equal to the sum of: (i) 4.5% of outstanding borrowings from the FHLBNY; (ii) 4.5% of the outstanding principal balance of the "acquired member assets," as defined by the FHLBNY, and delivery commitments for acquired member assets; (iii) a specified dollar amount related to certain off-balance sheet items, which for the Bank is zero; and (iv) a specific percentage range from 0% to 5% of the carrying value on the FHLBNY's balance sheet of derivative contracts between the FHLBNY and its members, which is also zero for the Bank. The Bank was in compliance with these requirements with an investment in FHLBNY Class B stock of \$55.6 million at December 31, 2008. The FHLBNY can adjust the specific percentages and dollar amount periodically within the ranges established by the FHLBNY capital plan.

Federal Reserve System. The Bank is subject to provisions of the FRA and FRB regulations pursuant to which savings associations are required to maintain non-interest-earning cash reserves against their 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 in excess of \$10.3 million through \$44.4 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against the portion of total transaction accounts in excess of \$44.4 million. The initial \$10.3 million of otherwise reservable balances are currently exempt from the reserve requirements, however, the 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.

Pursuant to the EESA, the FRB announced on October 6, 2008, that the Federal Reserve Banks will begin to pay interest on depository institutions' required and excess reserve balances. Paying interest on required reserve balances should essentially eliminate the opportunity cost of holding required reserves, promoting efficiency in the banking sector. The interest rate paid on required reserve balances is currently the average target federal funds rate over the reserve maintenance period. The rate on excess balances will be set equal to the lowest FOMC target rate in effect during the reserve maintenance period. The payment of interest on excess reserves will permit the Federal Reserve to expand its balance sheet as necessary to provide the liquidity necessary to support financial stability.

Depository institutions 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 ("PATRIOT Act"). The 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 PATRIOT Act enacted 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: (i) establishment of anti-money laundering programs; (ii) establishment of procedures for obtaining identifying information from customers opening new accounts, including verifying their identity within a reasonable period of time; (iii) establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and (iv) prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks.

In addition, bank regulators are directed to consider a holding company's effectiveness in preventing money laundering when ruling on FRA and Bank Merger Act applications.

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.

Gramm-Leach additionally restricts the powers of new unitary savings and loan association holding companies. A unitary savings and loan holding company that is "grandfathered," *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 the authority it possessed under the law in existence as of May 4, 1999. 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.

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 currently limits the activities of a multiple savings association holding company and its non-insured association subsidiaries primarily to activities permissible under Section 4(c)(8) of the BHCA, subject to prior approval of the OTS, and to other activities authorized by OTS regulation. Effective in April 2008, however, all savings and loan association holding companies became permitted, with the prior approval of the OTS, to engage in all activities in which bank holding companies may engage under any regulation the FRB has promulgated under Section 4(c) of the BHCA.

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 (i) in a supervisory transaction, or (ii) 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.

The Bank must file a notice with the OTS prior to the payment of any dividends or other capital distributions to the Holding Company (See "Item 1 – Business - 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 periodic reporting, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Item 1A. Risk Factors

The Bank's focus on multifamily and commercial real estate lending may subject it to greater risk of an adverse impact on operations from a decline in the economy.

The majority of loans in the Bank's portfolio are secured by multifamily residential property. Multifamily loans have traditionally been viewed as exposing lenders to a greater risk of loss than one- to four-family residential loans, due to the following concerns: 1) They typically involve higher loan principal amounts and thus expose the Bank to a greater potential impact of losses from any one loan or concentration of loans to one borrower relative to the size of the Bank's capital position; 2) their borrowers often own several properties, and often a borrower experiencing financial difficulties in connection with one income producing property may default on all of his or her outstanding loans, even if the properties securing the other loans are generating positive cash flow. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a further discussion.

As part of the Company's strategic plan, it increased its emphasis on commercial real estate loans from 2002 through 2007. Loans secured by commercial real estate are generally larger and involve a greater degree of risk than one- to four-family and multifamily residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, repayment of such loans is generally subject to a greater extent to prevailing conditions in the real estate market or the economy. Further, the collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value based upon the success of the business.

Multifamily and commercial real estate loans additionally involve a greater risk than one- to four- family residential mortgage loans because economic and real estate conditions, 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 value of the security for the loan or 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 increases in overhead expenses (*i.e.*, utilities, taxes, etc.). Impaired loans are thus difficult to identify before they become problematic. In addition, if the cash flow from a collateral property is reduced (*e.g.*, if leases are not obtained or renewed), the borrower's ability to repay the loan and the value of the security for the loan may be impaired.

Dependence on economic and real estate conditions and geographic concentration in market area.

The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank lends primarily in the NYC 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, approximately 75% of which are located in the NYC boroughs of Brooklyn, Queens and Manhattan. As a result of this geographic concentration, the Bank's results of operations depend largely upon economic conditions in this area. A deterioration in economic conditions in the NYC metropolitan area could have a material adverse impact upon the quality of the Bank's loan portfolio and the demand for its products and services, and, accordingly, on the Company's results of operations, cash flows, business, financial condition and prospects.

Conditions in the real estate markets in which the collateral for the Bank's mortgage loans are located strongly influence the level of the Bank's non-performing loans and the value of its collateral. Real estate values are affected by, among other items, fluctuations in general or local economic conditions, supply and demand, changes in governmental rules or policies, the availability of loans to potential purchasers and acts of nature. Declines in real estate markets have in the past, and may in the future, negatively impact the Company's results of operations, cash flows, business, financial condition and prospects.

The Bank's allowance for loan losses is maintained at a level considered adequate by management to absorb losses inherent in its loan portfolio. The amount of inherent loan losses which could be ultimately realized is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that could be beyond the Bank's control. Such losses could exceed current estimates. Although management believes that the Bank's allowance for loan losses is adequate, there can be no assurance that the allowance will be sufficient to satisfy actual loan losses should such losses be realized.

Increases in interest rates may reduce the Company's profitability.

The Bank's primary source of income is its net interest income, which is the difference between the interest income earned on its interest earning assets and the interest expense incurred on its interest bearing liabilities. The one-year interest rate sensitivity gap is the difference between interest rate sensitive assets maturing or repricing within one year and interest rate sensitive liabilities maturing or repricing within one year, expressed as a percentage of total assets. In a rising interest rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in its cost of liabilities relative to its yield on assets, and thus decrease its net interest income.

Based upon historical experience, if interest rates were to rise, the Bank would expect the demand for multifamily loans to decline. Decreased loan origination volume would likely negatively impact the Bank's interest income. In addition, if interest rates were to rise rapidly and result in an economic decline, the Bank would expect its level of non-performing loans to increase. Such an increase in non-performing loans may result in an increase to the allowance for loan losses and possible increased charge-offs, which would negatively impact the Company's net income.

Further, the actual amount of time before mortgage loans and MBS are repaid can be significantly impacted by changes in mortgage redemption rates and market interest rates. Mortgage prepayment, satisfaction and refinancing rates will vary due to several factors, including the regional economy in the area where the underlying mortgages were originated, seasonal factors, and other demographic variables. However, the most significant factors affecting prepayment, satisfaction and refinancing rates are prevailing interest rates, related mortgage refinancing opportunities and competition. The level of mortgage and MBS prepayment, satisfaction and refinancing activity impacts the Company's earnings due to its effect on fee income earned on prepayment and refinancing activities, along with liquidity levels the Company will experience to fund new investments or ongoing operations.

As a federally-chartered savings bank, the Bank is required to monitor changes in its NPV, which is the difference between the estimated market value of its assets and liabilities. In addition, the Bank monitors its NPV ratio, which is the NPV divided by the estimated market value of total assets. The NPV ratio can be viewed as a corollary to the Bank's capital ratios. To monitor its overall sensitivity to changes in interest rates, the Bank simulates the effect of instantaneous changes in interest rates of up to 200 basis points on its assets and liabilities. Interest rates do and will continue to fluctuate, and the Bank cannot predict future FOMC actions or other factors that will cause interest rates to vary.

Risks related to changes in laws, government regulation and monetary policy.

The Holding Company and the Bank are subject to extensive supervision, regulation and examination by the OTS, as the Bank's chartering agency, and the FDIC, as its deposit insurer. Such regulation limits the manner in which the Holding Company and the Bank conduct business, undertake new investments and activities and obtain financing. This regulation is designed primarily for the protection of the deposit insurance funds and the Bank's depositors, and not to benefit the Bank or its creditors. The regulatory structure also provides the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. For further information regarding the laws and regulations that affect the Holding Company and the Bank, see "Item 1. Business - Regulation - - Regulation of Federal Savings Associations," and "Item 1. Business - Regulation - Regulation of Holding Company."

Financial institution regulation has been the subject of significant legislation in recent years, and may be the subject of further significant legislation in the future, none of which is within the control of the Holding Company or the Bank. Significant new laws or changes in, or repeals of, existing laws may cause the Company's results of operations to differ materially. Further, federal monetary policy, particularly as implemented through the OTS, significantly affects credit conditions for the Company, primarily through open market operations in United States government securities, the discount rate for bank borrowings and reserve requirements for liquid assets. A material change in any of these conditions would have a material impact on the Bank, and therefore, on the Company's results of operations.

Competition from other financial institutions in originating loans and attracting deposits may adversely affect profitability.

The Bank's retail banking and a significant portion of its lending business are concentrated in the NYC metropolitan area. The NYC 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 multifamily residential and commercial real estate loans. Management anticipates that the current level of competition for multifamily 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 and pricing 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 equity markets. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has altered the deposit gathering landscape and may increase competitive pressures on the Bank.

The impact of recently enacted and proposed legislation and government programs to stabilize the financial markets cannot be predicted at this time.

On October 3, 2008, President Bush signed the EESA into law in response to the problems affecting the banking system and financial markets. Pursuant to the EESA, Treasury was granted the authority to, among other things, purchase up to \$700 billion of troubled assets (including mortgages, MBS and certain other financial instruments) from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, Treasury, the FRB and the FDIC issued a joint statement announcing additional steps aimed at stabilizing the financial markets. Initially, Treasury announced the TARP Capital Purchase Program, a \$250 billion voluntary capital purchase program available to qualifying financial institutions that sell preferred shares to Treasury. In addition, the FDIC announced that its Board of Directors, under the authority to prevent "systemic risk" in the U.S. banking system, approved the TLGP, intended to strengthen confidence and encourage liquidity in the banking system by permitting the FDIC to (i) guarantee certain newly issued senior unsecured debt issued by participating institutions under the DGP, and (ii) fully insure non-interest bearing transaction deposit accounts held at participating FDIC-insured institutions, regardless of dollar amount under the TAGP. Third, to further increase access to funding for businesses in all sectors of the economy, the FRB announced further details of its Commercial Paper Funding Facility program ("CPFF"), which provides a broad backstop for the commercial paper market. The Company does not currently participate in the TAGP, CPP, DGP or CPFF.

On February 10, 2009, in a statement to the Senate Banking Committee Hearing, Treasury Secretary Timothy Geithner outlined a Financial Stability Plan to restore stability to the U.S. financial system. The Financial Stability Plan includes a variety of measures aimed at the broader credit markets and includes the creation of a comprehensive housing program to forestall foreclosures and stabilize the residential mortgage market. In addition, on February 11, 2009, the OTS urged OTS-regulated institutions to suspend foreclosures on owner-occupied homes until the Financial Stability Plan's "home loan modification program" is finalized in the next few weeks. On February 18, 2009, President Obama announced the Administration's Homeowner Affordability and Stability Plan, (the "HASP"). The HASP aims to accomplish the following three key objectives: (i) refinance mortgages of up to 4 to 5 million "responsible homeowners" to prevent additional foreclosures; (ii) provide a \$75 billion initiative to help up to 3 to 4 million "at-risk homeowners" primarily through the use of uniform loan modifications; and (iii) help maintain low mortgage rates by strengthening confidence in FNMA and Freddie Mac. Mortgage lenders may participate in the program on a voluntary basis.

On January 27, 2009, the House Judiciary Committee approved H.R. 200, the "Helping Families Save Their Homes in Bankruptcy Act of 2009" ("Bankruptcy Legislation"). The Bankruptcy Legislation would grant a judge the ability to modify the terms of a mortgage for a homeowner in Chapter 13 bankruptcy. Under the proposed Bankruptcy Legislation, borrowers would be eligible to have a bankruptcy judge reduce the principal balance on their home loan. If any such borrower resells his or her home within five years, the borrower will be required to share the proceeds with the lender.

The Company cannot predict the actual impact that the foregoing or any other governmental program will have on the financial markets. The failure of the financial markets to stabilize and a continuation or worsening of current financial market conditions could materially and adversely affect the Company's business, financial condition, results of operations, access to credit or the trading price of the Holding Company's common stock. In addition, the initiatives of President Obama's administration, and the possible enactment of the Bankruptcy Legislation as proposed, could materially and adversely affect the Company's financial condition and results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

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-three full-service retail banking offices located throughout Brooklyn, Queens, the Bronx and Nassau County, New York.

Item 3. Legal Proceedings

In the ordinary course of business, the Company is routinely named as a defendant in or party to various pending or threatened legal actions or proceedings. Certain of these matters may seek substantial monetary damages. In the opinion of management, the Company is involved in no actions or proceedings that will have a material adverse impact on its consolidated financial condition and results of operations.

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

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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.

Quarter Ended	Twelve Months Ended December 31, 2008			Twelve Months Ended December 31, 2007		
	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
March 31 st	\$0.14	\$17.83	\$16.46	\$0.14	\$14.29	\$12.21
June 30 th	0.14	19.31	16.18	0.14	14.00	12.52
September 30 th	0.14	23.55	12.00	0.14	15.99	10.70
December 31 st	0.14	17.69	10.75	0.14	15.56	11.99

On December 31, 2008, the final trading date in the fiscal year, the Holding Company's common stock closed at \$13.30.

Management estimates that the Holding Company had approximately 5,400 shareholders of record as of March 1, 2009, including persons or entities holding stock in nominee or street name through various brokers and banks. There were 34,179,900 shares of Holding Company common stock outstanding at December 31, 2008.

On August 21, 2001, the Holding Company paid a 50% common stock dividend to all shareholders of record as of July 31, 2001. On April 24, 2002, the Holding Company paid a 50% common stock dividend to all shareholders of record as of April 1, 2002. On March 16, 2004, the Holding Company paid a 50% common stock dividend to all shareholders of record as of March 1, 2004. Each of these dividends had the effect of a three-for-two stock split.

During the year ended December 31, 2008, the Holding Company paid cash dividends totaling \$18.3 million, representing \$0.56 per outstanding common share. During the year ended December 31, 2007, the Holding Company paid cash dividends totaling \$19.0 million, representing \$0.56 per outstanding common share.

On January 22, 2009, the Board of Directors declared a cash dividend of \$0.14 per common share to all shareholders of record as of February 2, 2009. This dividend was paid on February 17, 2009.

The Holding Company is subject to the requirements of Delaware law, which generally limits dividends to an amount equal to the excess of net assets (*i.e.*, 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 "Item 1 – Business - Regulation – Regulation of Federal Savings Associations – Limitation on Capital Distributions"). (See also Note 2 to the Company's Audited Consolidated 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%. Pursuant to the provisions of the notes, the Holding Company is required to first satisfy the interest obligation on the 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.

In March 2004, the Holding Company issued \$72.2 million in trust preferred debt, with a stated annual coupon rate of 7.0%. Pursuant to the provisions of the debt, the Holding Company is required to first satisfy the interest obligation on the debt, which approximates \$5.1 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.

The Holding Company did not purchase any shares of its common stock into treasury during the three months ended December 31, 2008.

A summary of the shares repurchased by month is as follows:

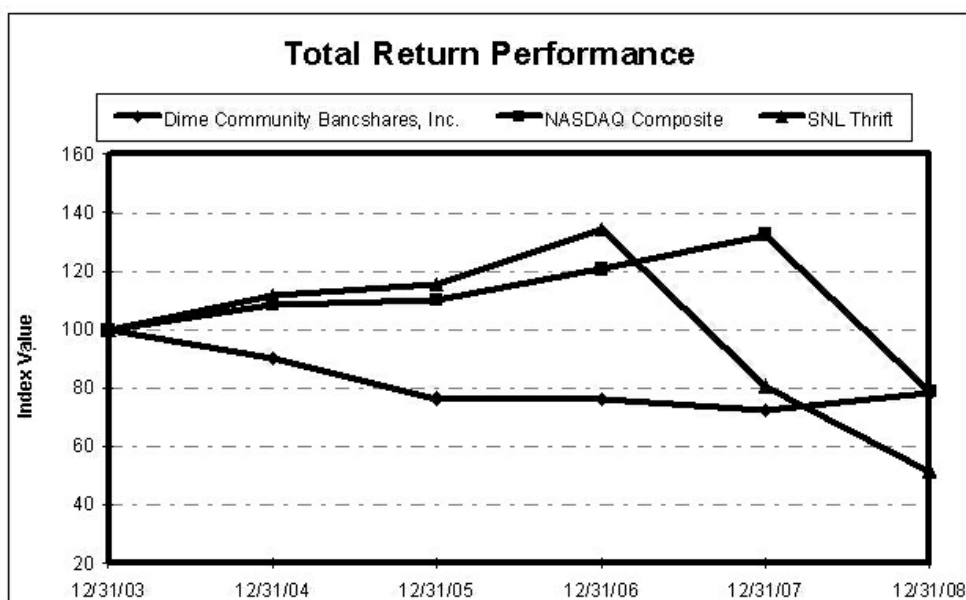
ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Number of Shares that May Yet be Purchased Under the Programs (1)
October 2008	-	-	-	1,124,549
November 2008	-	-	-	1,124,549
December 2008	-	-	-	1,124,549

(1) No existing repurchase programs expired during the three months ended December 31, 2008, nor did the Company terminate any repurchase programs prior to expiration during the quarter. The 1,124,549 shares that remained eligible for repurchase at December 31, 2008 are available under the Company's twelfth stock repurchase program, which was publicly announced in June 2007. The twelfth stock repurchase program authorized the purchase of up to 1,787,665 shares of the Holding Company's common stock, and has no expiration.

Performance Graph

Pursuant to regulations of the SEC, the graph below compares the Company's stock performance with that of the total return for the U.S. Nasdaq Stock Market and an index of all thrift stocks as reported by SNL Securities L.C. from January 1, 2004 through December 31, 2008. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.



Index	Period Ending December 31,					
	2003	2004	2005	2006	2007	2008
Dime Community Bancshares, Inc.	100.00	90.15	76.25	76.02	72.33	51.34
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL Thrift Index	100.00	111.42	115.35	134.46	80.67	77.97

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, 2008, 2007, 2006, 2005 and 2004 set forth below is derived in part from, and should be read in conjunction with, the Company's audited Consolidated Financial Statements and Notes thereto. Amounts as of and for the years ended December 31, 2007, 2006, 2005 and 2004 have been reclassified to conform to the December 31, 2008 presentation.

	At or for the Year Ended December 31,				
	2008	2007	2006	2005	2004
Selected Financial Condition Data:					
Total assets	\$4,055,598	\$3,501,175	\$3,173,377	\$3,126,226	\$3,377,266
Loans and loans held for sale (net of deferred costs or fees and the allowance for loan losses)	3,274,051	2,861,638	2,688,159	2,596,310	2,486,262
MBS	301,351	162,764	154,437	193,453	519,885
Investment securities (including FHLBNY capital stock)	80,898	73,204	61,078	74,750	80,750
Federal funds sold and other short-term investments	-	128,014	78,752	60,014	103,291
Goodwill	55,638	55,638	55,638	55,638	55,638
Deposits	2,260,051	2,179,998	2,008,532	1,914,772	2,210,049
Borrowings	1,346,840	958,745	788,900	834,120	809,249
Stockholders' equity	276,964	268,852	290,631	291,713	281,721
Tangible Stockholders' equity	232,156	217,238	241,829	239,169	229,013
Selected Operating Data:					
Interest income	\$202,654	\$182,160	\$170,810	\$169,712	\$173,758
Interest expense	111,302	111,147	93,340	77,341	67,776
Net interest income	91,352	71,013	77,470	92,371	105,982
Provision for loan losses	2,006	240	240	340	280
Net interest income after provision for loan losses	89,346	70,773	77,230	92,031	105,702
Non-interest income	2,814	10,420	12,390	5,151	10,376
Non-interest expense	49,973	45,502	41,976	40,742	42,407
Income before income tax	42,187	35,691	47,644	56,440	73,671
Income tax expense	14,159	13,248	17,052	20,230	27,449
Net income	\$28,028	\$22,443	\$30,592	\$36,210	\$46,222

	At or for the Year Ended December 31,				
	2008	2007	2006	2005	2004
SELECTED FINANCIAL RATIOS AND OTHER DATA (1):					
Return on average assets	0.76%	0.69%	0.98%	1.11%	1.38%
Return on average stockholders' equity	10.29	8.11	10.43	12.65	16.76
Stockholders' equity to total assets at end of period	6.83	7.68	9.16	9.33	8.34
Tangible equity to tangible assets at end of period	5.79	6.29	7.74	7.78	6.88
Loans to deposits at end of period	145.64	131.97	134.61	136.42	113.20
Loans to interest-earning assets at end of period	89.60	88.77	90.18	88.82	78.04
Net interest spread (2)	2.34	1.88	2.19	2.66	3.09
Net interest margin (3)	2.60	2.29	2.60	2.96	3.32
Average interest-earning assets to average interest-bearing liabilities	108.35	111.48	113.07	111.88	110.79
Non-interest expense to average assets	1.35	1.39	1.34	1.24	1.27
Efficiency ratio (4)	51.25	55.88	48.36	40.03	36.67
Effective tax rate	33.56	37.12	35.79	35.84	37.26
Dividend payout ratio	65.88	83.58	64.37	54.90	42.97
Per Share Data:					
Diluted earnings per share	\$0.85	\$0.67	\$0.87	\$1.02	\$1.28
Cash dividends paid per share	0.56	0.56	0.56	0.56	0.55
Book value per share	8.10	7.93	7.97	7.89	7.58
Tangible book value per share	6.79	6.41	6.63	6.47	6.16
Asset Quality Ratios and Other Data(1):					
Net charge-offs	\$584	\$9	\$27	\$45	\$133
Total non-performing loans	7,402	2,856	3,606	958	1,459
OREO	300	-	-	-	-
Non-performing loans to total loans	0.22%	0.10%	0.13%	0.04%	0.06%
Non-performing loans and OREO to total assets	0.19	0.08	0.11	0.03	0.04
Allowance for Loan Losses to:					
Non-performing loans	235.80%	538.76%	430.23%	1,647.70%	1,065.32%
Total loans (5)	0.53	0.53	0.57	0.60	0.62
Regulatory Capital Ratios: (Bank only) (1)					
Tangible capital	7.63%	7.88%	9.05%	9.84%	7.88%
Leverage capital	7.63	7.88	9.05	9.84	7.88
Total risk-based capital	11.43	11.92	12.61	14.30	12.83
Earnings to Fixed Charges Ratios (6) (7):					
Including interest on deposits	1.41x	1.32x	1.51x	1.73x	2.09x
Excluding interest on deposits	1.81	1.99	2.30	2.56	3.46
Full Service Branches	23	21	21	20	20

(1) 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.

(2) 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.

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

(4) 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.

(5) Total loans represent loans and loans held for sale, net of deferred fees and costs, and excluding (thus not reducing the aggregate balance for) the allowance for loan losses.

(6) 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.

(7) Interest on unrecognized tax benefits totaling \$480,000 and \$509,000 is included in the calculation of fixed charges for the years ended December 31, 2008 and 2007, respectively.

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, as well as income associated with Bank Owned Life Insurance ("BOLI"). Non-interest expense primarily consists of employee compensation and benefits, federal deposit insurance premiums, data processing costs, and occupancy and equipment,

marketing 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 generally to seek to increase its product and service utilization for each individual depositor, and to increase its household and deposit market shares in the communities that it serves. In addition, the Bank's primary strategy includes the origination of, and investment in, mortgage loans, with an emphasis on multifamily residential and mixed use real estate loans. During much of 2006 and 2007, growth was restricted as a result of the interest rate environment, which management deemed unfavorable for significant balance sheet growth. During 2008, the Company grew assets due to continued loan demand and favorable marketplace conditions surrounding the origination of multifamily residential real estate loans. By the end of 2008, the Company had begun restricting its plans for future growth due to concerns over the long-term credit quality of the real estate loans, and the desire to retain sufficient capital levels to accommodate these concerns.

The Company believes that multifamily residential and mixed use loans provide advantages as investment assets. Initially, they offer a higher yield than investment securities of comparable maturities or terms to repricing. In addition, origination and processing costs for the Bank's multifamily residential and mixed loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. Further, the Bank's market area has generally provided a stable flow of new and refinanced multifamily residential and mixed use loan originations. In order to address the credit risk associated with multifamily residential and mixed use 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.

The year ended December 31, 2008 was dominated by a global real estate and economic recession fueled by significant weakness and/or failure in many of the world's largest financial institutions. These events led to historically high dislocations in credit markets, causing origination spreads from the benchmark origination interest rate to increase significantly during the year ended December 31, 2008. This increase, coupled with the reduction in benchmark short-term interest rates by the FOMC (which greatly impact the pricing of the Bank's retail deposits), resulted in significant increases in both net interest spread and net interest margin during the year ended December 31, 2008, thus favorably impacting the Company's consolidated earnings during the period. Partially offsetting this benefit were higher credit costs recognized on loans owned by the Bank, loans sold to FNMA with recourse, and pooled trust preferred security investments.

Critical Accounting Policies

Various elements of the Company's accounting policies 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, reserves for loan commitments and FNMA recourse exposure, the valuation of MSR, asset impairments (including the valuation of goodwill and other than temporary declines in the valuation of securities), the recognition of deferred tax assets and unrecognized tax positions, the recognition of loan income, the valuation of financial instruments and accounting for defined benefit plans are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material variations in the Company's consolidated results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application.

Allowance for Loan Losses. GAAP requires the Bank to maintain an appropriate allowance for loan losses. Management uses available information to estimate losses on loans and believes that the Bank maintains its allowance for loan losses at appropriate levels. Adjustments may be necessary, however, if future economic, market or other conditions differ from the current operating environment.

Although the Bank believes it utilizes the most reliable information available, the level of the allowance for loan losses remains an estimate subject to significant judgment. These evaluations are inherently subjective because, although based upon objective data, it is management's interpretation of the data that determines the amount of the appropriate allowance. The Company, therefore, periodically reviews the actual performance and charge-offs of its portfolio and compares them to the previously determined allowance coverage percentages. In doing so, the Company evaluates the impact that the variables discussed below may have on the portfolio to determine whether or not changes should be made to the assumptions and analyses.

The Bank's loan loss reserve methodology consists of several components, including a review of the two elements of its loan portfolio: problem loans (*i.e.*, classified loans and impaired loans under Amended SFAS 114") and performing loans. The Bank applied the process of determining the allowance for loan losses consistently throughout the years ended December 31, 2008 and 2007.

Performing Loans

At December 31, 2008, 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 review date. The Bank thus 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 generally considers, among others, 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, multifamily residential, commercial real estate, cooperative apartment, construction and land acquisition or consumer); the underwriting history of the loan (*i.e.*, whether it was underwritten by the Bank or a predecessor institution acquired 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 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 located in the NYC metropolitan area) or specific industry conditions within the portfolio segments. Since these criteria affect the expected loan loss percentages that are applied to performing loans, changes in any of them may affect the amounts of the allowance and the provision for loan losses.

Problem Loans

OTS regulations and Bank policy require that loans possessing certain weaknesses be classified as Substandard, Doubtful or Loss assets. Assets that do not expose the Bank to risk sufficient to justify classification in one of these categories, however, which possess potential weaknesses that deserve management's attention, are designated Special Mention. Loans classified as Special Mention, Substandard or Doubtful are reviewed individually on a quarterly basis by the Bank's Loan Loss Reserve Committee to determine the level of possible loss, if any, that should be provided for within the Bank's allowance for loan losses.

The Bank's policy is to charge-off immediately all balances classified as "Loss" and record a reduction of the allowance for loan losses for the full amount of the outstanding loan balance. The Bank applied this process consistently throughout the years ended December 31, 2008 and 2007.

Under the guidance established by Amended SFAS 114, loans determined to be impaired are evaluated at least quarterly in order to establish impairment. 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 estimated fair value of the collateral. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. (See "Item 1 – Business – Asset Quality – Impaired Loans" for a discussion of impaired loans.

Non-performing one- to four-family loans of \$625,500 or less are not required to be evaluated for impairment, and are classified as Substandard, Doubtful or Loss, and reviewed and reserved for in the manner discussed above for loans of such classification.

See also "Item 1 – Business – Asset Quality."

Reserve for Loan Commitments. The Bank maintains a separate reserve within other liabilities associated with commitments to fund future loans that have been accepted by the borrower. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve amount are obtained via a transfer of reserves from the Bank's allowance for loan losses, with any resulting shortfall in the Bank's allowance for loan losses being satisfied through the quarterly provision for loan losses. Any decreases in this reserve amount are recognized as a transfer of reserve balances back to the allowance for loan losses at each period end.

Reserve For the Recourse Exposure on Multifamily Loans Sold to FNMA. A reserve is also recorded related to certain multifamily residential real estate loans sold with recourse under an agreement with FNMA. This reserve, which is included in other liabilities, is determined in a manner similar to the Company's allowance for loan losses related to loans held in portfolio. See "Item 1 – Business - Reserve Liability on the Recourse Exposure on Multifamily Loans Serviced for FNMA" for a further discussion of this item.

Valuation of MSR. The cost of mortgage loans sold with servicing rights retained by the Bank is allocated between the loans and the servicing rights based on their estimated fair values at the time of the loan sale. In accordance with GAAP, MSR are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, anticipated net servicing income. The Company adopted SFAS No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156") effective January 1, 2007. SFAS 156 requires all separately recognized MSR to be initially measured at fair value, if practicable. The estimated fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, using estimated prepayment, default, servicing cost and discount rate assumptions. All estimates and assumptions utilized in the valuation of MSR are derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers.

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

Assumptions utilized in measuring the fair value of MSR for the purpose of evaluating impairment additionally include the stratification based on predominant risk characteristics of the underlying loans. Increases in the risk characteristics of the underlying loans from the assumed amounts would result in a decline in the fair value of the MSR. A valuation allowance is established in the event the recorded value of an individual stratum exceeds its fair value for the full amount of the difference.

Asset Impairment Adjustments. Certain assets are carried in the Company's consolidated statements of financial condition at fair value or at the lower of cost or fair value. Management periodically performs analyses to test for impairment of these assets. Two significant impairment analyses relate to the value of goodwill and other than temporary declines in the value of the Company's securities. In the event that an impairment of goodwill or an other than temporary decline in the value of the Company's securities is determined to exist, it is recognized as a charge to earnings.

Goodwill. Goodwill is accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 eliminates amortization of goodwill and instead requires performance of an annual impairment test at the reporting unit level. As of December 31, 2008, the Company had goodwill totaling \$55.6 million.

The Company identified a single reporting unit for purposes of its goodwill impairment testing, and thus performs its impairment test on a consolidated basis. The impairment test has two potential stages. In the initial stage, the Holding Company's market capitalization (reporting unit fair value) is compared to its outstanding equity (reporting unit carrying value). The Company utilizes closing price data for the Holding Company's common stock as reported on the Nasdaq National Market 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, 2008 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. However, subsequent to December 31, 2008, the price of the Holding Company's common stock declined to such a level that the Company's total market capitalization has, on occasion, fallen below its consolidated stockholders' equity. As a result, no assurance can be given that the Company will not recognize an impairment loss on goodwill during the year ending December 31, 2009. In the event that an impairment is recognized, it will not impact the Company's consolidated tangible equity or capital ratios, nor will it impact any of the Bank's requisite capital levels or ratios.

Valuation of Financial Instruments.

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 them to maturity.

At December 31, 2008, the Company owned eight pooled trust preferred securities classified as held-to-maturity. During the year ended December 31, 2008, the market for these securities was deemed to be illiquid. Prior to December 31, 2008, the valuation of these securities was obtained utilizing market quotations reflecting likely marketplace transaction prices. However, due to the lack of an active market for these securities, management elected to determine their fair value utilizing a cash flow valuation approach at December 31, 2008. Under the cash flow valuation methodology utilized, for five of the eight securities, three independent cash flow model valuations were averaged and given a 50% weighting. A

separate cash flow valuation for each of five these securities performed utilizing default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation") was given a 50% weighting. For the remaining three securities, only one independent cash flow valuation was available and was given a 50% weighting along with the Internal Cash Flow Valuation.

The major assumptions utilized in the Internal Cash Flow Valuation were as follows:

Discount rate – The discount rate utilized was derived from the Bloomberg fair market value curve for debt offerings of similar credit rating. In the event that a security had a split investment rating, separate cash flow valuations were made utilizing the appropriate discount rate and were averaged in order to determine the Internal Cash Flow Valuation.

Defaults - - All underlying issuers having Fitch bank rating of 5.0 were assumed to default. Underlying issuers with a Fitch bank rating of 3.5 through 4.5 were assumed to default at levels ranging from 5% to 75% based upon both their rating as well as whether they had been granted approval to receive funding under the TARP Capital Purchase Program.

Cash flows – The actual cash flows for the Company's investment tranche of each security, adjusted to assume that all estimated defaults occurred on January 1, 2009, and an estimated recovery of 6% over the cash flow period (*i.e.*, the remaining life of the security).

Two of the three independent cash flow valuations were made utilizing a similar methodology from the Internal Cash Flow Valuation, differing only in the underlying assumptions deriving their estimated cash flows, individual bank defaults and discount rate. The third independent cash flow valuation was derived from a different methodology in which the actual cash flow estimate based upon the underlying collateral of the securities (including default estimates) was not considered. Instead, this cash flow valuation was determined utilizing a discount rate determined from the Bloomberg fair market value curve for similar assets that still continue to trade actively, with adjustments made for the illiquidity of the pooled trust preferred market.

(See "Item 1 – Business – Investment Activities – Corporate Debt Obligations" for a further discussion of these securities).

Debt securities that are not classified as held-to-maturity, along with all equity securities, are classified as available-for-sale. The Company owned no securities classified as trading securities during the year ended December 31, 2008. Available-for-sale debt and equity securities that have readily determinable fair values are carried at fair value. All of the Company's available-for-sale securities at December 31, 2008 had readily determinable fair values, which were based on published or securities dealers' market values.

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in market value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a charge recorded in the Company's consolidated statements of operations. During the year ended December 31, 2008, unrealized losses of \$3.2 million were deemed other than temporary associated with two held-to-maturity pooled trust preferred securities. (See "Item 1. Business – Investment Activities – Corporate Debt Obligations"). No other than temporary impairments were recognized in the Company's securities portfolio during the year ended December 31, 2007. Total unrealized holding losses on securities were \$6.5 million at December 31, 2008, and included \$5.7 million of unamortized unrealized holding losses on securities that were transferred from available-for-sale to held-to-maturity on September 1, 2008. Unrealized holding gains totaled \$733,000 at December 31, 2007. See "Item 1 – Business – Investment Activities" for further discussion utilized in determining whether unrealized losses on securities were deemed other-than temporary.

Recognition of Deferred Tax Assets. Management reviews all deferred tax assets periodically. Upon such review, in the event that there is a greater likelihood that the deferred tax asset will not be fully realized, a valuation allowance is recognized against the deferred tax asset in the amount for which realization is determined to be more unlikely than likely to occur.

Unrecognized Tax Positions – The Company performs two levels of evaluation for all uncertain tax positions. Initially, a determination is made as to whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. In making its evaluation, management reviews applicable tax rulings and other advice provided by reputable tax professionals.

Loan Income Recognition. Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank does not recognize the interest from the third month and evaluates whether the accrual of interest associated with the first two missed payments should be 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 satisfy the outstanding principal balance (including any outstanding advances related to the loan) 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 for a period of at least 6 months.

Accounting for Defined Benefit Plans – Defined benefit plans are accounted for in accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of a benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's ALCO is responsible for general oversight and strategic implementation of the policy, and management of the appropriate departments are designated responsibility for implementing any strategies established by ALCO. On a daily basis, senior management receives a current cash position report and one-week forecast to ensure that all short-term obligations are satisfied timely and that adequate liquidity exists to fund future activities. On a monthly basis, reports detailing the Bank's liquidity reserves and forecasted cash flows are presented to both senior management and the Board of Directors. In addition on a monthly basis, a twelve-month liquidity forecast is presented to ALCO in order to assess potential future liquidity concerns. A summary of the financial plan, including cash flow data for the upcoming 12 months, is presented to the Board of Directors on an annual basis.

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security maturities, advances from the FHLBNY, and REPOS entered into with various financial institutions, including the FHLBNY. The Bank also sells selected multifamily residential, mixed use and one- to four-family residential real estate loans, to either FNMA or other private sector secondary market purchasers. The Company may additionally issue debt under appropriate circumstances. Although 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. It must additionally compete for deposit monies against the stock and bond markets, especially during periods of strong performance in those arenas. 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 market increases or declines in interest rates, its deposit flows should not be materially impacted, however, favorable performance of the equity or bond markets could adversely impact the Bank's deposit flows.

Retail branch and Internet banking deposits increased \$80.1 million during the year ended December 31, 2008, compared to an increase of \$171.5 million during the year ended

December 31, 2007. During the year ended December 31, 2008, CDs increased \$76.1 million and interest bearing checking accounts increased \$51.0 million. In September 2008, the Bank commenced a deposit gathering campaign offering a highly competitive short-term CD, coupled with the requirement that the customer establish and retain an active, minimum balance "Prime Dime" checking account. While initially resulting in higher deposit costs during the campaign period, the Bank's long-term goal is to establish a more cost effective and stable component of deposit funding and build core retail customer relationships. The success of this campaign resulted in the increases in CDs and interest bearing checking accounts during the year ended December 31, 2008. Partially offsetting these increases was a decline of \$45.6 million in money market deposits, as the Bank did not aggressively price these deposits for the great majority of 2008. During the majority of the year ended December 31, 2007, management elected to seek deposit growth as its primary source of funding, and thus the Company experienced an increase of \$12.4 million in CDs and \$164.2 million in money market accounts in 2007, due primarily to successful promotional campaigns.

During the year ended December 31, 2008, principal repayments totaled \$522.4 million on real estate loans and \$48.2 million on MBS. During the year ended December 31, 2007, principal repayments totaled \$324.4 million on real estate loans and \$33.3 million on MBS. The increase in principal repayments on loans related to an increase in borrower refinance activities (as loans originated in 2003 and 2004 approached their contractual interest rate reset dates), coupled with growth in the portfolio during the year ended December 31, 2008. The increase in principal paydowns on MBS resulted from the purchase of \$183.8 million of MBS during the year ended December 31, 2008 that increased their average balance by \$124.8 million compared to the year ended December 31, 2007. The Company does not presently believe that its future levels of principal repayments will be materially impacted by problems currently experienced in the residential mortgage market. See "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Quality" for a further discussion of the Bank's asset quality.

From December 2002 through December 31, 2008, the Bank originated and sold multifamily residential mortgage and mixed use loans in the secondary market to FNMA while retaining servicing and generating fee income while it services the loans. The Bank underwrote these loans using its customary underwriting standards, funded the loans, and sold them to FNMA at agreed upon pricing. Typically, the Bank sought to sell loans with terms to maturity or repricing in excess of seven years from the origination date since it did not desire to retain such loans in portfolio as a result of the heightened interest rate risk they possessed. Under the terms of the sales program, the Bank retains a recourse exposure on these sold loans. Once established, such amount continued to increase as long as the Bank sold loans to FNMA under the program. The Bank retains this exposure until the portfolio of loans sold to FNMA is satisfied in its entirety or the Bank funds claims by FNMA for the maximum loss exposure. During the years ended December 31, 2008 and 2007, the Bank sold FNMA \$27.5 million and \$71.4 million of loans, respectively, pursuant to this program. The reduction in sales activity during the year ended December 31, 2008 reflected less favorable offering rates by FNMA on new loans during the period. The Bank's contract to sell multifamily loans to FNMA expired on December 31, 2008.

In addition, during the years ended December 31, 2008 and 2007, the Bank sold participation interests in multifamily loans totaling \$114.6 million and \$6.1 million, respectively, to a third party financial institution. All of these loan participations remain fully serviced by the Bank, and were sold at par and without recourse, with a gain recognized for the value of the net servicing rights associated with the loans. These sales were made in order to permit the Bank to achieve its desired volume of lending without excessively leveraging capital.

During the year ended December 31, 2008, the Company increased its REPO borrowings by \$74.9 million and FHLBNY advances by \$313.2 million, respectively. These borrowings were added in order to fund real estate loan originations and purchases of MBS during the period, both of which significantly exceeded their respective 2007 levels. These borrowings enabled management to extend the average duration of the Company's liabilities, as the average cost of the new REPOS and FHLBNY advances was significantly lower than the cost of raising new, or retaining existing, retail deposit funding of similar durations. In addition, embedded within a portion of the added REPOS and FHLBNY advances were interest rate caps that provide a significant benefit to their average cost in the event of an increase in short-term interest rates. During the year ended December 31, 2007, the Company increased its REPO borrowings by \$34.8 million and FHLBNY advances by \$135.0 million, respectively. The REPO borrowings were added in order to fund real estate loan originations and ongoing Bank operations. The majority of the additional FHLBNY advances were undertaken late in 2007 when favorable pricing made that form of funding more desirable than promotional deposits.

In the event that the Bank should require funds beyond its ability to generate them internally, an additional source of funds is available through use of its borrowing line at the FHLBNY. At December 31, 2008, the Bank had an additional potential borrowing capacity of \$395.6 million available, provided it owned the minimum required level of FHLBNY common stock. The Holding Company additionally possessed a \$15.0 million committed line of credit agreement from a reputable financial institution. That agreement expired on December 31, 2008, and management is currently reviewing its replacement options. In addition, the Bank maintains an uncommitted line of credit for up to \$50.0 million with a reputable financial institution.

The Bank is subject to minimum regulatory capital requirements imposed by the OTS, which, as a general matter, are based on the amount and composition of an institution's assets. At December 31, 2008, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury and the payment of dividends on Holding Company common stock. During the years ended December 31, 2008 and 2007, real estate loan originations totaled \$1.09 billion and \$574.5 million, respectively. Purchases of investment securities (excluding short-term investments and federal funds sold) and MBS totaled \$189.3 million during the year ended December 31, 2008, compared to \$52.2 million during the year ended December 31, 2007. The increase in real estate loan originations resulted, in part, from increased borrower refinance activity, as real estate loans originated during 2003 and 2004 approached their contractual interest rate repricing dates. The increase in investment security and MBS purchases resulted from a decision to add these assets in order to achieve additional net interest income from the positive spread between the average yield on the securities and the average cost of the REPOS and FHLBNY advances utilized to fund the purchases. Purchases of investment securities and MBS were lower during the year ended December 31, 2007 as the Company elected to retain excess funds in federal funds sold and other short-term investments while short-term rates equaled or exceeded medium and long-term rates.

During the year ended December 31, 2008, the Holding Company repurchased 51,000 shares of its common stock into treasury. All shares repurchased were recorded at the acquisition cost, which totaled \$654,000 during the period. Share repurchase levels were significantly lower during the year ended December 31, 2008 than the year ended December 31, 2007 as management elected to retain additional capital while resuming loan growth during the year ended December 31, 2008. As of December 31, 2008, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the \$13.30 per share closing price of its common stock as of December 31, 2008, the Holding Company would utilize \$15.0 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

During the year ended December 31, 2008, the Company paid \$18.3 million in cash dividends on its common stock, compared to \$19.0 million during the year ended December 31, 2007. The reduction reflected a decline of 814,000 in the average basic shares of common stock outstanding during the year ended December 31, 2008 compared to the year ended December 31, 2007, that resulted primarily from 2.3 million shares of treasury stock repurchased during 2007.

Contractual Obligations

The Bank has outstanding at any time, a significant number of borrowings in the form of FHLBNY advances or REPOS, as well as fixed interest obligations on CDs. The Holding Company also has an outstanding \$25.0 million non-callable subordinated note payable due to mature in 2010, and \$72.2 million of trust preferred borrowings due to mature in April 2034, which are callable at any time after April 2009. The Holding Company currently does not intend to call this debt.

The Bank is obligated under leases for certain rental payments due on its branches and equipment. A summary of CDs, borrowings and lease obligations at December 31, 2008 is as follows:

Contractual Obligations	Payments Due By Period				Total
	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	
	(Dollars in thousands)				
CDs	\$986,226	\$122,435	\$44,505	\$-	\$1,153,166
Weighted average interest rate of CDs (1)	3.58%	3.65%	4.19%	-	3.61%
Borrowings	\$230,000	\$289,900	\$379,775	\$447,165	\$1,346,840
Weighted average interest rate of borrowings	4.03%	4.40%	3.72%	4.57%	4.20%
Operating lease obligations	\$2,062	\$4,056	\$3,706	\$17,272	\$27,096
Minimum data processing system obligation	\$752	\$1,004	-	-	\$1,756

(1) The weighted average cost of CDs, inclusive of their contractual compounding of interest, was 3.69% at December 31, 2008.

The Company had a reserve recorded related to unrecognized income tax benefits totaling \$1.2 million at December 31, 2008. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all liabilities pursuant to FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" that were not paid by December 31, 2008 have been excluded from the tabular disclosure of contractual obligations.

Off-Balance Sheet Arrangements

The Bank implemented a program in December 2002 to originate and sell multifamily residential mortgage loans in the secondary market to FNMA while retaining servicing. The Bank is required to retain a recourse obligation on all loans sold under this program, which will remain in effect until either the entire portfolio of loans sold to FNMA is satisfied or the Bank funds claims by FNMA for the full balance of the recourse obligation.

In addition, as part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are subject to strict credit control assessments. Since many of these loan commitments expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows. The following table presents off-balance sheet arrangements as of December 31, 2008:

	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
(Dollars in thousands)					
Credit Commitments:					
Available lines of credit	\$55,097	\$-	\$-	\$-	\$55,097
Other loan commitments	49,928	-	-	-	49,928
Recourse obligation on loans sold to FNMA	21,865	-	-	-	21,865
Total Credit Commitments	\$126,890	\$-	\$-	\$-	\$126,890

Analysis of Net Interest Income

The Company's profitability, like that of most banking institutions, is dependent primarily 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, 2008, 2007 and 2006, 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 material changes in average balances and interest income or expense are discussed in the sections entitled "Interest Income" and "Interest Expense" in the comparison of operating results commencing on page F-54.

For the Year Ended December 31,									
2008			2007			2006			
(Dollars in Thousands)									
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:									
Interest-earning assets:									
Real estate loans (1)	\$3,088,242	\$182,934	5.92%	\$2,775,397	\$165,221	5.95%	\$2,649,623	\$155,510	5.87%
Other loans	1,790	166	9.27	1,823	178	9.77	1,978	190	9.61
Investment securities	32,230	1,950	6.05	26,683	2,011	7.54	32,609	2,276	6.98
MBS	280,307	12,685	4.53	155,462	6,344	4.08	177,490	6,850	3.86
Federal funds sold and other short-term investments	110,202	4,919	4.46	146,094	8,406	5.75	116,447	5,984	5.14
Total interest-earning assets	<u>3,512,771</u>	<u>\$202,654</u>	5.77	<u>3,105,459</u>	<u>\$182,160</u>	5.87	<u>2,978,147</u>	<u>170,810</u>	5.74%
Non-interest earning assets	197,153			157,559			148,493		
Total assets	<u>\$3,709,924</u>			<u>\$3,263,018</u>			<u>\$3,126,640</u>		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest bearing checking accounts	\$91,988	\$2,200	2.39%	\$44,406	\$833	1.88%	\$35,475	\$361	1.02%
Money Market accounts	655,853	18,551	2.83	630,375	24,238	3.85	463,885	12,038	2.60
Savings accounts	273,720	1,535	0.56	287,420	1,631	0.57	317,572	1,866	0.59
CDs	1,017,951	37,692	3.70	1,072,678	49,059	4.57	1,019,562	42,394	4.16
Borrowed Funds	1,202,581	51,324	4.27	750,822	35,386	4.71	797,318	36,681	4.60
Total interest-bearing liabilities	<u>3,242,093</u>	<u>\$111,302</u>	3.43	<u>2,785,701</u>	<u>\$111,147</u>	3.99	<u>2,633,812</u>	<u>93,340</u>	3.54%
Non-interest bearing checking accounts	91,699			93,470			95,067		
Other non-interest-bearing liabilities	103,833			107,260			104,562		
Total liabilities	3,437,625			2,986,431			2,833,441		
Stockholders' equity	272,299			276,587			293,199		
Total liabilities and stockholders' equity	<u>\$3,709,924</u>			<u>\$3,263,018</u>			<u>\$3,126,640</u>		
Net interest spread (2)			2.34%			1.88%			2.19%
Net interest income/ interest margin (3)		\$91,352	2.60%		\$71,013	2.29%		\$77,470	2.60%
Net interest-earning assets	<u>\$270,678</u>			<u>\$319,758</u>			<u>\$344,335</u>		
Ratio of interest-earning assets to interest-bearing liabilities			108.35%			111.48%			113.07%

(1) In computing the average balance of real estate loans, non-performing loans have been included. Interest income on real estate loans includes loan fees as defined under SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17." Interest income on real estate loans also includes applicable prepayment fees and late charges under SFAS 91.

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

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

Rate/Volume Analysis. 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 volume and the changes due to rate.

	Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 Increase/ (Decrease) Due to			Year Ended December 31, 2007 Compared to Year Ended December 31, 2006 Increase/ (Decrease) Due to			Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 Increase/ (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in Thousands)								
Interest-earning assets:									
Real Estate Loans	\$16,152	\$1,561	\$17,713	\$6,828	\$2,883	\$9,711	\$6,818	\$250	\$7,068
Other loans	(4)	(8)	(12)	(12)	-	(12)	(37)	13	(24)
Investment securities	276	(337)	(61)	(357)	92	(265)	(1,927)	1,601	(326)
MBS	4,818	1,523	6,341	(719)	213	(506)	(5,475)	626	(4,849)
Federal funds sold and other short-term investments	(1,811)	(1,676)	(3,487)	1,516	906	2,422	(3,487)	2,716	(771)
Total	\$19,431	\$1,063	\$20,494	\$7,256	\$4,094	\$11,350	\$(4,108)	\$5,206	\$1,098
Interest-bearing liabilities:									
Interest bearing checking accounts	\$933	\$434	\$1,367	\$156	\$316	\$472	\$(54)	\$7	\$(47)
Money market accounts	(\$73)	(\$5,614)	(\$5,687)	5,547	6,653	12,200	(3,107)	5,372	2,265
Savings accounts	(66)	(30)	(96)	(160)	(75)	(235)	(204)	127	(77)
CDs	(3,129)	(8,238)	(11,367)	2,595	4,070	6,665	1,342	12,118	13,460
Borrowed funds	17,168	(1,230)	15,938	(1,776)	481	(1,295)	(481)	879	398
Total	\$14,833	(\$14,678)	\$155	6,362	11,445	17,807	(2,504)	18,503	15,999
Net change in net interest income	\$4,598	\$15,741	\$20,339	\$894	\$(7,351)	\$(6,457)	\$(1,604)	\$(13,297)	\$(14,901)

Comparison of Financial Condition at December 31, 2008 and December 31, 2007

Assets. Assets totaled \$4.06 billion at December 31, 2008, an increase of \$554.4 million from total assets of \$3.50 billion at December 31, 2007.

Real estate loans increased \$415.3 million during the year ended December 31, 2008, due primarily to originations of \$1.09 billion during the period (as marketplace competition diminished and new origination rates remained favorable for the Bank to pursue a higher lending volume compared to 2007), that were partially offset by amortization of \$522.4 million and sales of \$151.0 million.

MBS available-for-sale increased \$138.6 million during the year ended December 31, 2008, as purchases of \$183.8 million and an increase in their fair value of \$3.4 million were partially offset by principal repayments of \$48.2 million during the period.

Cash and due from banks increased \$109.3 million during the year ended December 31, 2008. The reduction in yields offered on federal funds investments coupled with deposit inflows late in 2008 resulted in an unusually high level of cash balances at December 31, 2008. These balances are expected to be deployed in some capacity during 2009.

Federal funds sold and other short-term investments declined \$128.0 million, as the reduction in yield offered on these short-term investments made them undesirable.

The Company acquired an additional \$14.4 million of FHLBNY common stock during the year ended December 31, 2008 in order to satisfy the requisite ownership levels necessary to obtain additional FHLBNY advances during the period. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of requisite ownership of FHLBNY common stock).

Liabilities. Total liabilities grew \$546.3 million during the year ended December 31, 2008, reflecting increases of \$74.9 million in REPOS, \$313.2 million in FHLBNY advances, \$80.1 million in retail branch and Internet banking deposits, and \$77.9 million in escrow and other deposits during the period. The increase in escrow and other deposits resulted from the significant increase in real estate loans, on which the Bank maintains escrow and other related deposits, during the year ended December 31, 2008. (See "Item 7. Management's

Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of increases in REPOS, FHLBNY advances and retail branch and Internet banking deposits during the period).

Stockholders' Equity. Stockholders' equity increased \$8.1 million during the year ended December 31, 2008, due primarily to net income of \$28.0 million, amortization of stock benefit plans of \$2.9 million, and \$2.5 million of proceeds received in consideration for shares issued in connection with the exercise of stock options, all of which were partially offset by dividend payments of \$18.3 million, treasury stock repurchases of \$654,000, and an increase of \$6.8 million in the accumulated other comprehensive loss component of stockholders' equity. The increase in accumulated other comprehensive loss related to both an increase in the unfunded status of the Bank's defined benefit plans during the year ended December 31, 2008, as well as an unrealized loss on trust preferred securities that were classified as available-for-sale prior to being transferred to held-to-maturity during the period.

Comparison of Financial Condition at December 31, 2007 and December 31, 2006

Assets. Assets totaled \$3.50 billion at December 31, 2007, an increase of \$327.8 million from total assets of \$3.17 billion at December 31, 2006.

Real estate loans increased \$173.7 million during the year ended December 31, 2007, due primarily to originations of \$574.5 million during the period (as interest rates offered on new loans continued to stimulate origination activity), that were partially offset by amortization of \$324.4 million and sales to third parties of \$77.6 million.

Cash and due from banks and federal funds sold and other short-term investments increased by \$75.4 million and \$49.3 million, respectively, during the year ended December 31, 2007, as the Company added FHLBNY advances late in the year ended December 31, 2007, and held the funds in cash and due from banks and federal funds sold and other short-term investments at year-end. In future periods, these funds are anticipated to be invested in higher-yielding investment securities, MBS and real estate loans to the extent permissible under the Bank's regulations.

Liabilities. During the year ended December 31, 2007, total liabilities increased \$349.6 million, reflecting increases of \$171.5 million in deposits, \$34.8 million in REPOS and \$135.0 million in FHLBNY advances during the period. (See "Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the deposit, FHLBNY advances and REPO increases during the period).

Stockholders' Equity. Stockholders' equity decreased \$21.8 million during the year ended December 31, 2007, due to treasury stock repurchases of \$29.6 million, cash dividends on the Holding Company's common stock of \$19.0 million and a reduction to equity of \$1.7 million related to an additional reserve recorded by the Company upon adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

Partially offsetting these items were increases to equity during the period resulting from the following: (i) net income of \$22.4 million; (ii) \$2.0 million related to amortization of the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (the "ESOP") and restricted stock awards issued under other stock benefit plans; and (iii) \$958,000 of cash dividends re-assumed through the liquidation of the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc. The ESOP and restricted stock awards are initially recorded as reductions in stockholders' equity ("Contra Equity Balances"). As compensation expense is recognized on the ESOP and restricted stock awards, the Contra Equity Balances are reduced in a corresponding amount, 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 recorded ESOP and restricted stock award expenses.

Comparison of Operating Results for the Years Ended December 31, 2008 and 2007

General. Net income was \$28.0 million during the year ended December 31, 2008, an increase of \$5.6 million from net income of \$22.4 million during the year ended December 31, 2007. During the comparative period, net interest income increased \$20.3 million, the provision for loan losses increased \$1.8 million, non-interest income declined \$7.6 million and non-interest expense increased \$4.5 million, resulting in an increase in pre-tax net income of \$6.5 million. Income tax expense increased \$911,000 during the comparative period due to the increased pre-tax earnings.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2008 and 2007 presented below should be read in conjunction with the tables on pages F-52 and F-53, which set forth certain information related to the condensed consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

During the year ended December 31, 2008, FOMC monetary policies resulted in a 425 basis point reduction of the overnight federal funds rate from 4.25% to near zero percent. This reduction significantly exceeded the decline in medium- and long-term interest rates offered throughout the financial markets, thus creating a steeper market interest rate yield curve during the period. This trend favorably impacted the Company's net interest income and net interest margin during the year ended December 31, 2008 compared to the year ended December 31, 2007.

Net interest income for the year ended December 31, 2008 increased \$20.3 million to \$91.4 million, from \$71.1 million during the year ended December 31, 2007. The increase was attributable to an increase of \$20.5 million in interest income that was partially offset by an increase of \$155,000 in interest expense. The net interest spread increased 46 basis points, from 1.88% for the year ended December 31, 2007 to 2.34% for the year ended December 31, 2008, and the net interest margin increased 31 basis points, from 2.29% to 2.60% during the same period.

The increases in both net interest spread and net interest margin reflected a decrease of 56 basis points in the average cost of interest bearing liabilities. This decrease resulted primarily from declines in the average cost of money market deposits and CDs of 102 basis points and 87 basis points, respectively, during the comparative period, reflecting the aforementioned reduction in short-term interest rates during 2008.

Interest Income. Interest income was \$202.7 million during the year ended December 31, 2008, an increase of \$20.5 million, from \$182.2 million, during the year ended December 31, 2007. This resulted primarily from increases in interest income of \$17.7 million and \$6.3 million on real estate loans and MBS, respectively, that were partially offset by a decline of \$3.5 million in interest income on federal funds sold and other short-term investments.

The increase in interest income on real estate loans resulted from growth in their average balance of \$312.8 million during the year ended December 31, 2008 compared to the year ended December 31, 2007, reflecting originations of \$1.09 billion during 2008, which were partially offset by principal repayments of \$522.4 million and loan sales of \$151.0 million during the same period.

The increase in interest income on MBS resulted from an increase of \$124.8 million in their average balance coupled with an increase of 45 basis points in their average yield during the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in average balance resulted from \$183.8 million of MBS purchases during the period October 2007 through September 2008, that were partially offset by \$48.2 million in principal repayments during the same period. The increase in average yield on MBS reflected the steeper yield curve during the year ended December 31, 2008, as increases in yields on these securities that resulted from tightening of monetary policy by the FOMC during 2006 and 2007 were not adversely impacted by the reduction in short-term interest rates that resulted from FOMC monetary policy during 2008.

The decrease in interest income on federal funds sold and other short-term investments resulted from a decline of \$35.9 million in their average balance (as these liquid investments were utilized to fund real estate loans and MBS purchases during the year ended December 31, 2008), along with a reduction of 129 basis points in their average yield (reflecting lower federal funds and benchmark short-term interest rates during the year ended December 31, 2008 as a result of FOMC monetary policy actions).

Interest Expense. Interest expense increased \$155,000, to \$111.3 million, during the year ended December 31, 2008, from \$111.1 million during the year ended December 31, 2007. The additional expense resulted primarily from increased interest expense of \$15.9 million on borrowed funds and \$1.4 million on interest bearing checking accounts, that was largely offset by declines in interest expense of \$5.7 million and \$11.4 million on CDs and money market accounts, respectively.

The increase in interest expense on borrowed funds resulted from \$451.8 million of growth in their average balance during the year ended December 31, 2008 compared to the year ended December 31, 2007, as the Company added \$668.0 million of REPOS and FHLBNY advances during the period October 1, 2007 through December 31, 2008 in order to fund operational requirements and help maintain pricing discipline on deposits.

The increase of \$1.4 million in interest expense on interest bearing checking accounts resulted from an increase of \$47.6 million in their average balance, coupled with an

increase of 51 basis points in their average cost during the period, both of which reflected growth in Prime Dime interest bearing checking accounts that began in the second half of 2007 and continued during the year ended December 31, 2008, as these accounts have traditionally carried a higher cost than other interest bearing checking accounts.

The decline in interest expense on CDs resulted from decreases of both \$54.7 million in their average balance and 87 basis points in their average cost during the year ended December 31, 2008 compared to the year ended December 31, 2007. The decline in average cost reflected lower offering rates during the year ended December 31, 2008, as short-term market interest rates, which influence the pricing of CDs, declined by 425 basis points during the year ended December 31, 2008. The decline in average balance of CDs reflected deposit pricing strategies implemented by the Bank during the majority of the year ended December 31, 2008 which de-emphasized the use of CDs as a funding source.

The decrease in interest expense on money market accounts was due to a decline of 102 basis points in their average rate, as the Bank lowered offering rates on money market accounts from March through September 2008 in response to the reduction in benchmark short-term interest rates during 2008. The decrease in average rate was partially offset by a \$25.5 million increase in the average balance of money markets during the year ended December 31, 2008 compared to the year ended December 31, 2007, that was attributable to a combination of two factors. The balance of money markets increased during 2007 through successful promotional activities. In addition, the Bank's offering rates on money market accounts lagged the decline in short-term interest rates in the financial markets during most of the first six months of 2008. As a result, the Bank retained a large portion of its money market balances during this period, contributing to their increased average balance during the year ended December 31, 2008 compared to the year ended December 31, 2007.

Provision for Loan Losses. The provision for loan losses was \$2.0 million during the year ended December 31, 2008, an increase of \$1.8 million over the provision of \$240,000 recorded during the year ended December 31, 2007. The increase in the provision for loan losses during the year ended December 31, 2008 primarily reflected the following items: 1) the significant growth in the Bank's loan portfolio during the year ended December 31, 2008; and 2) the increase in non-accrual and other problem loans from December 31, 2007 to December 31, 2008, along with deteriorating conditions in the Bank's local real estate marketplace that resulted in a higher level of estimated loan loss reserves on these non-accrual and other problem loans.

Non-Interest Income. Non-interest income decreased \$7.6 million, from \$10.4 million during the year ended December 31, 2007 to \$2.8 million during the year ended December 31, 2008. The decline resulted primarily from a reduction in net mortgage banking income of \$3.7 million attributable to provisions to net mortgage banking income of \$3.9 million recognized during the year ended December 31, 2008 for an increase to the reserve liability for losses on loans sold to FNMA with recourse. (See "Item 1 – Business - Reserve Liability on the Recourse Exposure on Multifamily Loans Serviced for FNMA" for a further discussion of the provisions to the book reserve for losses on loans sold with partial recourse).

In addition, during the year ended December 31, 2008, the Company recognized an other-than temporary impairment charge of \$3.2 million related to two pooled trust preferred securities, and a loss of \$129,000 on the sale of two OREO properties. There were no other-than temporary impairment charges recognized on securities or sales of either securities or OREO during the year ended December 31, 2007.

The remainder of the decline in non-interest income resulted primarily from a non-recurring \$546,000 BOLI settlement the Bank received during the year ended December 31, 2007.

Non-Interest Expense. Non-interest expense was \$50.0 million during the year ended December 31, 2008, an increase of \$4.5 million from \$45.5 million during the year ended December 31, 2007.

Salaries and employee benefits increased \$2.3 million during the comparative period as a result of regular increases to existing employee compensation levels, along with management and staff positions required for two retail branch openings in 2008 and other general staff increases during the period. Stock benefit plan amortization expense increased \$906,000, reflecting equity awards granted to officers in July 2008 along with higher ESOP expense resulting from an increase in the Holding Company's common stock price during the year ended December 31, 2008 compared to the year ended December 31, 2007.

Occupancy and equipment expense increased by \$536,000 during the comparative period, due primarily to the opening of the Borough Park branch in March 2008 and the Brooklyn Heights branch in December 2008 (for which the Bank paid rental expense commencing in January 2008), along with a substantial increase in the monthly rental cost of the Bank's Bronx branch commencing in late 2007. Federal deposit insurance costs increased \$641,000 as a result of an insurance fund re-capitalization plan implemented by the FDIC in late 2006.

Other non-interest expenses (including advertising expenses) increased \$223,000, primarily as a result of additional professional fees related to various consultation matters.

Non-interest expense was 1.35% of average assets during the year ended December 31, 2008, compared to 1.39% during the year ended December 31, 2007. This ratio declined despite the increase in non-interest expense during the comparative period due to growth of \$446.9 million in average assets.

Income Tax Expense. Income tax expense increased \$911,000 during the year ended December 31, 2008 compared to the year ended December 31, 2007, due to an increase of \$6.5 million in pre-tax income during the period. Partially offsetting this increase were non-recurring reductions to income tax expense during the year ended December 31, 2008 of \$662,000 from the reduction in the reserve for unrecognized tax benefits, and \$275,000 from adjustments related to completion of the June 2007 and December 2007 tax returns. These non-recurring items reduced the actual effective tax rate for the year ended December 31, 2008 to 33.5%.

Comparison of Operating Results for the Year Ended December 31, 2007 and 2006

General. Net income was \$22.4 million during the year ended December 31, 2007, a decrease of \$8.1 million from net income of \$30.6 million during the year ended December 31, 2006. During the comparative period, net interest income declined \$6.5 million, non-interest income decreased \$2.0 million due primarily to a change in the net gains or losses on the disposal of assets, and non-interest expense increased \$3.5 million, resulting in a reduction in pre-tax net income of \$12.0 million. Income tax expense decreased \$3.8 million during the comparative period, primarily as a result of the decrease in pre-tax net income.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2007 and 2006 presented below should be read in conjunction with the tables on pages F-52 and F-53, which set forth certain information related to the condensed consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

Net interest income for the year ended December 31, 2007 decreased \$6.5 million to \$71.0 million, from \$77.5 million during the year ended December 31, 2006. The decrease was attributable to an increase of \$17.8 million in interest expense that was partially offset by an increase of \$11.4 million in interest income. The net interest spread decreased 31 basis points, from 2.19% for the year ended December 31, 2006 to 1.88% for the year ended December 31, 2007, and the net interest margin decreased 31 basis points, from 2.60% to 2.29% during the same period.

The increase in funding costs resulting from the tightening of monetary policy by the FOMC during the first six months of 2006 that remained in effect for the majority of 2007, in combination with various market factors suppressing increases in both general long-term interest rates and interest rates offered on real estate loans within the Bank's lending market, resulted in a narrowing spread between short and long-term interest rates during the great majority of the year ended December 31, 2007, which negatively impacted net interest income during the year ended December 31, 2007. While these conditions improved late in 2007, the benefit occurred too late in the year to provide any significant favorable impact during the year ended December 31, 2007.

The decreases in both the net interest spread and net interest margin reflected an increase of 45 basis points in the average cost of interest bearing liabilities. The increase resulted primarily from increases in the average cost of money market deposits and CDs of 125 basis points and 41 basis points, respectively, during the comparative period, reflecting increases in short-term interest rates during the first six months of 2006 that remained in effect throughout the great majority of 2007. (See "Interest Expense" below).

Interest Income. Interest income was \$182.2 million during the year ended December 31, 2007, an increase of \$11.4 million from \$170.8 million during the year ended December 31, 2006. This resulted primarily from increases of \$9.7 million and \$2.4 million in interest income on real estate loans and other short-term investments, respectively, that were partially offset by decreases in interest income on MBS and investment securities of \$506,000 and \$266,000, respectively, during the period.

The increase in interest income on real estate loans resulted, in part, from growth in their average balance of \$125.8 million during the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase reflected originations of \$574.5 million in 2007, which were partially offset by principal repayments of \$324.4 million and loan sales of \$77.6

million during the period. The increase in interest income on real estate loans additionally resulted from an increase in the average yield from 5.87% during the year ended December 31, 2006 to 5.95% during the year ended December 31, 2007, that was attributable to higher medium- and long-term interest rates throughout much of the year ended December 31, 2007 compared to the year ended December 31, 2006.

The increase in interest income on other short-term investments resulted from growth in their average balance of \$29.6 million during the year ended December 31, 2007 compared to the year ended December 31, 2006 coupled with an increase of 61 basis points in their average yield during the same period. The increase in average balance reflected cash flows from deposit growth during 2007 that were retained in short-term securities and federal funds sold, since the flattened yield curve provided benefits to retaining the funds in short-term investments. The increase in average yield reflected increases in short-term interest rates throughout 2006 that remained in effect throughout the great majority of 2007. The actions of the FOMC during the last few months of 2007 resulting in lower short-term interest rates had only a minor effect upon short-term investment yields during the year ended December 31, 2007 since they occurred so late in the period.

The decline in interest income on MBS during the year ended December 31, 2007 compared to the year ended December 31, 2006 resulted from a decreased average balance of \$22.0 million (resulting from \$33.3 million and \$39.4 million in principal repayments during the years ended December 31, 2007 and 2006, respectively, that were partially offset by purchases of \$38.0 million during 2007), that was partially offset by an increase of 22 basis points in average yield during the year ended December 31, 2007 compared to the year ended December 31, 2006 (resulting from increases in short and medium-term interest rates throughout 2006 which remained in effect throughout the great majority of 2007). The decline in interest income on investment securities reflected a decrease in their average balance of \$5.9 million during the year ended December 31, 2007 compared to the year ended December 31, 2006, as cash flows from maturing investment securities were utilized to fund real estate loan originations or Bank operations.

Interest Expense. Interest expense increased \$17.8 million, to \$111.1 million, during the year ended December 31, 2007, from \$93.3 million during the year ended December 31, 2006. The growth resulted primarily from increased interest expense of \$12.2 million related to money markets and \$6.7 million related to CDs, that was partially offset by a decline of \$1.3 million in interest expense on borrowings.

The increase in interest expense on money markets was due to increases of 125 basis points in their average cost and \$166.5 million in their average balance during the comparative period. During the year ended December 31, 2007, the Bank increased the rates offered on both promotional and non-promotional money market accounts, which led to the increase in average cost during the period. In addition, the Bank grew its balance of money markets during 2007 through successful promotional activities.

The increase in interest expense on CDs resulted, in part, from an increase in their average cost of 41 basis points during the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase in average cost resulted from increases in short-term interest rates throughout 2006 that remained in effect throughout the great majority of 2007, as a significant majority of the Bank's CDs re-priced during 2007. In addition, the average balance of CDs increased \$53.1 million during the comparative period, reflecting successful gathering of new CDs from promotional activities during 2007. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

The decrease in interest expense on borrowed funds during the year ended December 31, 2007 compared to the year ended December 31, 2006 was due to a decline of \$46.5 million in average balance during the period as the Company elected not to replace maturing borrowings throughout much of 2007 while deposit balances were increasing. The average cost of borrowed funds increased 11 basis points during the year ended December 31, 2007 compared to the year ended December 31, 2006, due primarily to a reduction of \$807,000 in borrowing expense recorded during 2006 related to borrowing restructurings. (See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the change in borrowing balances during the years ended December 31, 2007 and 2006).

Provision for Loan Losses. The provision for loan losses was \$240,000 during the years ended both December 31, 2007 and December 31, 2006, as the Bank provided for additional inherent losses in the portfolio.

Non-Interest Income. Non-interest income, excluding gains or losses on the sale of assets, increased \$337,000 from \$9.3 million during the year ended December 31, 2006 to \$9.7 million during the year ended December 31, 2007. This increase resulted primarily from a \$546,000 BOLI benefit payment received by the Bank during 2007.

Net gains on the sale of loans and other assets (which were recorded as non-interest income) declined from \$3.1 million during the year ended December 31, 2006 to \$750,000 during

the year ended December 31, 2007. The Company sold loans to FNMA totaling \$71.6 million and \$145.4 million during the years ended December 31, 2007 and 2006, respectively. The gains recorded on these sales were \$750,000 and \$1.5 million during the years ended December 31, 2007 and 2006, respectively. During the year ended December 31, 2006, the Company additionally recorded non-recurring pre-tax gains of \$478,000 on the sale of a property obtained in its 1999 acquisition of Financial Bancorp, Inc. and \$1.1 million on the sale of mutual fund investments associated with its Benefit Maintenance Plan.

Non-Interest Expense. Non-interest expense was \$45.5 million during the year ended December 31, 2007, an increase of \$3.5 million from the year ended December 31, 2006.

Salaries and employee benefits increased \$1.3 million during the comparative period as a result of regular increases to existing employee compensation levels. Stock benefit plan amortization expense increased \$671,000 as a result of stock option awards granted on May 1, 2007 to outside directors and certain officers of the Company.

Occupancy and equipment expense increased \$669,000 during the year ended December 31, 2007 compared to the comparable period of 2006 due to general increases in rental costs and real estate taxes, the expansion of administrative office space during 2007, and a \$239,000 charge related to the early termination of leased equipment.

Data processing expense increased \$37,000 during the comparative period as a result of increased loan and deposit account activity during the year ended December 31, 2007 compared to the year ended December 31, 2006. Other expenses increased \$835,000 due primarily to increased advertising costs of \$452,000 resulting from increased promotional activities and an aggregate increase of \$499,000 in accounting and legal fees related primarily to a change in tax year-end along with added legal costs associated with new proxy compensation disclosures implemented in 2007.

Non-interest expense to average assets was 1.39% for the year ended December 31, 2007, compared to 1.34% for the year ended December 31, 2006. The increase reflected the growth in non-interest expense during the comparative period.

Income Tax Expense. Income tax expense decreased \$3.8 million during the year ended December 31, 2007 compared to the year ended December 31, 2006, due primarily to a decline of \$12.0 million in pre-tax net income during the period. The effective tax rate increased from 35.8% during the year ended December 31, 2006 to 37.1% during the year ended December 31, 2007 due primarily to the dissolution of a subsidiary in 2007.

Comparison of Operating Results for the Years Ended December 31, 2006 and 2005

General. Net income was \$30.6 million during the year ended December 31, 2006, a decrease of \$5.6 million from net income of \$36.2 million during the year ended December 31, 2005. Net interest income decreased \$14.9 million, non-interest income increased \$7.2 million and non-interest expense increased \$1.2 million, resulting in a decline in pre-tax net income of \$8.8 million. Income tax expense decreased \$3.2 million as a result of the decline in pre-tax net income.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2006 and 2005 presented below should be read in conjunction with the tables on pages F-52 and F-53, which set forth certain information related to the condensed consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

Net interest income for the year ended December 31, 2006 decreased \$14.9 million to \$77.5 million, from \$92.4 million during the year ended December 31, 2005. The decrease was attributable to an increase of \$16.0 million in interest expense that was slightly offset by an increase of \$1.1 million in interest income. The net interest spread decreased 47 basis points, from 2.66% for the year ended December 31, 2005 to 2.19% for the year ended December 31, 2006, and the net interest margin decreased 36 basis points, from 2.96% to 2.60% during the same period.

The tightening of monetary policy by the FOMC from the second half of 2004 through June 30, 2006, in combination with various market factors suppressing increases in both general long-term interest rates and interest rates offered on real estate loans within the Bank's lending market, resulted in a narrowing spread between short and long-term interest rates, which negatively impacted net interest income during the year ended December 31, 2006.

The decrease in both the net interest spread and net interest margin reflected an increase of 77 basis points in the average cost of interest bearing liabilities. The increase resulted

primarily from the following: (i) borrowings, which generally possess a higher average cost than deposits, became a larger percentage of the Bank's total interest bearing liabilities as a result of runoff in average deposit balances during 2006, and (ii) the average cost of money market deposits and CDs increased by 100 basis points and 121 basis points, respectively, during the comparative period, reflecting increases in short-term interest rates during 2006. (See "Interest Expense" below).

Partially offsetting the increase in the average cost of interest bearing liabilities was an increase of 31 basis points in the average yield on interest earning assets during the year ended December 31, 2006 compared to the year ended December 31, 2005. This increase resulted primarily from an increase in the average balance of real estate loans (the Bank's highest yielding interest earning asset) as a percentage of total interest earning assets, which was coupled with an increase in the average yields on real estate loans and MBS of 1 basis point and 25 basis points, respectively, during the comparative period. The increase in the composition of real estate loans as a percentage of interest earning assets resulted from both loan origination activity during 2006 coupled with a reduction in the level of investment securities and MBS during the same period, as cash flows from maturing investment securities and MBS were utilized to fund both loan originations and ongoing operations of the Company. The increase in average yield on real estate loans reflected ongoing increases in medium- and long-term interest rates during 2006. The increase in average yield on MBS reflected ongoing increases in short- and medium-term interest rates during 2006.

Interest Income. Interest income was \$170.8 million during the year ended December 31, 2006, an increase of \$1.1 million from the year ended December 31, 2005. Interest income on real estate loans increased \$7.1 million and was partially offset by decreases in interest income on MBS, investment securities and other short-term investments of \$4.8 million, \$326,000 and \$771,000, respectively, during the period.

The increase in interest income on real estate loans resulted primarily from growth in their average balance of \$116.4 million during the year ended December 31, 2006 compared to the year ended December 31, 2005. The growth reflected real estate loan originations of \$563.2 during 2006, which were partially offset by principal repayments and loan sales during the period.

The one basis point increase in average yield on real estate loans during the year ended December 31, 2006 compared to the year ended December 31, 2005 resulted from ongoing increases in medium and long-term interest rates from October 2005 through June 2006, which resulted in an increase in the average origination rate on real estate loans from 5.77% during the year ended December 31, 2005 to 6.43% during the year ended December 31, 2006.

The decline in interest income on MBS during the year ended December 31, 2006 compared to the year ended December 31, 2005 resulted from a decreased average balance of \$146.5 million (resulting primarily from the sale of \$236.9 million of MBS in May 2005 and principal repayments on MBS of \$39.4 million during 2006), that was partially offset by an increase of 25 basis points in average yield during the year ended December 31, 2006 compared to the year ended December 31, 2005 (resulting from increases in short and medium-term interest rates during 2006). The decline in interest income on investment securities and other short-term investments reflected declines in their average balances of \$35.7 million and \$81.4 million, respectively, during the year ended December 31, 2006 compared to the year ended December 31, 2005, as cash flows from maturing investment securities and other short-term investments were utilized to fund both loan originations and ongoing operations of the Company.

Interest Expense. Interest expense increased \$16.0 million, to \$93.3 million, during the year ended December 31, 2006, from \$77.3 million during the year ended December 31, 2005. The growth resulted primarily from increased interest expense of \$13.5 million related to CDs and \$2.3 million related to money market accounts.

The increase in interest expense on CDs resulted from an increase in their average cost of 121 basis points during the year ended December 31, 2006 compared to the year ended December 31, 2005. The increase in average cost resulted from increases in short-term interest rates during 2006, as most of the Bank's CDs outstanding at December 2005 matured during this timeframe. In addition, the average balance of CDs increased \$37.5 million during the period, reflecting successful gathering of new CDs from promotional activities during 2006. The increase of \$2.3 million in interest expense on money market accounts resulted from an increase of 100 basis points in average cost during 2006 that was attributable to increases in short-term interest rates during 2006. Partially offsetting the increased cost was a \$147.8 million decline in the average balance of money market accounts during 2006 that resulted primarily from a \$173.2 million decrease in money market accounts from June 30, 2005 through June 30, 2006, as management elected not to compete aggressively for money market balances during this time period.

Provision for Loan Losses. The provision for loan losses was \$240,000 during the year ended December 31, 2006, down from \$340,000 during the year ended December 31,

2005. The decline reflected an additional provision of \$100,000 taken during 2005 related to consumer loans. Otherwise the provisions taken in 2006 and 2005 reflected inherent losses in the Bank's real estate loan portfolio that resulted from ongoing originations.

Non-Interest Income. Non-interest income, excluding gains or losses on the sale of assets, totaled \$9.3 million during the year ended December 31, 2006, compared to \$9.4 million during the year ended December 31, 2005. There were no material changes in any individual item during the comparable period.

The Company sold loans to FNMA totaling \$145.4 million and \$108.5 million during the years ended December 31, 2006 and 2005, respectively. The gains recorded on these sales were \$1.5 million and \$924,000, respectively, during the years ended December 31, 2006 and 2005. The majority of the loans sold during both of these periods were designated for sale upon origination.

During the year ended December 31, 2006, the Company recorded a pre-tax gain of \$1.1 million on the sale of mutual fund investments associated with the Benefit Maintenance Plan of Dime Community Bancshares, Inc. During the year ended December 31, 2005, the Company incurred a pre-tax loss of \$5.2 million related to the sale of \$274.2 million of investment and mortgage-backed securities under a restructuring of its securities portfolio. During the year ended December 31, 2006, the Company sold a parcel of real estate obtained in its acquisition of Financial Bancorp, Inc. in 1999, recognizing a pre-tax gain of \$478,000.

Non-Interest Expense. Non-interest expense was \$42.0 million during the year ended December 31, 2006, an increase of \$1.2 million from the year ended December 31, 2005.

Salaries and employee benefits increased \$591,000 during the comparative period, reflecting normal salary increases as well as the filling of open and new staffing and management positions. Additions to staff occurred primarily in the retail division of the Bank, where initiatives included product and sales development for business and professional banking.

Occupancy and equipment expense increased \$369,000 during the year ended December 31, 2006 compared to the year ended December 31, 2005 due to both general increases in utility costs and real estate taxes as well as the addition of the Valley Stream branch in March 2006.

Data systems expense increased \$339,000 during the year ended December 31, 2006 compared to the year ended December 31, 2005, resulting from the expiration of promotional pricing the Company received throughout the first six months of 2005 from its new data systems vendor.

Non-interest expense to average assets was 1.34% during the year ended the December 31, 2006, compared to 1.24% for the year ended December 31, 2005. Average assets decreased by \$149.9 million during 2006 as a result of the previously discussed declines in the average balance of investment securities, MBS and other short-term investments during 2006.

Income Tax Expense. Income tax expense decreased \$3.2 million during the year ended December 31, 2006 compared to the year ended December 31, 2005, due primarily to a decline of \$8.8 million in pre-tax net income during the period.

Impact of Inflation and Changing Prices

The consolidated 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

For a discussion of the impact of recently issued accounting standards, please see Note 1 to the Company's consolidated financial statements that commence on page F-72.

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 NYC metropolitan area, is subject to risks associated with the local economy.

Real estate loans, the largest component of the Bank's interest earning assets, traditionally derived their current interest rates primarily from either the five- or seven-year constant maturity Treasury index. As a result, the Bank's interest earning assets were historically most sensitive to these benchmark interest rates. Dislocations in the credit markets during the year ended December 31, 2008 resulted in a lower level of sensitivity of the Bank's multifamily loans to these benchmark interest rates. Since the majority of the Bank's interest bearing liabilities mature within one year, its interest bearing liabilities are most sensitive to fluctuations in short-term interest rates.

Neither the Holding Company nor the Bank is subject to foreign currency exchange or commodity price risk. In addition, the Company owned 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 that required bifurcation during the years ended December 31, 2008 or 2007. 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 the following three primary components:

Assets. The Bank's largest single asset type is the adjustable-rate multifamily residential loan. Multifamily 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. Over 90% of multifamily residential loans originated during the years ended both December 31, 2008 and 2007 were adjustable rate, with repricing typically occurring after five or seven years. 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, 2008, adjustable-rate real estate and consumer loans totaled \$2.77 billion, or 68.4% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled \$128.3 million, or 3.2% of total assets. At December 31, 2007, adjustable-rate real estate and consumer loans totaled \$2.41 billion, or 68.8% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled \$53.6 million, or 1.5% 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, 2008, were \$1.11 billion, or 49.0% of total deposits. The balance of CDs as of December 31, 2008 was \$1.16 billion, or 51.0% of total deposits, of which \$996.2 million, or 85.5%, were to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2008 was 8.8 months compared to 5.8 months at December 31, 2007. The Bank generally prices its CDs in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year, and the increase in the average maturity of CDs during the year ended December 31, 2008 reflected promotional CDs with maturities of 12 months and higher that were added throughout 2008.

Wholesale Funds. The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to \$1.42 billion at December 31, 2008. The Bank borrows from the FHLBNY for various purposes. At December 31, 2008, the Bank had outstanding advances of \$1.02 billion from the FHLBNY, all of which were secured by a blanket lien on the Bank's loan portfolio.

The Bank has authority to accept brokered deposits as a source of funds and considers them a potential funding source. The Bank had no outstanding brokered deposits at either December 31, 2008 or December 31, 2007.

Interest Sensitivity Gap

The Bank regularly monitors its interest rate sensitivity through the 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 its 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 its net interest income, whereas an institution with a negative interest sensitivity gap would generally be expected to experience an increase in net 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, 2008 which are anticipated, based upon certain assumptions, to reprice, prepay or mature in each of the time periods shown. Except as stated below, the amounts of assets and liabilities shown repricing or maturing during a particular period reflect the earlier of term to repricing or maturity of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities which existed at December 31, 2008 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and selected subsequent time intervals. For purposes of presentation in the table, the Bank utilized its own 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 contractual interest rate adjustments or from reinvestment of cash flows generated from anticipated principal repayments (inclusive of early prepayments).

There are certain limitations inherent in the method of analysis presented in the table. For example, although certain assets and liabilities may possess similar maturities or periods to repricing, they are impacted by different market forces, and may therefore react differently to changes in 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 the interest rates charged, 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.

At December 31, 2008	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	\$331,084	\$181,401	\$288,047	\$1,270,151	\$896,478	\$324,344	-	\$3,291,505
Investment securities	10,861	-	-	-	361	16,241	-	27,463
MBS (2)	11,916	11,916	23,832	72,273	94,546	86,868	-	301,351
Cash and due from banks (3)	193,872	-	-	-	-	-	-	193,872
FHLBNY capital stock	53,435	-	-	-	-	-	-	53,435
Total interest-earning assets	601,168	193,317	311,879	1,342,424	991,385	427,453	-	3,867,626
Less:								
Allowance for loan losses	-	-	-	-	-	-	\$(17,454)	(17,454)
Net interest-earning assets	601,168	193,317	311,879	1,342,424	991,385	427,453	(17,454)	3,850,172
Non-interest-earning assets	-	-	-	-	-	-	205,426	205,426
Total assets	\$601,168	\$193,317	\$311,879	\$1,342,424	\$991,385	\$427,453	\$187,972	\$4,055,598
Interest-Bearing Liabilities								
Savings accounts	\$9,286	\$8,967	\$17,020	\$57,337	\$43,351	\$134,360	-	\$270,321
Interest bearing checking accounts	22,256	17,860	25,835	22,224	11,656	12,856	-	112,687
Money market accounts	125,050	100,353	145,161	124,872	65,493	72,238	-	633,167
CDs	247,047	276,444	462,735	122,435	44,505	-	-	1,153,166
Borrowed funds	40,000	45,000	145,000	264,900	379,775	375,000	-	1,249,675
Subordinated notes	-	-	-	25,000	-	-	-	25,000
Trust preferred securities	-	-	-	-	-	72,165	-	72,165
Interest-bearing escrow	-	-	-	-	-	1,278	-	1,278
Total interest-bearing liabilities	443,639	448,624	795,751	616,768	544,780	667,897	-	3,517,459
Non-interest bearing checking accounts	-	-	-	-	-	-	\$90,710	90,710
Other non-interest-bearing liabilities	-	-	-	-	-	-	170,465	170,465
Stockholders' equity	-	-	-	-	-	-	276,964	276,964
Total liabilities and stockholders' equity	\$443,639	\$448,624	\$795,751	\$616,768	\$544,780	\$667,897	\$538,139	\$4,055,598
Positive (Negative) interest sensitivity gap per period	\$157,529	\$(255,307)	\$(483,872)	\$725,656	\$446,605	\$(240,444)	-	-
Positive (Negative) cumulative interest sensitivity gap	\$157,529	\$(97,778)	\$(581,650)	\$144,006	\$590,611	\$350,167	-	-
Positive (Negative) cumulative interest sensitivity gap as a percent of total assets	3.88%	(2.41)%	(14.34)%	3.55%	14.56%	8.63%	-	-
Cumulative total interest-earning assets as a percent of cumulative total interest-bearing liabilities	135.51%	89.04%	65.54%	106.25%	120.73%	109.96%	-	-

(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, or contractual maturities or calls.

(2) Based upon historical repayment experience, and, where applicable, balloon payment dates.

(3) Amount represents funds placed on deposit with the Federal Reserve Bank of New York earning a nominal rate of interest that was higher than the federal funds sold offering rate at December 31, 2008. These balances are not included in the population of interest-earning assets in the net interest income table on page F-52.

At December 31, 2008, the Company's consolidated balance sheet was comprised primarily of assets that were estimated to mature or reprice within five years, with a significant portion maturing or repricing within one year. In addition, the Bank's deposit base was comprised primarily of savings accounts, money market accounts, interest and non-interest bearing checking accounts, and CDs with maturities of five years or less. At December 31, 2008, interest-bearing liabilities estimated to mature or reprice within one year totaled \$1.69 billion, while interest-earning assets estimated to mature or reprice within one year totaled \$1.11 billion, resulting in a negative one-year interest sensitivity gap of \$581.7 million, or negative 14.3% of total assets. In comparison, at December 31, 2007, interest-bearing liabilities estimated to mature or reprice within one year totaled \$1.52 billion, while interest-earning assets estimated to mature or reprice within one year totaled \$765.8 million, resulting in a negative one-year interest sensitivity gap of \$752.7 million, or negative 21.5% of total assets. The decrease in the magnitude of the one-year negative interest sensitivity gap resulted from an increase in the level of real estate loans scheduled to mature or reprice within one year (as loans originated during the refinance boom period of 2002 through 2004 approached their contractual repricing date) coupled with a decline in CDs maturing or repricing within one year, as a portion of the Bank's customers became more willing to accept CDs with maturities in excess of one year in order to lock in a fixed return while short-term interest rates were declining during 2008.

Under interest rate scenarios other than that which existed on December 31, 2008, 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 an analysis of the change in its 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 commitments to originate or sell loans or purchase securities.

Traditionally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. Increases in interest rates thus result in decreases in the fair value of interest-earning assets, which could adversely affect the Company's consolidated results of operations in the event 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. During the year ended December 31, 2008, dislocations in the credit markets resulted in a significantly lower correlation between changes in interest rates and changes in these fair values. 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 are reflected in stockholders' equity through other comprehensive income. As of December 31, 2008, the Company's consolidated securities portfolio included \$318.0 million in securities classified as available-for-sale, which possessed a gross unrealized loss of \$798,000. Neither the Holding Company nor the Bank owned any trading assets as of December 31, 2008 or 2007.

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") representing immediate, permanent, parallel shifts in the term structure of interest rates from the actual term structure observed in the Pre-Shock Scenario. The changes in NPV between the Pre-Shock Scenario and various Rate Shock Scenarios due to fluctuations in interest rates reflect the interest rate sensitivity of the Bank's assets, liabilities, and commitments to either originate or sell loans and/or purchase or sell securities that are included in 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").

An interest rate risk exposure compliance report is presented to the Bank's Board of Directors on a quarterly basis. The report, prepared in accordance with Thrift Bulletin 13a, compares the Bank's estimated Pre-Shock Scenario NPV to the estimated NPVs calculated under the various 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 three Rate Shock Scenarios and measures the dollar amount and percentage by which each of the Rate Shock Scenario NPVs changes 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 Scenario NPV Ratio. The greater the change, the greater the sensitivity of the Bank's assets and liabilities to changes in interest rates.

Rate Shock Scenario	At December 31, 2008					At December 31, 2007		
	Net Portfolio Value			NPV Ratio	Basis Point Change in NPV Ratio	NPV Ratio	Basis Point Change in NPV Ratio	Board Approved NPV Ratio Limit
	Dollar Amount	Dollar Change	Percentage Change					
	(Dollars in Thousands)							
+ 200 Basis Points	\$236,751	\$(60,083)	-20.24%	6.02%	(126)	7.79%	(211)	5.0%
+ 100 Basis Points	270,905	(25,929)	-8.74	6.77	(51)	9.00	(90)	6.0
Pre-Shock Scenario	296,834	-	-	7.28	-	9.90	-	7.0
- 100 Basis Points	312,334	15,500	5.22	7.54	26	10.25	35	7.0
- 200 Basis Points	N/A	N/A	N/A	N/A	N/A	10.14	24	7.0

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 obtained from reputable independent sources, such as values for the Bank's MBS and CMO portfolios, as well as its puttable borrowings. The Bank's valuation model makes various estimates regarding cash flows from principal repayments on loans and passbook Deposit Decay Rates at each level of interest rate change. The Bank's estimates for loan repayment 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 fee protection inherent in the loan portfolio when estimating future repayment cash flows.

Regarding passbook Deposit Decay Rates, the Bank tracks and analyzes the decay rate of its passbook deposits over time and over various interest rate scenarios and then makes estimates of its passbook Deposit Decay Rate for use in the valuation model. No matter the care and precision with which the estimates are derived, actual cash flows for passbooks, as well as loans, 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 Pre-Shock Scenario NPV declined from \$346.9 million at December 31, 2007 to \$296.8 million at December 31, 2008. The NPV Ratio at December 31, 2008 was 7.28% in the Pre-Shock Scenario, a decrease from the NPV Ratio of 9.90% in that Scenario at December 31, 2007. The decrease in the Pre-Shock Scenario NPV was due primarily to an increase in the valuation of borrowings (which negatively impact NPV) that resulted from both increased volume and from declines in short and medium-term term interest rates at December 31, 2008 compared to December 31, 2007. This was partially offset by an increase in the valuation of real estate loans during the same period, resulting primarily from their increased spread above the benchmark interest rate.

The Bank's +200 basis point Rate Shock Scenario NPV decreased from \$263.7 million at December 31, 2007 to \$236.8 million at December 31, 2008. The decrease resulted primarily from the growth in the loan portfolio during the year ended December 31, 2008, including the loan commitment pipeline at December 31, 2008. The growth in the loan portfolio that resulted from the new loans originated during the year ended December 31, 2008 created a longer term to next interest rate repricing for assets at December 31, 2008 compared to December 31, 2007. Assets with a longer term to next interest rate repricing generate a less favorable NPV in a rising rate interest rate environment. As a result, the decline in the NPV of total assets from the Pre-Shock Scenario to the +200 basis point Rate Shock Scenario was greater at December 31, 2008 than December 31, 2007.

The NPV Ratio was 6.02% in the +200 basis point Rate Shock Scenario at December 31, 2008, a decrease from the NPV Ratio of 7.79% in the +200 basis point Rate Shock Scenario at December 31, 2007. The decrease reflected the aforementioned decrease in the +200 basis point Rate Shock Scenario NPV during the comparative period.

At December 31, 2008, the interest rate sensitivity (*i.e.*, the basis point change in the NPV Ratio calculated under the various Rate Shock Scenarios compared to the Pre-Shock Scenario) in the +200 basis point Rate Shock Scenario was negative 126 basis points, compared to negative 211 basis points in the +200 basis point Rate Shock Scenario at December 31, 2007. The reduction in sensitivity was due primarily to the favorable valuation of borrowings in the +200 basis point Rate Shock Scenario NPV compared to the Pre-Shock Scenario NPV at December 31, 2008 versus these valuations at December 31, 2007. This favorable valuation resulted from an increase in the average contractual term to next interest rate repricing on the Bank's borrowings as a result of borrowings added during the year ended December 31, 2008, as well as interest rate caps purchased with a portion of the borrowings added during the period that provide protection in the event that interest rates rise.

Item 8. Financial Statements and Supplementary Data

For the Company's consolidated financial statements, see index on page F-72.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2008, 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 this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2008 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, utilizing the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Controls – Integrated Framework." Based upon its assessment, management believes that, as of December 31, 2008, the Company's internal control over financial reporting is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in the Annual Report, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, which is included below.

Item 9B. Other Information

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dime Community Bancshares, Inc. & Subsidiaries
Brooklyn, New York

We have audited the internal control over financial reporting of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated March 16, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 16, 2009

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the 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 21, 2009 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2008, and is incorporated herein by reference.

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

The Holding Company has adopted a written Code of Business Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Business Ethics is published on the Company's website, www.dime.com. The Company will provide to any person, without charge, upon request, a copy of such Code of Business 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 and the Compensation Committee of the Holding Company's Board of Directors is presented under the headings, "Directors' Compensation," "Compensation - Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" 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 information as of December 31, 2008 with respect to compensation plans under which equity securities of the Holding Company are authorized for issuance:

Plan Category	EQUITY COMPENSATION PLAN INFORMATION		
	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 Holding Company's shareholders	3,116,564	\$14.97	1,133,027(1)
Equity compensation plans not approved by the Holding Company's shareholders	-	-	-

(1) Amount comprised of 75,866 stock options that remain available for future issuance under the 2001 Stock Option Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc., and 1,057,161 equity awards that remain available for future issuance under the 2004 Stock Incentive Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc.

Item 13. Certain Relationships and Related Transactions, and Director Independence

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. Information regarding director independence is included under the heading "Information as to Nominees and Continuing Directors" in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services, as well as the Audit Committee's pre-approval policies and procedures, 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

(a) (1) Financial Statements

See index to Consolidated Financial Statements on page F-72.

(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 SEC Regulation S-K

See Index of Exhibits on pages F-119 and F-120.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 16, 2009.

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 16, 2009 by the following persons on behalf of the registrant and in the capacities indicated.

Name	Title
<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	First 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/ FRED P. FEHRENBACH</u> Fred P. Fehrenbach	Director
<u>/s/ JOHN J. FLYNN</u> John J. Flynn	Director
<u>/s/ JOSEPH J. PERRY</u> Joseph J. Perry	Director
<u>/s/ OMER S.J. WILLIAMS</u> Omer S.J. Williams	Director

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial condition of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. These consolidated 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 the standards of the Public Company Accounting Oversight Board (United States). 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, such consolidated financial statements present fairly, in all material respects, the financial position of Dime Community Bancshares, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 16, 2009

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

	December 31, 2008	December 31, 2007
ASSETS:		
Cash and due from banks	\$211,020	\$101,708
Federal funds sold and other short-term investments	-	128,014
Investment securities held-to-maturity (estimated fair value of \$9,082 and \$80 at December 31, 2008 and 2007, respectively)		
(Encumbered at December 31, 2007, Unencumbered at December 31, 2008) (Note 3)	10,861	80
Investment securities available-for-sale, at fair value (fully unencumbered) (Note 3)	16,602	34,095
Mortgage-backed securities available-for-sale, at fair value (Note 4):		
Encumbered	251,744	160,821
Unencumbered	49,607	1,943
	301,351	162,764
Loans (Note 5):		
Real estate, net	3,289,314	2,873,966
Other loans	2,191	2,169
Less allowance for loan losses (Note 6)	(17,454)	(15,387)
Total loans, net	3,274,051	2,860,748
Loans held for sale	-	890
Premises and fixed assets, net (Note 8)	30,426	23,878
Federal Home Loan Bank of New York capital stock (Note 9)	53,435	39,029
Other real estate owned	300	-
Goodwill (Note 1)	55,638	55,638
Other assets (Notes 7, 14 and 15)	101,914	94,331
Total Assets	\$4,055,598	\$3,501,175
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors (Note 10):		
Interest bearing deposits	\$2,169,341	\$2,091,600
Non-interest bearing deposits	90,710	88,398
Total deposits	2,260,051	2,179,998
Escrow and other deposits (Note 7)	130,121	52,209
Securities sold under agreements to repurchase (Note 11)	230,000	155,080
Federal Home Loan Bank of New York advances (Note 12)	1,019,675	706,500
Subordinated notes payable (Note 13)	25,000	25,000
Trust Preferred securities payable (Note 13)	72,165	72,165
Other liabilities (Note 14 and 15)	41,622	41,371
Total Liabilities	3,778,634	3,232,323
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2008 and 2007)	-	-
Common stock (\$0.01 par, 125,000,000 shares authorized, 51,122,319 shares and 50,906,278 shares issued at December 31, 2008 and 2007, respectively, and 34,179,900 shares and 33,909,902 shares outstanding at December 31, 2008 and 2007, respectively)	511	509
Additional paid-in capital	213,917	208,369
Retained earnings (Note 2)	297,848	288,112
Accumulated other comprehensive loss, net of deferred taxes	(11,111)	(4,278)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP") (Note 15)	(3,933)	(4,164)
Unearned Restricted Stock Award common stock (Note 15)	(1,790)	(634)
Common stock held by Benefit Maintenance Plan ("BMP") (Note 15)	(8,007)	(7,941)
Treasury stock, at cost (16,942,419 shares and 16,996,376 shares at December 31, 2008 and 2007, respectively) (Note 18)	(210,471)	(211,121)
Total Stockholders' Equity	276,964	268,852
Total Liabilities And Stockholders' Equity	\$4,055,598	\$3,501,175

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2008	2007	2006
Interest income:			
Loans secured by real estate	\$182,934	\$165,221	\$155,510
Other loans	166	178	190
Mortgage-backed securities	12,685	6,344	6,850
Investment securities	1,950	2,011	2,276
Federal funds sold and other short-term investments	4,919	8,406	5,984
Total interest income	202,654	182,160	170,810
Interest expense:			
Deposits and escrow	59,978	75,761	56,659
Borrowed funds	51,324	35,386	36,681
Total interest expense	111,302	111,147	93,340
Net interest income	91,352	71,013	77,470
Provision for loan losses	2,006	240	240
Net interest income after provision for loan losses	89,346	70,773	77,230
Non-interest income:			
Service charges and other fees	4,766	4,780	5,273
Mortgage banking (loss) income (Note 7)	(2,190)	1,512	2,228
Other-than temporary Impairment charge on securities (Note 3)	(3,209)	-	-
Net (loss) gain on sales of securities and other real estate owned	(129)	-	1,541
Income from Bank Owned Life Insurance ("BOLI")	1,999	2,513	1,868
Other	1,577	1,615	1,480
Total non-interest income	2,814	10,420	12,390
Non-interest expense:			
Salaries and employee benefits	24,922	22,620	21,307
Stock benefit plan compensation expense	3,702	2,796	2,125
Occupancy and equipment	6,967	6,431	5,762
Data processing costs	3,067	3,204	3,167
Advertising and marketing	2,364	2,638	2,186
Federal deposit insurance premiums	899	258	257
Other	8,052	7,555	7,172
Total non-interest expense	49,973	45,502	41,976
Income before income taxes	42,187	35,691	47,644
Income tax expense	14,159	13,248	17,052
Net income	\$28,028	\$22,443	\$30,592
Earnings per Share:			
Basic	\$0.85	\$0.67	\$0.88
Diluted	\$0.85	\$0.67	\$0.87

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)

	Year Ended December 31,		
	2008	2007	2006
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY			
Common Stock (Par Value \$0.01):			
Balance at beginning of period	\$509	\$509	\$506
Shares issued in exercise of options	2	-	3
Balance at end of period	<u>511</u>	<u>509</u>	<u>509</u>
Additional Paid-in Capital:			
Balance at beginning of period	208,369	206,601	204,083
Stock options exercised	2,471	136	907
Excess tax benefit of stock benefit plans	518	174	621
Amortization of excess fair value over cost – ESOP stock	1,011	813	882
Stock option expense	1,079	630	-
Release from treasury stock for restricted stock award shares	469	15	108
Balance at end of period	<u>213,917</u>	<u>208,369</u>	<u>206,601</u>
Retained Earnings:			
Balance at beginning of period	288,112	285,420	274,579
Net income for the period	28,028	22,443	30,592
Cash dividends re-assumed through liquidation of Recognition and Retention Plan ("RRP")	-	958	-
Cumulative effect adjustment for the adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48")	-	(1,703)	-
Cumulative effect adjustment for the adoption of the transition requirements of Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158")	(23)	-	-
Cash dividends declared and paid	(18,269)	(19,006)	(19,751)
Balance at end of period	<u>297,848</u>	<u>288,112</u>	<u>285,420</u>
Accumulated Other Comprehensive Loss, Net of Deferred Taxes:			
Balance at beginning of period	(4,278)	(7,100)	(3,328)
(Increase) Decrease in unrealized loss on available-for-sale securities during the period, net of deferred benefit (taxes) of \$1,964, (\$1,469) and \$11, respectively	(2,246)	1,800	(14)
Minimum pension liability, net of deferred taxes of \$(123)	-	-	148
Cumulative effect adjustment for the adoption of the transition requirements of SFAS 158	(64)	-	-
Increase in defined benefit plan liability from the adoption of SFAS 158, net of deferred benefit of \$3,246	-	-	(3,906)
Unrecognized (loss) gain of pension and other postretirement obligations, net of deferred benefit (tax) of \$3,776 and \$(874)	(4,523)	1,022	-
Balance at end of period	<u>(11,111)</u>	<u>(4,278)</u>	<u>(7,100)</u>
Unallocated Common Stock of ESOP:			
Balance at beginning of period	(4,164)	(4,395)	(4,627)
Amortization of earned portion of ESOP stock	231	231	232
Balance at end of period	<u>(3,933)</u>	<u>(4,164)</u>	<u>(4,395)</u>
Unearned Restricted Stock Award and RRP Common Stock:			
Balance at beginning of period	(634)	(3,452)	(2,979)
Release from treasury stock for restricted stock award shares	(1,773)	(165)	(770)
Transfer of common stock to treasury upon liquidation of RRP	-	2,611	-
Amortization of earned portion of RRP stock	617	372	297
Balance at end of period	<u>(1,790)</u>	<u>(634)</u>	<u>(3,452)</u>
Common Stock Held by BMP:			
Balance at beginning of period	(7,941)	(7,941)	(7,941)
Plan contributions	(66)	-	-
Common stock acquired	-	-	-
Balance at end of period	<u>(8,007)</u>	<u>(7,941)</u>	<u>(7,941)</u>
Treasury Stock, at cost:			
Balance at beginning of period	(211,121)	(179,011)	(168,579)
Release of treasury stock for allocated restricted stock awards and shares acquired by BMP	1,304	151	592
Transfer of common stock to treasury upon liquidation of RRP	-	(2,611)	-
Purchase of treasury shares, at cost	(654)	(29,650)	(11,024)
Balance at end of period	<u>(210,471)</u>	<u>(211,121)</u>	<u>(179,011)</u>
TOTAL STOCKHOLDERS' EQUITY AT THE END OF PERIOD	<u>\$276,964</u>	<u>\$268,852</u>	<u>\$290,631</u>
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME:			
Net Income	\$28,028	\$22,443	\$30,592
Increase in Actuarial Gain or Reduction in Actuarial Loss on defined benefit plans, net of taxes of \$(123) during the year ended December 31, 2006	-	-	148
Change in pension and other postretirement obligations, net of deferred benefit (taxes) of \$3,776 during the year ended December 31, 2008 and \$(874) during the year ended December 31, 2007	(4,523)	1,022	-
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of tax of \$(1,224) during the year ended December 31, 2008	1,496	-	-
Reclassification adjustment for securities sold, net of taxes of \$(489) during the year ended December 31, 2006	-	-	(575)
Net unrealized securities (loss) gain arising during the period, net of benefit (taxes) of \$3,188, \$(1,469) and \$(478) during the years ended December 31, 2008, 2007 and 2006, respectively	(3,742)	1,800	561
Comprehensive Income	<u>\$21,259</u>	<u>\$25,265</u>	<u>\$30,726</u>
See notes to consolidated financial statements.			

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

	Year Ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$28,028	\$22,443	\$30,592
Adjustments to reconcile net income to net cash provided by operating activities			
Net gain on investment and mortgage backed securities sold	-	-	(1,063)
Net gain on sale of loans held for sale	(1,012)	(750)	(1,516)
Net loss (gain) on sales and disposals of other assets	129	-	(478)
Net depreciation, amortization and accretion	1,757	1,252	1,265
Stock plan compensation expense (excluding ESOP)	1,696	372	296
ESOP compensation expense	1,242	1,674	1,115
Provision for loan losses	2,006	240	240
Charge to net mortgage banking income - provision to increase the liability for loans sold with recourse	3,946	-	-
Impairment charge on mortgage servicing rights	60	-	-
Other-than temporary impairment charge on investment securities held-to-maturity	3,209	-	-
Increase in cash surrender value of BOLI	(1,999)	(1,965)	(1,868)
Deferred income tax provision (credit)	(3,054)	(834)	103
Excess tax benefits of stock plans	(518)	(174)	(621)
<i>Changes in assets and liabilities:</i>			
Originations of loans sold during the period	(149,081)	(76,568)	(145,430)
Proceeds from sales of loans held for sale	150,983	77,628	146,646
Decrease (Increase) in other assets	(143)	(6,368)	929
(Decrease) Increase in other liabilities	(8,327)	823	840
Net cash provided by Operating Activities	28,922	17,773	31,050
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in federal funds sold and other short-term investments	128,014	(49,262)	(18,734)
Proceeds from maturities of investment securities held-to-maturity	242	155	220
Proceeds from maturities and calls of investment securities available-for-sale	1,729	1,000	17,075
Proceeds from sales of investment securities available-for-sale	-	-	3,032
Proceeds from sales and calls of mortgage backed securities available-for-sale	-	8,542	-
Purchases of investment securities available-for-sale	(5,464)	(14,162)	(4,002)
Purchases of mortgage backed securities available-for-sale	(183,849)	(37,992)	-
Principal collected on mortgage backed securities available-for-sale	48,155	33,329	39,420
Net increase in loans	(416,504)	(174,029)	(91,789)
Proceeds from the sale of other real estate owned ("OREO") and real estate investment property owned	767	-	908
Proceeds from BOLI benefit payment	-	631	-
Purchases of fixed assets, net	(8,356)	(2,566)	(7,818)
Purchase of Federal Home Loan Bank of New York capital stock	(14,406)	(7,734)	(1,378)
Net cash used in Investing Activities	(449,672)	(242,088)	(63,066)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in due to depositors	80,053	171,466	93,760
Increase (decrease) in escrow and other deposits	77,912	5,836	(1,145)
Increase (Decrease) in securities sold under agreements to repurchase	74,920	34,845	(85,220)
Proceeds from Federal Home Loan Bank of New York advances	313,175	135,000	40,000
Proceeds from exercise of stock options	2,473	136	910
Excess tax benefits of stock plans	518	174	621
Cash dividends re-assumed through liquidation of RRP	-	958	-
Purchase of common stock by the RRP and BMP	(66)	-	(70)
Cash dividends paid to stockholders and cash disbursed in payment of stock dividends	(18,269)	(19,006)	(19,751)
Purchase of treasury stock	(654)	(29,650)	(11,024)
Net cash provided by Financing Activities	530,062	299,759	18,081
INCREASE(DECREASE) IN CASH AND DUE FROM BANKS	109,312	75,444	(13,935)
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	101,708	26,264	40,199
CASH AND DUE FROM BANKS, END OF PERIOD	\$211,020	\$101,708	\$26,264
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for income taxes	\$20,196	\$20,622	\$15,531
Cash paid for interest	\$109,787	\$110,508	\$93,530
Loans transferred to OREO	\$1,564	-	-
Transfer of securities from available-for-sale to held-to-maturity (at fair value)	\$11,501	-	-
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	\$134	-	-
Reversal of unrealized loss on securities transferred from available-for-sale to held-to-maturity	\$2,586	-	-

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 "Holding Company" and together with its direct and indirect subsidiaries, the "Company") 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. At December 31, 2008, the significant assets of the Holding Company were the capital stock of the Bank, the Holding Company's loan to the ESOP and investments retained by the Holding Company. The liabilities of the Holding Company were comprised primarily of a \$25,000 subordinated note payable maturing in May 2010 and \$72,165 of trust preferred securities payable maturing in 2034. 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 federally chartered stock savings bank. The Bank has been 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-three retail banking offices located throughout the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York.

Summary of Significant Accounting Policies - Management believes that 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.

Principles of Consolidation - The accompanying 2008, 2007 and 2006 consolidated financial statements include the accounts of the Holding Company, and its wholly-owned subsidiaries, the Bank and 842 Manhattan Avenue Corporation. 842 Manhattan Avenue Corporation previously owned and managed a real estate property that housed a former branch office of Financial Federal Savings Bank, F.S.B. ("FFSB"), a subsidiary of Financial Bancorp, Inc. ("FIBC"), which the Holding Company acquired on January 21, 1999. The property was sold in 2006, and as a result, 842 Manhattan Avenue Corporation held no real estate at December 31, 2008. All financial statements presented also include the accounts of the Bank's five wholly-owned subsidiaries, Boulevard Funding Corp. ("BFC"), Havemeyer Investments, Inc., DSBW Preferred Funding Corporation ("DPFC"), DSBW Residential Preferred Funding Corporation ("DRPFC"), Dime Reinvestment Company ("DRC") and 195 Havemeyer Corp. DPFC and DRPFC were both established in March 1998 and are intended to qualify as real estate investment trusts for federal tax purposes. DPFC invests in multifamily and commercial real estate loans, while DRPFC invests in one-to-four-family real estate loans. BFC was established in order to invest in real estate joint ventures and other real estate assets. As of December 31, 2008, BFC owned a property that entered OREO status in December 2008 and had some other minor financial investments. DRC was established in 2004 in order to function as a Qualified Community Development Entity as defined in the Internal Revenue Code of 1986, as amended (the "Code"). DRC is currently inactive. 195 Havemeyer Corp. was established in 2008 and owns and manages a real estate property currently intended, in whole or in part, for Bank use. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial statements presented for the year ended December 31, 2006 and for the period January 1, 2007 through June 30, 2007, include the accounts of Havemeyer Equities Corp. ("HEC"). HEC was originally established in order to invest in real estate joint ventures and other real estate assets. In June 1998, HEC assumed direct ownership of DPFC. HEC ceased operations effective the close of business on June 30, 2007, and was legally dissolved prior to December 31, 2007. All of the assets and liabilities of HEC, including the direct ownership of DPFC, were assumed by the Bank.

Cash and Due from Banks - Cash and due from banks represents cash held by the Bank (including cash on hand at its branches), as well as cash held by the Holding Company and other subsidiary companies that is not subject to elimination in consolidation.

Federal Funds Sold and Other Short-term Investments - Purchases and sales of federal funds sold and other short-term investments are recorded on trade date. Federal funds sold and other short-term investments are carried at cost, which approximates market value due to the short-term nature of the investment.

Investment Securities and Mortgage-Backed Securities ("MBS") - 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 them 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 that are deemed temporary are excluded from net income and reported net of income taxes as other comprehensive income or loss. At December 31, 2008 and 2007, all equity securities were classified as available-for-sale. Neither the Holding Company nor the Bank has acquired securities for the purpose of engaging in trading activities.

The Company conducts a quarterly review and evaluation of its securities portfolio taking into account the severity and duration of a decline in market value, as well as its intent with regard to the securities in order to determine if a decline in market value of any security below its amortized cost basis is other than temporary. If such decline is deemed other than temporary, the carrying amount of the security is adjusted through a charge to net income in the amount of the decline in value.

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. Multifamily residential and mixed use loans sold are generally sold with servicing rights retained.

Allowance for Loan Losses and Reserve for Loan Commitments - The Company provides a valuation allowance for estimated losses inherent in its 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 a 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. Although 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. Management believes, based upon all relevant and available information, that the allowance for loan losses is appropriate to absorb losses inherent in the portfolio.

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 an 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 individually considered for impairment. The Company considers individual one- to four-family residential mortgage and cooperative apartment loans having a balance of \$625.5 or less and all consumer loans to be small balance homogenous loan pools and, accordingly, not covered by Amended SFAS 114.

The Bank maintains a separate reserve within other liabilities associated with commitments to fund future loans that have been accepted by the borrower. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve amount are achieved via a transfer of reserves from the Bank's allowance for loan losses, with any resulting shortfall in the allowance for loan losses satisfied through the quarterly provision for loan losses. Any decreases in the loan commitment reserve are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

Reserve For the Recourse Exposure on Multifamily Loans Sold to Fannie Mae ("FNMA"). A reserve is also recorded in other liabilities related to certain multifamily residential real estate loans sold with recourse under an agreement with FNMA. Consistent with the methodology utilized in determining the allowance for loan losses, for all performing loans within the FNMA serviced pool, the reserve recognized is the present value of the estimated future losses calculated based upon the historical loss experience for comparable multifamily loans owned by the Bank. For problem loans within the pool, the estimated future losses are determined in a manner consistent with impaired and classified loans within the Bank's loan portfolio.

Loans - Loans are reported at the principal amount outstanding, net of unearned fees or costs 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 generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank generally does not recognize the interest from the third month and evaluates whether the accrual of interest associated with the first two missed payments should be 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 satisfy the outstanding principal balance (including any outstanding advances related to the loan) 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 for a period of at least six months.

Mortgage Servicing Rights - The cost of mortgage loans sold with servicing rights retained by the Bank is allocated between the loans and the servicing rights based on their estimated fair values at the time of the 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, anticipated net servicing income. The Company adopted SFAS No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156") effective January 1, 2007. SFAS 156 requires all separately recognized mortgage servicing rights ("MSR") to be initially measured at fair value, if practicable. 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 derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans (i.e., collateral, interest rate, servicing spread and maturity) for the purpose of evaluating impairment. A valuation allowance is then established in the event the recorded value of an individual stratum exceeds its fair value. Third party valuations of the loan servicing asset are performed on a quarterly basis, and were performed as of December 31, 2008 and 2007. In accordance with the provisions of SFAS 156, the Bank elected to continue its practice of amortizing its MSR in proportion to and over the period of estimated net servicing income or net servicing loss.

OREO - Properties acquired as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure are classified as OREO and are recorded at the lower of the recorded investment in the related loan or the fair value of the property on the date of acquisition, with any resulting write down charged to the allowance for loan losses. 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 lesser of their useful lives or the remaining non-cancelable terms of the related leases.

Earnings Per Share ("EPS") - EPS are calculated and reported in accordance with SFAS 128, "Earnings Per Share." SFAS 128 requires disclosure of basic EPS and diluted EPS 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 EPS.

Basic EPS is computed by dividing net income by the weighted-average common shares outstanding during the year. In determining the weighted average shares outstanding for basic EPS, treasury stock and unallocated ESOP shares are excluded. All restricted stock award shares, vested or unvested, are included in the calculation of the weighted average shares outstanding for basic EPS. Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if "in the money" 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 years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31,		
	2008	2007	2006
Numerator:			
Net Income per the Consolidated Statements of Operations	\$28,028	\$22,443	\$30,592
Denominator:			
Weighted average shares outstanding utilized in the calculation of basic EPS	32,676,282	33,522,224	34,904,225
Common stock equivalents resulting from the dilutive effect of "in-the-money" stock options	259,905	112,183	250,602
Anti-dilutive effect of tax benefits associated with "in-the-money" non-qualified stock options	(111,385)	(27,381)	(79,918)
Weighted average shares outstanding utilized in the calculation of diluted EPS	32,824,802	33,607,026	35,074,909

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.

There were approximately 812,421 weighted average options, 2,053,104 weighted average options, and 1,077,676 weighted average options for the years ended December 31, 2008, 2007, and 2006, respectively, that were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the relevant period.

Accounting for Goodwill and Other Intangible Assets – SFAS 142 "Goodwill and Other Intangible Assets," established standards for goodwill acquired in a business combination. SFAS 142 eliminated amortization of goodwill and instead required the performance of a transitional goodwill impairment test at least annually. In accordance with SFAS 142, the Company performed impairment tests of goodwill as of December 31, 2008, 2007 and 2006. In each instance, the Company concluded that no potential impairment of goodwill existed. As of December 31, 2008 and 2007, the Company had goodwill totaling \$55.6 million.

Changes in the carrying amount of goodwill for the periods presented are as follows:

	Year Ended December 31,		
	2008	2007	2006
Original Amount	\$73,107	\$73,107	\$73,107
Accumulated Amortization	(17,469)	(17,469)	(17,469)
Net Carrying Value	\$55,638	\$55,638	\$55,638

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. A valuation allowance is recognized against deferred tax assets in the event that it is more likely than not that the deferred tax asset will not be fully realized.

The Company adopted FIN 48 on January 1, 2007. Provisions of FIN 48 were clarified by FASB Staff Position FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48." Please refer to Note 14 for a discussion of FIN 48.

Employee Benefits – The Bank maintains The Dime Savings Bank of Williamsburgh 401(k) Plan [the "401(k) Plan"] for substantially all of its employees, and the Retirement Plan of The Dime Savings Bank of Williamsburgh (the "Employee Retirement Plan"), both of which are tax qualified under 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 certain 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 adopted SFAS 158 effective December 31, 2006. SFAS 158 requires an employer sponsoring a single employer defined benefit plan to do the following: (1) recognize the funded status of a benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation; (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit or cost pursuant to SFAS 87, "Employers' Accounting for Pensions," or SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of SFAS 87 and SFAS 106, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements; (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statements of financial condition (with limited exceptions); and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Effective January 1, 2008, in compliance with applicable provisions of SFAS 158, the Company changed the measurement date for its defined benefit plans from October 1st to December 31st. As a result of this change, the Company recorded a transition adjustment on January 1, 2008 that reduced its consolidated stockholders' equity by \$87.

The Holding Company and Bank maintain the ESOP. Compensation expense related to the ESOP is recorded in accordance with Statement of Position No. 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 Holding Company and Bank maintain the Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (the "1996 Stock Option Plan"), the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (the "2001 Stock Option Plan") and the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (the "2004 Stock Incentive Plan," and collectively the "Stock Plans"); which are discussed more fully in Note 15. Grants of stock options during the years ended December 31, 2008, 2007 and 2006 were accounted for at fair value in accordance with SFAS No. 123 (revised 2004) "Share Based Payment" ("SFAS 123R").

Grants of restricted stock awards during the years ended December 31, 2008, 2007 and 2006 were accounted for at fair value in accordance with SFAS 123R.

Derivative Instruments - All derivatives are recognized at fair value as either assets or liabilities in the consolidated statements of financial condition. A derivative may be designated as a hedge against exposure to changes in either: (i) the fair value of a recognized asset, liability or firm commitment, (ii) cash flows of a recognized or forecasted transaction, or (iii) 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 required to be either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of derivative instruments not receiving hedge accounting recognition are recorded in current year earnings.

During the years ended December 31, 2008, 2007 and 2006, neither the Holding Company nor the Bank held any derivative instruments or any embedded derivative instruments that required bifurcation.

BOLI - BOLI is carried at its contract value. Increases in the contract value are recorded as non-interest income in the consolidated statements of operations and insurance proceeds received are recorded as a reduction of the contract value.

Comprehensive Income - Comprehensive income for the years ended December 31, 2008, 2007 and 2006 was determined in accordance with SFAS 130, "Reporting Comprehensive Income." Comprehensive income includes changes in the unrealized gain or loss on available-for-sale securities and minimum pension liability, which, under GAAP, bypass net income and are typically reported as components of stockholders' equity. All comprehensive income adjustment items are presented net of applicable tax effect.

Disclosures About Segments of an Enterprise and Related Information - 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 the manner in which it supports the other activities of the Company. For example, 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. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit. The Chief Executive Officer is considered the chief decision maker for this reportable segment.

For the years ended December 31, 2008, 2007 and 2006, there was no customer that accounted for more than 10% of the Company's consolidated revenue.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defined fair value, established a framework for measuring fair value under GAAP, and expanded disclosures about fair value measurements. Other current accounting pronouncements that require or permit fair value measurements require application of SFAS 157. SFAS 157 does not require any new fair value measurements, however, changes the definition of, and methods used to measure, fair value. SFAS 157 emphasizes fair value as a market-based, not entity-specific, measurement. Under SFAS 157, a fair value measurement should be based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 further establishes a fair value hierarchy that distinguishes between (i) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs), and (ii) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances. SFAS 157 also expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The Company adopted SFAS 157 on January 1, 2008. Disclosures required as a result of the adoption of SFAS 157 are included in Note 17.

In February 2008, the FASB issued Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157, Fair Value Measurements" ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all nonrecurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008.

On October 10, 2008, the FASB issued Staff Position FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." ("FSP 157-3"). FSP 157-3 clarified the application of SFAS 157 in a market that is not active. FSP 157-3 reiterated several key principles of SFAS 157, such as the requirement that a fair value measurement represent the price at which a transaction would occur between market participants as of the measurement date. FSP 157-3 was deemed effective upon issuance, including prior periods for which financial statements have not been issued. The Company considered the relevant provisions of FSP 157-3 in its election to change its method of valuation for its investment in pooled trust preferred securities during the year ended December 31, 2008.

In June 2008, the FASB finalized Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 affects entities that accrue cash dividends on share-based payment awards during the service period when the dividends need not be returned if the employees forfeit the awards. Under FSP EITF 03-6-1, all share-based payment awards that accrue cash dividends (whether paid or unpaid) any time the common shareholders receive dividends are considered participating securities if the dividends need not be returned to the entity if the employee forfeits the award. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted EPS under SFAS 128. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP EITF 03-6-1 requires an entity to retroactively adjust all prior-period EPS computations to reflect its provisions. Early adoption of the FSP EITF 03-6-1 is not permitted. Adoption of FSP EITF 03-6-1 is not expected to have a material impact upon the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. SFAS 162 became effective on November 15, 2008. Adoption of SFAS 162 is not expected to have a material impact upon the Company's consolidated financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about (i) the manner in which and reason that an entity

uses derivative instruments, with particular emphasis upon underlying risk, (ii) the manner in which derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (iii) (in tabular form) the manner in which derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 further requires enhanced disclosures of credit-risk-related contingent features of derivative instruments. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Adoption of SFAS 161 is not expected to have a material impact upon the Company's consolidated financial condition or results of operations.

In February 2008, the FASB issued Staff Position FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" ("FSP 140-3"). FSP 140-3 provides guidance on accounting for a transfer of a financial asset and repurchase financing. FSP 140-3 presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), however, if certain criteria are satisfied, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS 140. Under FSP 140-3, a transferor and transferee shall not separately account for a transfer of a financial asset and a related repurchase financing unless: (i) the two transactions have a valid and distinct business or economic purpose for being entered into separately, and (ii) the repurchase financing does not result in the initial transferor regaining control over the financial asset. FSP 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the potential impact, if any, of the adoption of FSP 140-3 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements governing the manner in which an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. SFAS 141R also establishes disclosure requirements intended to enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations occurring during a fiscal year beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements— an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 requires that, for purposes of accounting and reporting, minority interests be re-characterized as non-controlling interests and classified as a component of equity. SFAS 160 also requires financial reporting disclosures that clearly identify and distinguish between the interests of the parent and the non-controlling owners. SFAS 160 applies to all entities that prepare consolidated financial statements other than not-for-profit organizations, however, will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. Adoption of SFAS 160 is not expected to have a material impact upon the Company's consolidated financial condition or results of operations.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" ("SAB 109"). SAB 109 provides guidance on accounting for loan commitments recorded at fair value under GAAP. SAB 109 supersedes SAB No. 105, "Application of Accounting Principles to Loan Commitments." SAB 109 requires that the expected net future cash flows related to the associated servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value. The provisions of SAB 109 are applicable on a prospective basis to written loan commitments recorded at fair value that are issued or modified in fiscal quarters beginning after December 15, 2007. The Company adopted SAB 109 on January 1, 2008. Adoption of SAB 109 did not have a material impact on the Company's consolidated financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value. SFAS 159 seeks to improve the overall quality of financial reporting by providing companies the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without requiring the application of complex hedge accounting provisions. The Company adopted SFAS 159 on January 1, 2008. The adoption of SFAS 159 did not have an impact on the Company's consolidated financial condition or results of operations, as the Company did not elect to apply the fair value method of accounting to any of its assets or liabilities.

On January 12, 2009, the FASB issued Staff Position EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" ("FSP EITF 99-20-1"). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held

by a Transferor in Securitized Financial Assets" ("EITF 99-20"), to achieve more consistent determination of whether an other-than-temporary impairment has occurred. GAAP provides two different models for determining whether the impairment of a debt security is other than temporary. EITF 99-20 requires the use of market participant assumptions about future cash flows. This cannot be overcome by management judgment of the probability of collecting all cash flows previously projected. SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," ("SFAS 115") does not require exclusive reliance on market participant assumptions about future cash flows. Rather, SFAS 115 permits the use of reasonable management judgment of the probability that the holder will be unable to collect all amounts due. FSP EITF 99-20-1 retains and emphasizes the objective of an other-than temporary impairment assessment and the related disclosure requirements in SFAS 115, and permits the evaluation of impaired assets under the jurisdiction of EITF 99-20 to be evaluated in accordance with the other-than temporary impairment methodology of SFAS 115. EITF 99-20-1 was effective immediately upon issuance. Adoption of EITF 99-20-1 did not have a material impact on the Company's consolidated financial condition or results of operations.

On September 12, 2008, the FASB issued Staff Position FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" ("FSP FIN 45-4"). FSP FIN 45-4 amends FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further, this FSP clarifies the Board's intent about the effective date of SFAS 161. FSP FIN 45-4 is effective for reporting periods ending after November 15, 2008. Application of FSP FIN 45-4 resulted in expanded disclosure of the Company's FNMA recourse exposure. Adoption of FSP FIN 45-4 did not have a material effect upon the Company's consolidated financial condition or results of operations.

In December 2008, the FASB issued Staff Position FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" ("FSP 140-4"). FSP 140-4 amends SFAS 14 to require public entities to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, FSP 140-4 requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity ("SPE") that holds a variable interest in the qualifying SPE but was not the transferor (nontransferor) of financial assets to the qualifying SPE, or (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor (nontransferor) of financial assets to the qualifying SPE. FSP 140-4 is effective for reporting periods ending after December 15, 2008. FSP 140-4 is applicable to the Company's MSR. The adoption of FSP 140-4 did not have a material effect upon the Company's consolidated financial condition or results of operations.

In December 2008, the FASB issued Staff Position FAS 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets" ("FSP 132R-1"). FSP 132R-1 requires additional disclosure regarding investment allocations, major categories, valuation techniques and concentrations of risk related to plan assets held in an employer's defined benefit pension or postretirement plan. FSP 132R-1 further requires disclosure of any effects of utilizing significant unobservable inputs (as defined in SFAS 157) upon the overall change in the fair value of the plan assets during the reporting period. FSP 132R-1 is effective for years ending after December 31, 2009. The Company is currently evaluating the impact of adoption.

Use of Estimates in the Preparation of the Consolidated Financial Statements - Various elements of the Company's accounting policies 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, reserves for loan commitments and FNMA recourse exposure, the valuation of MSR, asset impairments (including the valuation of goodwill and other than temporary declines in the valuation of securities), the recognition of deferred tax assets and unrecognized tax positions, the recognition of loan income, the valuation of financial instruments and accounting for defined benefit plans, are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material variations in the Company's consolidated results of operations or financial condition.

Reclassification - Certain amounts as of and for the years ended December 31, 2007 and 2006 have been reclassified to conform to their presentation as of and for the year ended December 31, 2008. In particular, the Company reclassified the gains or losses recorded on sales of loans, along with servicing fees on loans sold to third parties, into a separate line item within non-interest income entitled "Mortgage Banking Income." The effects of this reclassification are presented in Note 7.

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 do 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 adjusted qualifying balances on the date of liquidation for accounts held at conversion.

The Holding Company acquired Conestoga Bancorp, Inc. ("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 Holding 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 Holding 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 either applicable regulatory capital maintenance requirements, or the amount of the liquidation account, or if such declaration or payment or repurchase would otherwise violate regulatory requirements.

3. INVESTMENT SECURITIES HELD-TO-MATURITY AND AVAILABLE-FOR-SALE

On September 1, 2008, the Bank transferred eight investment securities with an amortized cost of \$19,922 that were primarily secured by the preferred debt obligations of a pool of U.S. banks (with a small portion secured by debt obligations of insurance companies) from its available-for-sale portfolio to its held-to-maturity portfolio. Based upon the lack of an orderly market for these securities, management determined that a formal election to hold these securities to maturity was consistent with its initial investment decision. On the date of transfer, the unrealized loss of \$8,420 on these securities continued to be recognized as a component of accumulated other comprehensive loss within the Company's consolidated stockholders' equity (net of income tax benefit), and was expected to be amortized over the remaining average life of the securities, which approximated 25.7 years on a weighted average basis. During the period September 1, 2008 through December 31, 2008, amortization of this unrealized loss totaled \$134. In addition, \$2,586 of this unrealized loss was reversed related to two securities for which an other-than temporary impairment charge was recognized during the period. At December 31, 2008, the remaining unrealized loss will be amortized during the remaining contractual life of these securities, which have contractual maturities ranging from April 3, 2032 through September 22, 2037.

During the year ended December 31, 2008, the Company recorded a pre-tax other-than temporary impairment charge of \$3,209 related to two of these pooled trust preferred securities. As of December 31, 2008, these securities were performing in accordance with their contractual terms, and had paid all contractual cash flows since the Bank's initial investment. In management's judgment, however, the credit quality of the collateral pool underlying the two securities had deteriorated to the point that full recovery of the Bank's initial investment was considered uncertain. Consequently, an other-than temporary impairment charge was deemed to be warranted as of December 31, 2008. The pre-tax other-than temporary impairment charge was reflected in the Company's consolidated results of operations.

The amortized cost, gross unrealized gains and losses and estimated fair value of investment securities held-to-maturity at December 31, 2008 were as follows:

Investment Securities Held-to-Maturity					
	Carrying Amount(1)	Amortized Cost(2)	Gross Unrealized Gains	Gross Unrealized(Losses)	Estimated Fair Value
Debt Securities:					
Pooled trust preferred securities	\$10,861	\$16,561	\$-	\$(7,479)	\$9,082

(1) Amount reflects a remaining unrealized loss of \$5,700 that existed when the securities were transferred from available-for-sale to held-to-maturity on September 1, 2008.

(2) Amount has been reduced by an other-than temporary impairment charge of \$3,209 recognized during the year ended December 31, 2008.

The balance of unrealized losses shown in the above table related to six pooled trust preferred securities, each of which have been in an unrealized loss position for 12 or more months at December 31, 2008. Despite both the decline in market value and the period for which the securities have remained in an unrealized loss position, management believes that the \$7,479 of unrealized losses on the six pooled trust preferred securities at December 31, 2008 were temporary, and that the full value of these investments will be realized once the market dislocations have been removed or as the securities continue to satisfy their contractual payments of principal and interest. In making this determination, management considered the following:

In addition to satisfying all contractual payments since inception, each of the six securities demonstrated the following beneficial credit characteristics:

- All securities have maintained an investment grade rating since inception from at least one rating agency
- Each security has a diverse pool of underlying issuers
- None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
- Each security features either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
- Each security is characterized by some level of over-collateralization

Based upon an internal review of the collateral backing these securities, which accounted for current and prospective deferrals, each of the securities can reasonably be expected to continue making contractual payments.

The amortized/historical cost, gross unrealized gains and losses and estimated fair value of investment securities available-for-sale at December 31, 2008 were as follows:

Investment Securities Available-for-Sale				
	Amortized/ Historical Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt securities:				
Federal agency obligations	\$1,035	\$1	-	\$1,036
Municipal agencies	9,931	216	\$(14)	\$10,133
Total debt securities	10,966	217	(14)	11,169
Equity securities:				
Mutual fund investments	8,057	-	(2,624)	5,433
	\$19,023	\$217	\$(2,638)	\$16,602

The amortized cost and estimated fair value of the debt securities component of investment securities available-for-sale at December 31, 2008, are shown below by contractual maturity. Actual 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 after one year through five years	\$347	\$361
Due after five years through ten years	10,619	10,808
	\$10,966	\$11,169

The following summarizes the gross unrealized losses and fair value of investment securities available-for-sale as of December 31, 2008, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Loss	Fair Value	Losses
Municipal agencies (1)	\$919	\$8	297	6	\$1,216	\$14
Mutual fund investments (2)	2,251	550	\$3,138	\$2,074	5,389	2,624
	\$3,170	\$558	\$3,435	\$2,080	\$6,605	\$2,638

(1) At December 31, 2008, the Bank owned one municipal security that possessed unrealized losses for 12 or more consecutive months. This security was sold in February 2009, with a gain recognized on the sale.

(2) The mutual fund investments that possessed unrealized losses for 12 or more consecutive months were three managed mutual funds that declined significantly in 2008 as a result of problems encountered by the U.S. and international equity markets. Two of these mutual funds were comprised solely of U.S. equities and carried a high correlation to the performance of the Standard and Poors 500 Equity Index. The third fund was comprised of international equities and bears a high correlation to the performance of the MSCI Equity index. Each of these mutual funds have regularly demonstrated the ability to recover to their cost basis during periods in which the correlating equity market indices performed favorably. Management performed an historical analysis of the average period for which a declining (or "bear") market has continued for both the Standard and Poors 500 and MSCI Equity indices. Based upon this analysis, management believes that each of these securities were not other than temporarily impaired at December 31, 2008, as the correlating indices to be reasonably expected to recover within a period permitting the unrealized losses could be deemed temporary (less than two years based upon historical experience). The Company has the intent and ability to hold the securities until recovery.

During the year ended December 31, 2008, there were no sales of investment securities available-for-sale.

The amortized cost, gross unrealized gains and losses and estimated fair value of investment securities held-to-maturity at December 31, 2007 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, maturity of less than one year	\$80	\$-	\$-	\$80

The amortized/historical cost, gross unrealized gains and losses and estimated fair value of investment securities available-for-sale at December 31, 2007 were as follows:

Investment Securities Available-for-Sale				
	Amortized/ Historical Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt securities:				
Municipal agencies	\$9,951	\$94	\$(17)	\$10,028
Pooled trust preferred securities	17,177	1	(223)	16,955
Total debt securities	27,128	95	(240)	26,983
Equity securities:				
Mutual fund investments	7,573	111	(572)	7,112
	\$34,701	\$206	\$(812)	\$34,095

The amortized cost and estimated fair value of the debt securities component of investment securities available-for-sale at December 31, 2007, by contractual maturity, are shown below. Actual 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	\$5,218	\$5,190
Due after one year through five years	348	351
Due after five years through ten years	9,603	9,677
Due after ten years	11,959	11,765
	\$27,128	\$26,983

The following summarizes the gross unrealized losses and fair value of investment securities available-for-sale as of December 31, 2007, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Losses
Municipal agencies	\$2,679	\$17	-	-	\$2,679	\$17
Pooled trust preferred securities	15,512	223	-	-	15,512	223
Mutual fund investments	1,245	58	\$3,213	\$514	4,458	572
	\$19,436	\$298	\$3,213	\$514	\$22,649	\$812

At December 31, 2007, the Company had two investment security positions that possessed 12 months or more of consecutive unrealized losses, one of which was a diversified mutual fund investment. The other security was a minor equity investment in a financial institution that possessed an unrealized loss of less than \$2 as of December 31, 2007. Management does not believe that any of the unrealized losses in the above table qualified as other-than temporary impairments at December 31, 2007. In making this determination, management considered the severity and duration of the loss, as well as management's intent and ability to hold the securities until substantial recovery of the loss.

During the year ended December 31, 2007, there were no sales of investment securities available-for-sale.

4. MBS AVAILABLE-FOR-SALE

The amortized cost, gross unrealized gains and losses and estimated fair value of MBS available-for-sale at December 31, 2008 were as follows:

	Mortgage-Backed Securities Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Collateralized mortgage obligations ("CMOs")	\$93,983	\$30	\$(768)	\$93,245
Federal Home Loan Mortgage Corporation ("FHLMC") pass-through certificates	144,688	1,775	(105)	146,358
FNMA pass-through certificates	55,526	1,049	(6)	56,569
Government National Mortgage Association ("GNMA") pass-through certificates	1,057	-	(16)	1,041
Private label MBS	4,474	-	(336)	4,138
	\$299,728	\$2,854	\$(1,231)	\$301,351

At December 31, 2008, MBS available-for-sale possessed a weighted average contractual maturity of 18.1 years and a weighted average estimated duration of 2.7 years. During the year ended December 31, 2008, there were no sales of MBS available-for-sale.

The following summarizes the gross unrealized losses and fair value of MBS available-for-sale at December 31, 2008, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Losses
Government Sponsored Entity ("GSE") CMOs (1)	\$13,506	\$15	\$54,433	\$214	\$67,939	\$229
Private label CMOs (1)	-	-	7,813	539	7,813	539
FHLMC pass-through certificates	22,409	105	-	-	22,409	105
FNMA pass-through certificates	1,412	6	-	-	1,412	6
GNMA pass-through certificates	1,041	16	-	-	1,041	16
Private label pass-through certificates	4,138	336	-	-	4,138	336
	\$42,506	\$478	\$62,246	\$753	\$104,752	\$1,231

(1) At December 31, 2008, each of the ten GSE sponsored CMOs, and three private label CMOs that possessed unrealized losses for 12 or more consecutive months had the highest possible credit quality rating. Since inception, virtually all unrealized losses on these securities have resulted from interest rate fluctuations. These securities were not deemed to be other than temporarily impaired at December 31, 2008 due to the following: (1) their credit quality rating remained superior; (2) the Company's investment was within the highest available tranche (or repayment pool); and (3) the Company had the intent and ability to hold the securities until recovery.

The amortized cost, gross unrealized gains and losses and estimated fair value of MBS available-for-sale at December 31, 2007 were as follows:

Mortgage-Backed Securities Available-for-Sale				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
CMOs	\$119,386	\$-	\$(2,158)	\$117,228
FHLMC pass-through certificates	31,174	437	-	31,611
FNMA pass-through certificates	12,677	77	(108)	12,646
GNMA pass-through certificates	1,266	13	-	1,279
	\$164,503	\$527	\$(2,266)	\$162,764

At December 31, 2007, MBS available-for-sale possessed a weighted average contractual maturity of 15.8 years and a weighted average estimated duration of 2.5 years. During the year ended December 31, 2007, there were no sales of MBS available-for-sale.

The following summarizes the gross unrealized losses and fair value of MBS available-for-sale at December 31, 2007, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Loss	Fair Value	Losses
CMOs	\$-	\$-	\$7,860	\$108	\$7,860	\$108
FNMA pass-through certificates	-	-	117,227	2,158	117,227	2,158
	\$-	\$-	\$125,087	\$2,266	\$125,087	\$2,266

At December 31, 2007, there were twenty-three MBS positions that possessed 12 months or more of consecutive unrealized losses. The unrealized loss for all twenty-three securities resulted solely from changes in interest rates subsequent to acquisition of the security. Management does not believe that any of the unrealized losses in the above table qualified as other-than temporary impairments at December 31, 2007. In making this determination, management considered the severity and duration of the loss, as well as management's intent and ability to hold the securities until substantial recovery of the loss. At December 31, 2007, all of the FNMA pass-through certificates and CMOs that possessed unrealized losses for 12 or more consecutive months had the highest possible credit quality rating.

5. LOANS

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

	December 31, 2008	December 31, 2007
One- to four-family	\$130,663	\$139,416
Multifamily residential	2,241,800	1,948,000
Commercial real estate	848,208	728,129
Construction and land acquisition	52,982	49,387
Federal Housing Authority and Veterans Administration Insured mortgage loans	742	1,029
Cooperative apartment unit loans	11,632	6,172
	3,286,027	2,872,133
Net unearned costs	3,287	1,833
	\$3,289,314	\$2,873,966

The Bank originates both adjustable and fixed interest rate real estate loans. At December 31, 2008, the approximate composition of these loans was as follows:

Fixed Rate		Adjustable Rate	
Period to Maturity	Book Value	Earlier of Period to Maturity or Next Repricing	Book Value
1 year or less	\$16,004	1 year or less	\$310,361
> 1 year-3 years	27,025	> 1 year-3 years	1,009,357
> 3 years-5 years	182,898	> 3 years-5 years	1,100,111
> 5 years-10 years	181,453	> 5 years-10 years	351,146
> 10 years	107,404	> 10 years	268
	\$514,784		\$2,771,243

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 multifamily 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 and 650 basis points.

A concentration of credit risk existed within the Bank's loan portfolio at December 31, 2008, as the majority of real estate loans on that date were collateralized by properties located in the New York City metropolitan area.

At December 31, 2008, the Bank had \$492,999 of loans in its portfolio that featured interest only payments. These loans subject the Bank to additional risk since their principal balance will not be reduced significantly prior to contractual maturity. In addition at December 31, 2008, the Bank possessed a loss exposure of up to \$21,865 in connection with \$50,957 of interest only loans sold to FNMA.

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

	December 31, 2008	December 31, 2007
Passbook loans (secured by savings and time deposits)	\$1,059	\$1,122
Consumer installment and other loans	1,132	1,047
	\$2,191	\$2,169

Loans on which the accrual of interest was discontinued were \$7,402 and \$2,856 at December 31, 2008 and 2007, respectively. Interest income foregone on nonaccrual loans was \$302 during the year ended December 31, 2008, \$108 during the year ended December 31, 2007, and \$131 during the year ended December 31, 2006.

The Bank had no loans considered troubled-debt restructurings at December 31, 2008 and 2007.

At December 31, 2008, there were fifteen loans totaling \$8,900 deemed impaired under Amended SFAS 114, compared to six loans totaling \$2,814 as of December 31, 2007. The average balance of impaired loans was approximately \$5,106 during the year ended December 31, 2008, \$2,717 during the year ended December 31, 2007, and \$1,920 during the year ended December 31, 2006. During the year ended December 31, 2008, write-downs of principal totaling \$586 were recognized on impaired loans. There were no write-downs on impaired loans during the years ended December 31, 2007 and 2006. At December 31, 2008 and 2007, reserves allocated within the allowance for loan losses for impaired loans totaled \$1,056 and \$348, respectively. Net principal received on impaired loans totaled \$293 and net interest received on impaired loans totaled \$63 during the year ended December 31, 2008. Net principal received on impaired loans totaled \$1,950 and net interest received on impaired loans totaled \$326 during the year ended December 31, 2007. Net principal received on impaired loans totaled \$628 and net interest received on impaired loans totaled \$132 during the year ended December 31, 2006.

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

Homogenous Loans - Individual one- to four-family residential mortgage loans and cooperative apartment loans having a balance of \$625.5 or less and all consumer loans were considered to be small balance homogenous loan pools and, accordingly, not subject to Amended SFAS 114.

Loans Evaluated for Impairment - All non-homogeneous loans were individually evaluated for potential impairment. Additionally, individual one- to four-family residential and cooperative apartment unit mortgage loans exceeding \$625.5 and delinquent in excess of 60 days were 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, even during a period of delayed payment by the borrower, if the Bank ultimately expects to collect all amounts due, including interest accrued at the contractual rate. At December 31, 2007, all impaired loans were on nonaccrual status. In addition, at December 31, 2008 and 2007, approximately \$597 and \$42, respectively, of one- to four-family residential and cooperative apartment loans with a balance of \$625.5 or less and consumer loans were on nonaccrual status. These loans are considered as a homogeneous loan pool not subject to Amended SFAS 114. At December 31, 2008, loans totaling \$2,096, while on accrual status, were deemed impaired due to concerns over their payment history coupled with the potential shortfall of the value of their underlying collateral in the event of foreclosure.

Reserves and Charge-Offs - The Bank allocates a portion of its total allowance for loan losses to loans deemed impaired under Amended 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 for impaired loans was adequate at December 31, 2008 and 2007.

Measurement of Impairment - Since all impaired loans are secured 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 generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank does not recognize the interest from the third month and evaluates whether the accrual of interest associated with the first two missed payments should be 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 satisfy the outstanding principal balance (including any outstanding advances made related to the loan) 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 for a period of at least six months.

Delinquent Serviced Loans Subject to a Recourse Exposure

The Bank has a recourse exposure associated with multifamily loans that it sold to FNMA between December 2002 and December 31, 2008. Under the terms of its seller/servicer agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans until the earlier of the following events: (1) the loans have been fully satisfied or enter OREO status; or (2) the recourse exposure is fully exhausted.

Within the pool of multifamily loans sold to FNMA, the Bank had not received a payment from the borrower in excess of 90 days on loans totaling \$23,749 at December 31, 2008, and has identified an additional \$3,555 of other problem loans.

6. ALLOWANCE FOR LOAN LOSSES AND RESERVE FOR RECOURSE EXPOSURE ON MULTIFAMILY LOANS SOLD TO FNMA

Changes in the allowance for loan losses for loans owned by the Bank were as follows:

	Year Ended December 31,		
	2008	2007	2006
Balance at beginning of period	\$15,387	\$15,514	\$15,785
Provision for loan losses	2,006	240	240
Loans charged off	(612)	(28)	(50)
Recoveries	29	19	23
Transfer from (to) reserves on loan commitments	644	(358)	(484)
Balance at end of period	\$17,454	\$15,387	\$15,514

The Bank maintains a reserve liability in relation to the recourse exposure on multifamily loans sold to FNMA that reflects estimated future losses on this loan pool at each period end. In determining the estimate of probable future losses, the Bank utilizes a methodology similar to the calculation of its allowance for loan losses. For all performing loans within the

FNMA serviced pool, the reserve recognized is the present value of the estimated future losses calculated based upon the historical loss experience for comparable multifamily loans owned by the Bank. For problem loans within the pool, the estimated future losses are determined in a manner consistent with impaired or classified loans within the Bank's loan portfolio.

The following is a summary of the aggregate balance of multifamily loans serviced for FNMA, the period-end balance of total recourse exposure associated with these loans, and activity related to the reserve liability.

	At or for the Year Ended December 31,		
	2008	2007	2006
Outstanding balance of multifamily loans serviced for FNMA at period end	\$519,831	\$535,793	\$494,770
Total recourse exposure at end of period	21,865	20,409	18,495
Reserve Liability on the Recourse Exposure			
Balance at beginning of period	\$2,436	\$2,223	\$1,771
Additions for loans sold during the period ¹	101	213	452
Provision for losses on problem loans ¹	3,946	-	-
Charge-offs	(910)	-	-
Balance at period end	\$5,573	\$2,436	\$2,223

¹ Amount recognized as a portion of mortgage banking income during the period.

Absent extenuating circumstances, the \$910 of charge-offs recognized in 2008, and the full reserve liability balance of \$5,573 at December 31, 2008, would have represented likely future loss claims, and upon ultimate settlement of the loans, the Bank would have sought to reduce the \$21,865 total recourse exposure. However, of the \$5,573 million reserve liability that existed at December 31, 2008, \$1,361 related to a loan that the Bank was required to repurchase under the terms of its seller/servicer agreement with FNMA at the initial purchase price. This loan also accounted for \$146 of the \$910 in charge-offs recognized during 2008. The re-acquisition of this loan was completed on January 30, 2009, and the Bank understands that no losses associated with this loan shall reduce the \$21,865 total recourse exposure.

In addition, on January 30, 2009, the Bank re-acquired three other problem loans from FNMA (all associated with one common borrower), on which aggregate charge-offs of \$701 were recognized during the year ended December 31, 2008, and on which a specific reserve of \$1,593 was included in the \$5,573 reserve liability at December 31, 2008. Under the terms of the re-acquisition agreement, upon ultimate resolution of these loans, 50% of their aggregate losses will reduce the \$21,865 total recourse exposure. In exchange for this concession, the Bank received the potential right to reduce the \$21,865 total recourse exposure commencing on January 1, 2015.

7. MORTGAGE SERVICING ACTIVITIES

At December 31, 2008, 2007 and 2006, the Bank was servicing loans for others having principal balances outstanding of approximately \$659,381, \$563,383, and \$519,165, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, paying taxes and insurance, and processing foreclosure. In connection with loans serviced for others, the Bank held borrowers' escrow balances of approximately \$10,550 and \$7,121 at December 31, 2008 and 2007, respectively.

There are no restrictions on the Company's consolidated assets or liabilities related to loans that were sold with servicing rights retained. Upon sale of these loans, the Company recognized MSR, and has elected to account for the MSR under the "amortization method" prescribed in SFAS No. 156. The MSR related to these loans totaled \$2,778 and \$2,496 at December 31, 2008 and 2007, respectively. MSR recognized from loan sales were \$974, \$493 and \$815 during the years ended December 31, 2008, 2007 and 2006, respectively. A reserve of \$60 was recognized during the year ended December 31, 2008 related to the decline in the fair value of a portion of the MSR below its amortized cost basis. There were no such reserves recognized related to MSR during the years ended December 31, 2007 and 2006. Amortization of servicing rights was \$632, \$589 and \$569 during the years ended December 31, 2008, 2007 and 2006, respectively.

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

	At December 31, 2008	At December 31, 2007	At December 31, 2006
Net carrying value of the servicing asset	\$2,778	\$2,496	\$2,592
Fair value of the servicing asset	2,841	3,914	3,556
Weighted average life (in years)	6.29	8.25	8.25
Prepayment speed assumptions (annual rate)	150 PSA	151 PSA	151 PSA
Impact on fair value of 10% adverse change	\$(45)	\$(89)	\$(76)
Impact on fair value of 20% adverse change	\$(90)	\$(174)	\$(150)
Expected credit losses (annual rate)	\$13	\$13	\$65
Impact on fair value of 10% adverse change	\$(9)	\$(1)	\$(1)
Impact on fair value of 20% adverse change	\$(18)	\$(3)	\$(3)
Residual cash flows discount rate (annual rate)	13.75%	12.75%	13.75%
Impact on fair value of 10% adverse change	\$(60)	\$(107)	\$(101)
Impact on fair value of 20% adverse change	\$(117)	\$(207)	\$(195)
Average interest rate on adjustable rate loans	5.74%	5.66%	5.62%
Impact on fair value of 10% adverse change	-	-	-
Impact on fair value of 20% adverse change	-	-	-

Net mortgage banking income presented in the consolidated statements of operations was comprised of the following items:

	Year Ended December 31,		
	2008	2007	2006
Gain on the sale of loans originated for sale (1)	\$1,012	\$750	\$1,516
Provision to increase the liability for loans sold with recourse	(3,946)	-	-
Mortgage banking fees (1)	804	762	712
Valuation reserve recognized on MSR	(60)	-	-
Net mortgage banking (loss) income	\$(2,190)	\$1,512	\$2,228

(1) These amounts for the years ended December 31, 2007 and 2006 have been reclassified to conform to their presentation for the year ended December 31, 2008. These amounts were included in non-interest income during the years ended December 31, 2007 and 2006. The reclassification thus does not result in a materially different presentation.

8. PREMISES AND FIXED ASSETS, NET

The following is a summary of premises and fixed assets, net:

	December 31, 2008	December 31, 2007
Land	\$7,237	\$7,237
Buildings	25,986	21,532
Leasehold improvements	7,181	5,209
Furniture, fixtures and equipment	16,488	14,558
	56,892	48,536
Less: accumulated depreciation and amortization	(26,466)	(24,658)
	\$30,426	\$23,878

Depreciation and amortization expense amounted to approximately \$1,808, \$1,574 and \$1,459 during the years ended December 31, 2008, 2007 and 2006, 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 FHLBNY capital stock at \$100 per share. The Bank owned 534,346 shares and 390,294 shares at December 31, 2008 and 2007, respectively. The Bank recorded dividends on the FHLBNY capital stock of \$2,647, \$2,169 and \$1,688 during the years ended December 31,

2008, 2007 and 2006, respectively. The FHLBNY satisfied all stock redemptions at par during 2008, and has guaranteed a minimum quarterly dividend between 2.5% and 3.0% for the fourth quarter of 2008, which will be paid during the quarter ending March 31, 2009.

10. DUE TO DEPOSITORS

Deposits are summarized as follows:

	At December 31, 2008		At December 31, 2007	
	Effective Cost	Liability	Effective Cost	Liability
Savings accounts	0.57%	\$270,321	0.55%	\$274,067
Certificates of deposit	3.69	1,153,166	4.61	1,077,087
Money market accounts	2.63	633,167	4.04	678,759
Interest bearing checking accounts	2.10	112,687	2.38	61,687
Non-interest bearing checking accounts	-	90,710	-	88,398
	2.79%	\$2,260,051	3.67%	\$2,179,998

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

	At December 31, 2008	At December 31, 2007
Maturity in one year or less	\$986,226	\$968,128
Over one year through three years	122,435	99,928
Over three years to five years	44,505	9,021
Over five years	-	10
Total certificates of deposit	\$1,153,166	\$1,077,087

The aggregate amount of certificates of deposit with a minimum denomination of one-hundred thousand dollars was approximately \$410,711 and \$364,591 at December 31, 2008 and 2007, respectively.

11. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Presented below is information concerning securities sold under agreements to repurchase:

	At or for the Year Ended December 31,		
	2008	2007	2006
Balance outstanding at end of period	\$230,000	\$155,080	\$120,235
Average interest cost at end of period	4.32%	4.53%	3.54%
Average balance outstanding during the period	\$227,828	\$132,685	\$134,541
Average interest cost during the period	3.80%	4.11%	1.95%(a)
Carrying amount of underlying collateral	\$251,744	\$163,116	\$126,830
Estimated fair value of underlying collateral	\$251,744	\$163,116	\$126,830
Maximum balance outstanding at month end during the year	\$265,000	\$155,160	\$205,455

(a) During the year ended December 31, 2006, the Company recorded a reduction of \$2,176 in interest expense on securities sold under agreements to repurchase that were prepaid. Excluding this reduction, the average cost of securities sold under agreements to repurchase would have been 3.56% during the year ended December 31, 2006.

12. FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

The Bank had borrowings ("Advances") from the FHLBNY totaling \$1,019,675 and \$706,500 at December 31, 2008 and 2007, respectively. The average interest cost of FHLBNY Advances was 4.02%, 4.30%, and 4.69% during the years ended December 31, 2008, 2007 and 2006, respectively. During the year ended December 31, 2006, the Company incurred \$1,369 in additional interest expense related to the prepayment of FHLBNY Advances. Excluding this increase, the average cost of FHLBNY Advances would have been 4.45% during the year ended December 31, 2006. The average interest rate on outstanding FHLBNY Advances was 3.85% and 4.07% at December 31, 2008 and 2007, respectively. At December 31, 2008, 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. At December 31, 2008, the FHLBNY Advances had contractual maturities ranging from January 2009 through December 2017. Certain of the FHLBNY Advances outstanding at December 31, 2008 contained call features that may be exercised by the FHLBNY.

13. SUBORDINATED NOTES PAYABLE AND TRUST PREFERRED SECURITIES PAYABLE

On April 12, 2000, the Holding Company issued subordinated notes in the aggregate amount of \$25,000. The notes have a 9.25% fixed rate of interest and mature on May 1, 2010. Interest expense recorded on the notes, inclusive of amortization of related issuance costs, was \$2,396 during each of the years ended December 31, 2008, 2007 and 2006.

On March 19, 2004, the Holding Company completed an offering of an aggregate amount of \$72,165 of trust preferred securities through Dime Community Capital Trust I, an unconsolidated special purpose entity formed for the purpose of the offering. Of the total amount offered, the Holding Company retained ownership of \$2,165 of the securities. The trust preferred securities bear a fixed interest rate of 7.0%, mature on April 14, 2034, and are callable without penalty at any time on or after April 15, 2009. The Holding Company currently does not intend to call this debt.

Interest expense recorded on the trust preferred securities totaled \$5,129 during each of the years ended December 31, 2008, 2007 and 2006. Of the total interest payments, \$152 was paid to the Holding Company in each of the years ended December 31, 2008, 2007 and 2006 related to its \$2,165 investment in the securities, and was recorded in other non-interest income.

14. INCOME TAXES

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

	Year Ended December 31, 2008			Year Ended December 31, 2007			Year Ended December 31, 2006		
	Federal	State and City	Total	Federal	State and City	Total	Federal	State and City	Total
Current	\$15,906	\$1,307	\$17,213	\$11,976	\$2,106	\$14,082	\$15,385	\$1,564	\$16,949
Deferred	(1,936)	(1,118)	(3,054)	(204)	(630)	(834)	(176)	279	103
	\$13,970	\$189	\$14,159	\$11,772	\$1,476	\$13,248	\$15,209	\$1,843	\$17,052

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 adjustments to other comprehensive income relating to the minimum pension liability, unrecognized gains of pension and other postretirement obligations and the adoption of SFAS 158. These tax effects are disclosed as part of the presentation of the consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income.

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

	Year Ended December 31,		
	2008	2007	2006
Tax at Federal statutory rate	\$14,765	\$12,492	\$16,675
State and local taxes, net of Federal income tax benefit	1,058	959	1,198
Benefit plan differences	48	(37)	(159)
Adjustments for prior period tax returns	(317)	641	(42)
Investment in BOLI	(700)	(880)	(654)
Recovery of reserve for unrecognized tax benefits	(581)	(183)	-
Other, net	(114)	256	34
	\$14,159	\$13,248	\$17,052
Effective tax rate	33.56%	37.12%	35.79%

In accordance with SFAS 109, "Accounting for Income Taxes," 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 State and City deferred income tax assets and liabilities were as follows:

	At December 31,	
	2008	2007
Deferred tax assets:		
Excess book bad debt over tax bad debt reserve	\$7,890	\$7,156
Employee benefit plans	11,468	7,063
Tax effect of other comprehensive income on securities available-for-sale	2,987	1,079
Other-than temporary impairment on securities	1,449	-
State net operating loss carryforwards expiring in 2027 and 2026	-	873
Other	691	504
Total deferred tax assets	24,485	16,675
Deferred tax liabilities:		
Difference in book and tax carrying value of fixed assets	541	600
Tax effect of purchase accounting fair value adjustments	174	179
Other	94	103
Total deferred tax liabilities	809	882
Valuation Allowance for State net operating loss carryforwards	-	873
Net deferred tax asset (recorded in other assets)	\$23,676	\$14,920

At December 31, 2007, a valuation allowance of \$873 was established against the deferred tax asset associated with State net operating loss carryforwards. This deferred tax asset and the valuation allowance were eliminated during the year ended December 31, 2008, as the Company determined that the benefit of the net operating loss will not be recognized. No other valuation allowances were recognized during the years ended December 31, 2008 and 2007, since, at each period end, it was more likely than not that the deferred tax assets would be fully realized. At December 31, 2008, the Company had capital loss carryforwards totaling \$2,036, which expire beginning in the tax year ending December 31, 2011. The Company believes that the full amount of these carryforwards will be fully utilized prior to expiration.

At December 31, 2008, the Bank had approximately \$60,000 of bad debt reserves for New York State and New York City 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. New York State and federal recapture liabilities 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 State and New York City tax purposes.

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

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

The Company is subject to regular examination by various tax authorities in jurisdictions in which the Company conducts significant business operations. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from ongoing assessments.

The Company adopted FIN 48 on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements prepared in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Pursuant to FIN 48, a tax position adopted is subjected to two levels of evaluation. Initially, a determination is made as to whether it is more likely than not that a tax position

will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 further requires tabular disclosure of material activity related to unrecognized tax benefits that do not satisfy the recognition provisions established under FIN 48. The adoption of FIN 48 on January 1, 2007 resulted in an increase of \$1,703 in the liability for unrecognized tax benefits, which was accounted for as a reduction of the Company's consolidated January 1, 2007 retained earnings.

The following table reconciles the Company's gross unrecognized tax benefits:

	Year Ended December 31,	
	2008	2007
Gross unrecognized tax benefits at the beginning of the period	\$2,274	\$2,716
Lapse of statute of limitations	-	(183)
Gross increases – current period tax positions	-	73
Gross decreases – prior period tax positions	(866)	(332)
Gross unrecognized tax benefits at the end of the period	\$1,408	\$2,274

If recognized, the net unrecognized tax benefits as of December 31, 2008 would have reduced the Company's consolidated income tax expense by \$915 (excluding interest of \$312) all of which would have favorably impacted the Company's consolidated effective tax rate.

Interest associated with unrecognized tax benefits approximated \$480 and \$509 at December 31, 2008 and 2007, respectively. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company reversed interest of \$29 during 2008 and \$139 during 2007 and in total, as of December 31, 2008, had an unrecognized tax liability for interest of \$312, and no unrecognized tax liability for penalties. The Company is currently under audit by taxing jurisdictions. As a result of these examinations, the entire amount of the unrecognized tax benefits (including interest) could be impacted within the next twelve months.

All entities for which unrecognized tax benefits existed as of December 31, 2008 currently possess a December 31st tax year. These entities changed their tax year end from June 30th to December 31st effective December 31, 2007. As of December 31, 2008, the tax year ended June 30, 2007, the tax period July 1, 2007 through December 31, 2007 and the tax year ended December 31, 2008 remained subject to examination by all of the Company's relevant tax jurisdictions, while the tax years ended June 30, 2005 and 2006 additionally remained subject to examination by both the Internal Revenue Service and the New York State Department of Taxation. The Company is currently under audit by taxing jurisdictions.

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.

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

	Year Ended December 31,		
	2008	2007	2006
Interest cost	1,117	1,071	1,041
Expected return on plan assets	(1,942)	(1,799)	(1,753)
Net amortization and deferral	268	470	580
Net periodic (credit) cost	\$(557)	\$(258)	\$(132)

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

	At December 31,	
	2008	2007
Accumulated benefit obligation at end of period	\$17,660	\$18,357
Reconciliation of Projected benefit obligation:		
Projected benefit obligation at beginning of period	\$18,357	\$18,753
Adjustment for change in measurement date	279	-
Interest cost	1,117	1,070
Actuarial gain	(266)	(430)
Benefit payments	(1,287)	(1,036)
Settlements	(540)	-
Projected benefit obligation at end of period	17,660	18,357
Plan assets at fair value (investments in trust funds managed by trustee)		
Balance at beginning of period	22,172	20,509
Return on plan assets	(6,190)	2,699
Contributions	-	-
Benefit payments	(1,287)	(1,036)
Settlements	(540)	-
Balance at end of period	14,155	22,172
Funded status:		
(Deficiency) Excess of plan assets over projected benefit obligation	(3,505)	3,815
Unrecognized loss from experience different from that assumed	N/A	N/A
(Accrued) Prepaid retirement expense included in other (liabilities) assets	\$(3,505)	\$3,815

At December 31, 2008, an unfunded pension liability of \$7,019 was recognized as a component of accumulated other comprehensive loss, related to the pre-tax unfunded pension obligation of \$12,796 on the Employee Retirement Plan. For the year ended December 31, 2008, the Bank used December 31st as its measurement date for the Employee Retirement Plan. For the year ended December 31, 2007, the Bank used October 1st as its measurement date for the Employee Retirement Plan. Due to recent changes in pension funding law and sharp declines in asset values, the Company cannot provide a current estimate of expected contributions to the Employee Retirement Plan in 2009. During the year ending December 31, 2009, \$1,162 in actuarial losses are anticipated to be recognized as a component of net periodic cost.

Major assumptions utilized to determine the net periodic cost (credit) or the benefit obligations were as follows:

	At December 31,	
	2008	2007
Discount rate	6.09%	6.29%
Expected long-term return on plan assets	9.00	9.00

Employee Retirement Plan assets are invested in six diversified investment funds of RSI Retirement Trust (the "Trust"), a no-load series open-ended mutual fund. The investment funds include four equity mutual funds and two bond mutual funds, each with its own investment objectives, strategies and risks, as detailed in the Trust's prospectus. All of the investment funds have quoted market prices. The Trust has been given discretion by the Employee Retirement Plan sponsor to determine the appropriate strategic asset allocation versus plan liabilities, as governed by the Trust's Statement of Investment Objectives and Guidelines (the "Guidelines").

The long-term investment objective is to be invested 65% in equity mutual funds and 35% in bond mutual funds. If the Employee Retirement Plan is underfunded under the Guidelines, the bond fund portion will be temporarily increased to 50% in the manner prescribed under the Guidelines, in order to lessen asset value volatility. When the Employee Retirement Plan is no longer underfunded, the bond fund portion will be returned to 35%. Asset rebalancing is performed at least annually, with interim adjustments performed when the investment mix varies in excess of 10% from the target.

The investment goal is to achieve investment results that will contribute to the proper funding of the Employee Retirement Plan by exceeding the rate of inflation over the long-term. In addition, investment managers for the Trust are expected to provide above average performance when compared to their peer managers. Performance volatility is also monitored. Risk/volatility is further managed by the distinct investment objectives of each of the Trust funds and the diversification within each fund.

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

Asset Category	At December 31,	
	2008	2007
Equity securities	59%	70%
Debt securities (bond mutual funds)	41	30
Total	100%	100%

The allocation percentages in the above table are consistent with future planned allocation percentages as of December 31, 2008.

The expected long-term rate of return assumptions on Employee Retirement Plan assets were established based upon historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the Employee Retirement 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 were applied to the Employee Retirement Plan's target allocation, the expected rate of return was determined to be 9.0%, which approximates the midpoint of the range of the expected return.

Benefit payments, which reflect expected future service (as appropriate), are anticipated to be made as follows:

Year Ending December 31,	
2009	\$1,178
2010	1,180
2011	1,186
2012	1,200
2013	1,206
2014 to 2018	6,060

BMP - The Holding Company and Bank maintain the BMP, which exists in order to compensate executive officers for any curtailments in benefits due to statutory limitations on benefit plans. As of December 31, 2008 and 2007, the BMP had investments in the Holding Company's common stock of \$9,788 and \$9,352, 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.

Retirement Plan for Board Members of Dime Community Bancshares, Inc. ("Directors' Retirement Plan") - Effective July 1, 1996, the Bank established the Directors' Retirement Plan, to provide benefits to each eligible outside director commencing upon termination of their Board service or at age 75. The Directors' Retirement Plan was frozen on March 31, 2005, and only outside directors who were in service prior to that date are eligible for benefits.

The combined net periodic cost for the defined benefit portions of the BMP and the Directors' Retirement Plan included the following components:

	Year Ended December 31,		
	2008	2007	2006
Service cost	\$-	\$-	\$-
Interest cost	315	281	269
Net amortization and deferral	-	-	38
Net periodic cost	\$315	\$281	\$307

The defined contribution costs incurred by the Company related to the BMP were \$28 and \$75 for the years ended December 31, 2008 and 2007, respectively. There is no defined contribution cost incurred by the Holding Company or Bank under the Directors' Retirement Plan.

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

	At December 31,	
	2008	2007
Accumulated benefit obligation at end of period	\$5,174	\$5,166
Reconciliation of projected benefit obligation:		
Projected benefit obligation at beginning of period	\$5,134	\$4,910
Adjustment for change in measurement date	79	-
Service cost	-	-
Interest cost	315	281
Benefit payments	(128)	(128)
Actuarial (gain) loss	(226)	71
Projected benefit obligation at end of period	5,174	5,134
Plan assets at fair value:		
Balance at beginning of period	-	-
Contributions	128	128
Benefit payments	(128)	(128)
Balance at end of period	-	-
Funded status:		
Deficiency of plan assets over projected benefit obligation	(5,174)	(5,134)
Contributions by employer	N/A	N/A
Unrecognized (gain) loss from experience different from that assumed	N/A	N/A
Unrecognized net past service liability	N/A	N/A
Accrued expense included in other liabilities	\$(5,174)	\$(5,134)

Major assumptions utilized to determine the net periodic cost and benefit obligation for the BMP were as follows:

	Year Ended December 31,		
	2008	2007	2006
Discount rate	6.29%	5.875%	5.50%

Major assumptions utilized to determine the net periodic cost and benefit obligation for the Directors' Retirement Plan were as follows:

	Year Ended December 31,		
	2008	2007	2006
Discount rate	6.29%	5.875%	5.50%
Rate of increase in fee compensation levels	-	-	4.0

As of December 31, 2008, the Bank used December 31st as its measurement date for both the BMP and Directors' Retirement Plan. As of December 31, 2007, the Bank used October 1st as its measurement date for both the BMP and Directors' Retirement Plan. Both the BMP and Directors' Retirement Plan are unfunded non-qualified benefit plans that are not anticipated to ever hold assets for investment. Any contributions made to either the BMP or Directors' Retirement Plan are expected to be used immediately to pay benefits that come due.

The Bank expects to contribute \$198 to the BMP and \$131 to the Directors' Retirement Plan during the year ending December 31, 2009 in order to pay benefits due under the respective plans. During the year ending December 31, 2009, no actuarial gains or losses are anticipated to be recognized as a component of net periodic cost.

Combined benefit payments under the BMP and Directors' Retirement Plan, which reflect expected future service (as appropriate), are anticipated to be made as follows:

Year Ending December 31,	
2009	\$328
2010	350
2011	377
2012	473
2013	469
2014 to 2018	\$2,322

Postretirement Benefit Plan - The Bank offers the Postretirement Benefit Plan to its retired employees who provided at least five 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 the full medical coverage in effect at the time of retirement until their death at no cost to such retirees;
- (2) Qualified employees retiring on or after after April 1, 1991 are eligible for continuation of the medical coverage in effect at the time of retirement until their death. Throughout retirement, the Bank will continue to pay the premiums for the coverage not to exceed 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.

Postretirement Benefit Plan benefits are available only to full-time employees who commenced 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 plan or benefits.

The Postretirement Benefit Plan net periodic cost included the following components:

	Year Ended December 31,		
	2008	2007	2006
Service cost	\$83	\$83	\$82
Interest cost	261	245	227
Unrecognized past service liability	(26)	(29)	(29)
Amortization of unrealized loss	16	29	40
Net periodic cost	\$334	\$328	\$320

Major assumptions utilized to determine the net periodic cost were as follows:

	Year Ended December 31,		
	2008	2007	2006
Discount rate	6.29%	5.875%	5.50%
Rate of increase in compensation levels	4.00	3.50	3.00

As of December 31, 2008, an escalation in the assumed medical care cost trend rates by 1% in each year would increase the net periodic cost by approximately \$20. A decline in the assumed medical care cost trend rates by 1% in each year would decrease the net periodic cost by approximately \$18.

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

	At December 31, 2008	At December 31, 2007
Accumulated benefit obligation at end of period	\$5,066	\$4,236
Reconciliation of projected benefit obligation:		
Projected benefit obligation at beginning of period	\$4,236	\$4,244
Adjustment for change in measurement date	86	-
Service cost	83	83
Interest cost	261	244
Actuarial (gain) loss	566	(166)
Benefit payments	(166)	(169)
Projected benefit obligation at end of period	5,066	4,236
Plan assets at fair value:		
Balance at beginning of period	-	-
Contributions	167	169
Benefit payments	(167)	(169)
Balance at end of period	-	-
Funded status:		
(Deficiency) of plan assets over projected benefit obligation	(5,066)	(4,236)
Unrecognized loss from experience different from that assumed	N/A	N/A
Unrecognized net past service liability	N/A	N/A
Accrued expense included in other liabilities	\$(5,066)	\$(4,236)

At December 31, 2008, an unfunded pension liability of \$637 was recognized as a component of accumulated other comprehensive loss related to the pre-tax unfunded pension obligation of \$1,162 on the Postretirement Benefit Plan. As of December 31, 2008, the Bank used December 31st as its measurement date for the Postretirement Benefit Plan. As of December 31, 2007, the Bank used October 1st as its measurement date for the Postretirement Benefit Plan. The assumed medical care cost trend rate used in computing the accumulated Postretirement Benefit Plan obligation was 9.0% in 2008 and was assumed to decrease gradually to 5.00% in 2013 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 \$262. A decline in the assumed medical care cost trend rates by 1% in each year would decrease the accumulated Postretirement Benefit Plan obligation by approximately \$240. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation were 6.29% and 4.0%, respectively, at December 31, 2008. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation were 5.875% and 3.5%, respectively, at December 31, 2007. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at December 31, 2006 were 5.50% and 3.00%, respectively.

In May 2004, the FASB issued FSP 106-2 ("FSP 106-2"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act")," to provide guidance on accounting for the effects of the Act to employers that sponsor postretirement health care plans which provide prescription drug benefits. FSP 106-2 provides guidance on measuring the accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit cost, and the effects of the Act on the APBO. The Company determined that the benefits provided by the Postretirement Benefit Plan are actuarially equivalent to Medicare Part D under the Act. The effects of the subsidy were treated as an actuarial gain for purposes of calculating the APBO as of December 31, 2008 and 2007. The Company is still in the process of claiming this subsidy from the government, and, as a result, the Bank cannot determine the amount of subsidy it will ultimately receive.

The Postretirement Benefit Plan is an unfunded non-qualified benefit plan that is not anticipated to ever hold assets for investment. Any contributions made to the Postretirement Benefit Plan are expected to be used immediately to pay benefits that come due.

The Bank expects to contribute \$161 to the Postretirement Benefit Plan during the year ending December 31, 2009 in order to pay benefits due under the plan. During the year ending December 31, 2009, \$57 of actuarial losses are anticipated to be recognized as components of net periodic cost.

Benefit payments under the Postretirement Benefit Plan, which reflect expected future service (as appropriate), are expected to be made as follows:

Year Ending December 31,	
2009	\$161
2010	166
2011	176
2012	189
2013	198
2014 to 2018	1,160

401(k) Plan - The Bank also maintains the 401(k) Plan which covers substantially all of its employees. During the years ended December 31, 2008 and 2007, an employer contribution equal to 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, was awarded to all employees who were eligible to participate in the 401(k) Plan regardless of whether or not they participated in the 401(k) Plan during 2008 and 2007. During the year ended December 31, 2006, the 401(k) Plan received the proceeds from a 100% vested cash contribution to all participants in the ESOP in the amount of 3% of "covered compensation" up to applicable Internal Revenue Service limits. 401(k) Plan participants possess the ability to invest this contribution in any of the investment options offered under the 401(k) Plan. The Bank makes no other contributions to the 401(k) Plan. Expenses associated with this contribution totaled \$480, \$383 and \$397 during the years ended December 31, 2008, 2007 and 2006, respectively.

The 401(k) Plan owned participant investments in the Holding Company's common stock for the accounts of participants totaling \$6,006 and \$7,498 at December 31, 2008 and 2007, respectively.

ESOP - The Holding Company adopted the ESOP in connection with the Bank's June 26, 1996 conversion to stock ownership. The ESOP borrowed \$11,638 from the Holding Company and used the funds to purchase 3,927,825 shares of the Holding 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, including 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 \$4,325 and \$4,444 at December 31, 2008 and December 31, 2007, respectively, 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. Shares released from the ESOP suspense account are allocated among participants on the basis of compensation, as defined in the plan, in the year of allocation. ESOP distributions vest 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 Holding Company as defined in the ESOP. Common stock allocated to participating employees totaled 78,155 shares during each of the years ended December 31, 2008, 2007 and 2006. The ESOP benefit expense recorded in accordance with Statement of Position 93-6 for allocated shares totaled \$2,005, \$1,794 and \$1,829, respectively, for the years ended December 31, 2008, 2007 and 2006.

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

Stock Option Activity

1996 Stock Option Plan - In November 1996, the Holding Company adopted the 1996 Stock Option Plan, which permitted the Company to grant up to 4,909,781 incentive or non-qualified stock options to outside directors, certain officers and other employees of the Holding Company or the Bank. The Compensation Committee of the Board of Directors administers the 1996 Stock Option Plan and authorized all option grants.

On December 26, 1996, 4,702,796 stock options were granted to outside directors, certain officers and certain employees under the 1996 Stock Option Plan, all of which were fully exercisable at December 31, 2006. On January 20, 2000, 224,435 stock options remaining under the 1996 Stock Option Plan were granted to certain officers and employees. All of these stock options expire on January 20, 2010. One-fifth of the shares granted to participants under this grant vested on January 20, 2001, 2002, 2003, 2004 and 2005, respectively. No stock options may be granted under the 1996 Stock Option Plan after December 26, 2006.

On January 21, 1999, holders of stock options which had been granted by FIBC to purchase 327,290 shares of FIBC common stock were converted into options to purchase 598,331 shares of the Holding Company's common stock under the 1996 Stock Option Plan (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 December 31, 2005.

During the year ended December 31, 2007, 25,075 unissued options under the 1996 Stock Option Plan were deemed ineligible for future grant.

2001 Stock Option Plan - In September 2001, the Holding Company adopted the 2001 Stock Option Plan, which permitted the Company to grant up to 1,771,875 incentive or non-qualified stock options to officers and other employees of the Holding Company or the Bank and 253,125 non-qualified stock options to outside directors of the Holding Company or Bank. The Compensation Committee of the Board of Directors administered the 2001 Stock Option Plan and authorized all option grants.

On November 21, 2001, 540,447 stock options were granted to certain officers and employees under the 2001 Stock Option Plan. All of these stock options expire on November 21, 2011. One-fourth of the options under this grant vested on November 21, 2002, 2003, 2004 and 2005, respectively. On November 21, 2001, 67,500 stock options were granted to outside directors under the 2001 Stock Option Plan. All of these stock options will expire on November 21, 2011 and vested on November 21, 2002.

On February 1, 2003, a grant of 604,041 stock options was made to certain officers and employees under the 2001 Stock Option Plan. All of these stock options expire on February 1, 2013. When originally granted, one-fourth of the options under this grant were to vest on February 1, 2004, 2005, 2006 and 2007, respectively. On December 30, 2005, vesting was accelerated for all unvested options issued under this grant. On February 1, 2003, 75,000 stock options were granted to outside directors under the 2001 Stock Option Plan. All of these stock options will expire on February 1, 2013 and vested on February 1, 2004.

On January 27, 2004, a grant of 632,874 stock options was made to certain officers and employees under the 2001 Stock Option Plan. All of these stock options expire on January 27, 2014. When originally granted, one-fourth of the options under this grant were to vest on January 27, 2005, 2006, 2007 and 2008, respectively. On December 30, 2005, vesting was accelerated for all unvested options issued under this grant. On January 27, 2004, 81,000 stock options were granted to outside directors under the 2001 Stock Option Plan. All of these stock options will expire on January 27, 2014 and vested on January 27, 2005. On March 3, 2008, 34,425 stock options were granted to an officer under the 2001 Stock Option Plan. All of these stock options will expire on March 3, 2018 and vest to the recipient in equal installments on May 1, 2009, 2010, 2011, and 2012 respectively.

2004 Stock Incentive Plan - In November 2004, the Company adopted the 2004 Stock Incentive Plan, which permits the Company to grant up to a total of 1,496,300 restricted stock awards, incentive or non-qualified stock options or stock appreciation rights to outside directors, officers and other employees of the Holding Company or the Bank. Of the total shares eligible for grant under the 2004 Stock Incentive Plan, only up to 374,075 may be granted as restricted stock awards. The full amount of 1,496,300 shares may be issued either fully as stock options or stock appreciation rights, or a combination thereof. The Compensation Committee of the Board of Directors administers the 2004 Stock Incentive Plan and authorizes all equity grants.

On January 31, 2005, a grant of 76,320 options was made to outside directors under the 2004 Stock Incentive Plan. These options expire on January 31, 2015, and, upon grant, were to vest on January 31, 2006. On May 31, 2005, a grant of 318,492 stock options was made to certain officers of the Company under the 2004 Stock Incentive Plan. All of the options issued under this grant expire on May 31, 2015. When originally granted, one-fourth of the options under this grant were to vest on May 31, 2006, 2007, 2008 and 2009, respectively. On December 30, 2005, vesting was accelerated for all unvested options issued under both of these grants. On May 1, 2007, a grant of 90,000 options was made to outside directors of the Company under the 2004 Stock Incentive Plan. These options expire on May 1, 2017, and vested on May 1, 2008. On May 1, 2007, a grant of 906,500 stock options was made to certain officers of the Company under the 2004 Stock Incentive Plan. All of the options issued under this grant expire on May 1, 2017. One-fourth of the options under this grant vested on May 1, 2008, with the remainder vesting in installments on May 1, 2009, 2010 and 2011, respectively. On May 1, 2008, a grant of 90,000 options was made to outside directors of the

Company under the 2004 Stock Incentive Plan. In December 2008, 10,000 of these options became exercisable due to the death of the award recipient, and will expire if not exercised by the first anniversary of the recipient's death. The remaining 80,000 options expire on May 1, 2018, and vest on May 1, 2009. On July 31, 2008, 61,066 stock options were granted to certain executive officers under the 2004 Stock Incentive Plan. All of these stock options will expire on July 31, 2018 and vest to the recipient in equal installments on May 1, 2009, 2010, 2011, and 2012 respectively.

Combined stock option activity related to the Stock Plans was as follows:

	At or for the Year Ended December 31,		
	2008	2007	2006
Options outstanding – beginning of period	3,165,997	2,250,747	2,503,103
Options granted	185,491	996,500	-
Weighted average exercise price of grants	\$17.10	\$13.74	-
Options exercised	230,424	56,540	246,169
Weighted average exercise price of exercised options	\$11.91	\$5.64	\$4.75
Options forfeited	4,500	24,710	6,187
Weighted average exercise price of forfeited options	\$19.90	\$18.88	\$19.90
Options outstanding - end of period	3,116,564	3,165,997	2,250,747
Weighted average exercise price of outstanding options - end of period	\$14.97	\$14.63	\$14.85
Remaining options available for grant	1,133,027	118,975	1,127,840
Vested options at end of period	2,261,198	2,169,497	2,250,747
Weighted average exercise price of vested options – end of period	\$15.18	\$15.04	\$14.85
Cash received for option exercise cost	2,473	244	1,086
Income tax benefit recognized	506	177	839
Compensation expense recognized	1,079	629	-
Remaining unrecognized compensation expense	2,069	2,377	-
Weighted average remaining years for which compensation expense is to be recognized	2.3	3.2	-

The range of exercise prices and weighted-average remaining contractual lives of both options outstanding and vested options as of December 31, 2008 were as follows:

Outstanding Options as of December 31, 2008				
Range of Exercise Prices	Amount	Weighted Average Exercise Price	Weighted Average Contractual Years Remaining	Exercisable Options as of December 31, 2008
\$4.50 - \$5.00	9,465	\$4.56	1.1	9,465
\$10.50 - \$11.00	380,351	10.91	2.9	380,351
\$13.00-\$13.50	530,278	13.16	4.1	530,278
\$13.51-\$14.00	958,875	13.74	8.3	279,000
\$14.50-\$15.00	34,425	14.92	9.3	-
\$15.00-\$15.50	318,492	15.10	6.4	318,492
\$16.00-\$16.50	76,320	16.45	6.1	76,320
\$16.51-\$17.00	61,066	16.73	9.6	-
\$18.00-\$18.50	90,000	18.18	9.4	10,000
\$19.50-\$20.00	657,292	19.90	5.1	657,292
Total	3,116,564	\$14.97	6.1	2,261,198

There were no stock options granted during the year ended December 31, 2006. The weighted average fair value per option on the date of grant for stock options granted during the years ended December 31, 2008 and 2007 were estimated as follows:

	Year Ended December 31,	
	2008	2007
Total options granted	185,491	996,500
Estimated fair value on date of grant	\$4.16	\$3.06
Pricing methodology utilized	Black- Scholes	Black- Scholes
Expected life (in years)	6.36	6.2
Interest rate	3.37%	4.56%
Volatility	30.09	28.39
Dividend yield	3.29	4.08

Other Stock Awards

RRP - On May 17, 2002, 67,500 *RRP* shares were granted to certain officers of the Bank. These shares vested as follows: 20% on November 25, 2002, and 20% each on April 25, 2003, 2004, 2005 and 2006. The fair value of the Holding Company's common stock on May 17, 2002 was \$16.19. The Company accounts for compensation expense under the *RRP* in accordance with SFAS 123R. During the year ended December 31, 2007, the Company determined that the shares held by the *RRP* were no longer eligible for grant. On September 14, 2007, all of the assets of the *RRP* were liquidated, and the 303,137 unallocated shares of common stock previously held by the *RRP* were retired into treasury.

The following is a summary of activity related to the *RRP* for the years ended December 31, 2007 and 2006:

	At or for the Year Ended December 31,	
	2007	2006
Shares acquired (a)	-	5,023
Shares vested	-	13,500
Shares allocated	-	-
Shares transferred to the Holding Company	303,137	-
Unallocated shares - end of period	-	303,137
Unvested allocated shares - end of period	-	-
Compensation recorded to expense	-	\$45
Income recognized upon transfer of assets	109	-
Income tax benefit recognized	-	134

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

Restricted Stock Awards - On March 17, 2005, a grant of 31,804 restricted stock awards was made to certain officers of the Bank under the 2004 Stock Incentive Plan. One-fourth of these awards vested to the respective recipients on May 1, 2006, 2007, and 2008, respectively, with the remainder vesting on May 1, 2009. The fair value of the Company's common stock on March 17, 2005 was \$15.44. On January 3, 2006, a grant of 30,000 restricted stock awards was made to certain officers of the Bank under the 2004 Stock Incentive Plan. One-fifth of these awards vested to the respective recipients on February 1, 2007, 2008 and 2009, respectively, with the remainder to vest in equal installments on February 1, 2010 and 2011, respectively. The fair value of the Company's common stock on January 3, 2006 was \$14.61 (the opening price on the grant date). On March 16, 2006, a grant of 18,000 restricted stock awards was made to certain officers of the Bank under the 2004 Stock Incentive Plan. One-fifth of these awards vested to the respective recipients on May 1, 2007 and 2008, respectively, with the remainder vesting in equal installments on May 1, 2009, 2010 and 2011, respectively. The fair value of the Company's common stock on March 16, 2006 was \$14.48. On May 1, 2007, a grant of 12,000 restricted stock awards was made to outside directors of the Bank under the 2004 Stock Incentive Plan. All of these awards vested to the respective recipients on May 1, 2008. The fair value of the Company's common stock on May 1, 2007 was \$13.74. On May 30, 2008, a grant of 12,000 restricted stock awards was made to outside Directors of the Bank under the 2004 Stock Incentive Plan. The awards will fully vest to the respective recipients on May 30, 2009. The fair value of the Holding Company's common stock on May 30, 2008 was \$18.18. On July 31, 2008, a grant of 92,957 restricted stock awards was made to certain officers of the Company under the 2004 Stock Incentive Plan. The awards will fully vest to the respective recipients in equal installments on May 1, 2009, 2010, 2011, and 2012 respectively. The fair value of the Holding Company's common stock on July 31, 2008 was \$16.73.

In accordance with SFAS 123R, compensation expense was recorded on these restricted stock awards based upon the fair value of the shares on the respective dates of grant for all periods presented.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Stock Incentive Plan:

	At or for the Year Ended December 31,		
	2008	2007	2006
Unvested allocated shares – beginning of period	66,304	71,855	31,804
Shares granted	104,957	12,000	48,000
Shares vested	29,551	17,551	7,949
Unvested allocated shares – end of period	141,710	66,304	71,855
Unallocated shares - end of period	-	-	-
Compensation recorded to expense	\$618	\$372	\$252
Income tax (benefit) recognized	12	(1)	16

Long Term Cash Incentive Payment Plan - On October 16, 2008, pursuant to authority granted under the Dime Community Bancshares, Inc. Annual Incentive Plan, the Compensation Committee made an incentive award to the Company's Chief Executive Officer.

The threshold, target and maximum award opportunities are \$214, \$428 and \$643, respectively, and are earned based on performance relative to three performance goals measured over the period beginning August 1, 2008 and ending December 31, 2010. The three performance measures and their relative weights are as follows:

Goal	Weight	Threshold	Target	Maximum
Total Shareholder Return Relative to Compensation Peer Group	50%	40th Percentile	50th Percentile	74th Percentile
Cumulative Core Earnings per Share	25%	\$2.23	\$2.48	\$2.73
GAAP Return on Equity	25%	10.3%	12.1%	13.9%

At December 31, 2008, based upon actual results for the period August 1, 2008 through December 31, 2008, the Company determined that the Target payment has the greatest probability of ultimately being made, and thus established a reserve of \$76 related to this future award. During the year ended December 31, 2008, total expense recognized related to this award was \$76.

16. COMMITMENTS AND CONTINGENCIES

Mortgage Loan Commitments and Lines of Credit - At December 31, 2008 and 2007, the Bank had outstanding commitments to make real estate loans aggregating approximately \$49,928 and \$102,397, respectively. At December 31, 2008, all of the commitments were to originate adjustable-rate real estate loans. Substantially all of the Bank's commitments expire within three months of their acceptance by the prospective borrower. A concentration risk exists with these commitments as virtually all of them involve multifamily and underlying cooperative properties located within the New York City metropolitan area.

At December 31, 2008, unused lines of credit available on one- to four-family residential, multifamily residential and commercial real estate loans totaled \$38,728. At December 31, 2008, unused commitments to fund construction loans and overdraft checking accounts totaled \$13,446 and \$2,923, respectively.

At December 31, 2008, the Bank had available unused lines of credit with the FHLBNY totaling \$100,000 expiring on July 31, 2009.

Lease Commitments - At December 31, 2008, aggregate minimum annual rental commitments on operating leases were as follows:

Year Ending December 31,	Amount
2009	\$2,062
2010	2,093
2011	1,963
2012	1,848
2013	1,858
Thereafter	17,272
Total	\$27,096

Rental expense for the years ended December 31, 2008, 2007 and 2006 totaled \$1,957, \$1,794, and \$1,417, respectively.

Litigation - The Company is subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. The Company cannot predict with certainty the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Consequently, the Company cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a future loss will be incurred. In the opinion of management, after consultation with counsel, the resolution of all ongoing legal proceedings will not have a material adverse effect on the consolidated financial condition or results of operations of the Company. The Company accounts for potential losses related to litigation in accordance with SFAS 5 "Accounting for Contingencies." As of December 31, 2008 and 2007, reserves provided for potential losses related to litigation matters were not material.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted SFAS 157 on January 1, 2008. The fair value hierarchy established under SFAS 157 is summarized as follows:

Level 1 Inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Significant other observable inputs such as any of the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 Inputs – Unobservable inputs for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following tables present the assets that are reported on the condensed consolidated statements of financial condition at fair value as of December 31, 2008 by level within the fair value hierarchy. As required by SFAS 157, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Description	Total at December 31, 2008	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investment securities available-for-sale	\$16,602	\$5,433	\$11,169	\$-
MBS available-for-sale	301,351	-	301,351	-

Available-For-Sale Investment Securities and MBS

The Company's available-for-sale investment securities and MBS are reported at fair value, which is determined utilizing prices obtained from independent parties. The valuations obtained are based upon market data, and often utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (obtained only from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Prioritization of inputs may vary on any given day based on market conditions.

The Company's available-for-sale investment securities and MBS at December 31, 2008 were categorized as follows:

Investment Category	Percentage of Total	Valuation Level Under SFAS 157
Pass Through MBS or CMOs issued by GSEs	91.0%	Two
Pass Through MBS or CMOs issued by entities other than GSEs	3.8	Two
Agency securities	0.3	Two
Mutual fund investments	1.7	One
Municipal securities	3.2	Two

The agency securities possessed the highest possible credit rating published by multiple established credit rating agencies as of December 31, 2008. Obtaining a market value as of December 31, 2008 for these securities utilizing significant observable inputs as defined under SFAS 157 was not difficult due to their continued marketplace demand. The pass through MBS and CMOs (issued either by GSEs or entities other than GSEs), which comprised approximately 94.8% of the Company's total available-for-sale investment securities and MBS at December 31, 2008, all possessed the highest possible credit rating published by multiple established credit rating agencies as of December 31, 2008. Obtaining a market value as of December 31, 2008 for these securities utilizing significant observable inputs as defined under SFAS 157 was not difficult due to their demand even in a financial marketplace challenged with reduced liquidity levels such as existed at December 31, 2008. For the municipal securities, which in aggregate were less than 1% of the Company's consolidated assets at December 31, 2008, obtaining a market value utilizing significant observable inputs as defined under SFAS 157 was slightly more difficult due to the lack of regular trading activity as of December 31, 2008. For these securities, the Company obtained market values from at least two credible market sources, and verified that these values were prepared utilizing significant observable inputs as defined under SFAS 157. In accordance with established policies and procedures, the Company utilized a midpoint value obtained as its recorded fair value for securities that were valued with significant observable inputs.

Assets Measured at Fair Value on a Non-Recurring Basis					
Description	Total at December 31, 2008	Fair Value Measurements Using			Losses for the Year Ended December 31, 2008
		Level 1	Level 2	Level 3	
MSR	\$713	-	-	\$713	\$60
Pooled trust preferred securities	2,138	-	-	2,138	3,209

MSR

Mortgage Servicing assets are carried at the lower of cost or estimated fair value. The estimated fair value is obtained through independent third party valuation, and is derived from estimates of future cash flows that incorporate estimates of assumptions utilized by market participants in determining fair value, including, but not limited to, market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, such as perception of future interest rate movements. Several of these assumptions are noted in Note 7 to these financial statements. Since several of these assumptions qualify as significant unobservable inputs, the valuation of the mortgage servicing asset is determined to be Level 3 under SFAS 157.

Pooled Trust Preferred Securities, Held to Maturity

At December 31, 2008, the Company owned eight pooled trust preferred securities classified as held-to-maturity. During the year ended December 31, 2008, the market for these securities was deemed to be illiquid. As a result, while the valuation of these securities had previously been obtained utilizing significant observable inputs as defined in SFAS 157, at December 31, 2008, their estimated fair value was obtained using a cash flow valuation approach (Level 3 pricing as defined by SFAS 157). Under the cash flow valuation methodology utilized, for five of the eight securities, three independent cash flow model valuations were averaged and given a 50% weighting. A separate cash flow valuation for each of these five securities performed utilizing default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation") was given a 50% weighting. For the remaining three securities, only one independent cash flow valuation was available and was given a 50% weighting along with the Internal Cash Flow Valuation.

The major assumptions utilized (each of which represent significant unobservable inputs as defined in SFAS 157) in the Internal Cash Flow Valuation were as follows:

Discount rate – The discount rate utilized was derived from the Bloomberg fair market value curve for debt offerings of similar credit rating. In the event that a security had a split investment rating, separate cash flow valuations were made utilizing the appropriate discount rate and were averaged in order to determine the Internal Cash Flow Valuation.

Defaults - - All underlying issuers with a Fitch bank rating of 5.0 were assumed to default. Underlying issuers with a Fitch bank rating of 3.5 through 4.5 were assumed to default at levels ranging from 5% to 75% based upon both their rating as well as whether they had been granted approval to receive funding under the U.S. Department of Treasury's Troubled Asset Relief Program Capital Purchase Program.

Cash flows – The actual cash flows for the Company's investment tranche of each security, adjusted to assume that all estimated defaults occurred on January 1, 2009, and an estimated recovery of 6% over the cash flow period (*i.e.* the remaining life of the security).

Two of the three independent cash flow valuations were made utilizing a methodology similar to the Internal Cash Flow Valuation, differing only in the underlying assumptions deriving estimated cash flows, individual bank defaults and discount rate. The third independent cash flow valuation was derived from a different methodology in which the actual cash flow estimate based upon the underlying collateral of the securities (including default estimates) was not considered. Instead, this cash flow valuation was determined utilizing a discount rate determined from the Bloomberg fair market value curve for similar assets that still continue to trade actively, with adjustments made for the illiquidity of the pooled trust preferred market. Because of the significant judgment underlying each of the pricing assumptions, management elected to recognize each of the independent valuations and apply a weighting system to all of the valuations, including the Internal Cash Flow Valuation, as all of these valuations were determined utilizing a valid and objective pricing methodology.

Impaired Loans

Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired when, based upon current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at December 31, 2008 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the real estate collateral less estimated selling costs. Fair value is estimated through current appraisals, where practical, or a drive-by inspection and a comparison of the real estate collateral with similar properties in the area by either a licensed appraiser or real estate broker and adjusted as deemed necessary by management to reflect current market conditions. At December 31, 2008, no impaired loans were carried at fair value. Net charge-offs recognized on impaired loans were \$557 during the year ended December 31, 2008. The recoveries and losses were charged against the allowance for loans losses. All of the loans for which losses or recoveries were recognized were satisfied or transferred to OREO during the year ended December 31, 2008.

While quoted market prices available in active trading marketplaces are generally recognized under SFAS 157 as the best evidence of fair value of financial instruments, several of the Company's financial instruments are not bought or sold in active trading marketplaces. Accordingly, their fair values are derived or estimated based on a variety of alternative valuation techniques. All such fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates do not reflect any possible tax ramifications, estimated transaction costs, or any premium or discount that could result from a one time sale of the entire holdings of a particular financial instrument. In addition, their estimates are based on assumptions of future loss experience, current economic conditions, risk characteristics, and other such factors. These assumptions are subjective in nature and involve inherent uncertainty. Changes in these assumptions could significantly affect the estimates.

Methods and assumptions used to estimate fair values for financial instruments that are not valued utilizing formal marketplace quotations (other than those previously discussed) are summarized as follows:

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

Federal Funds Sold and Other Short Term Investments – As a result of their short duration to maturity, the fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due.

FHLBNY Capital 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 discounting anticipated future cash flows, net of anticipated prepayments of the loans, using a discount rate reflecting current market rates for loans with similar terms. This methodology is applied to all loans, inclusive of non-accrual loans, as well as impaired loans for which a write-down to the current fair market value of the underlying collateral is not determined to be warranted under the criteria discussed above. In addition, the valuation of loans reflects the consideration of secondary market prices for loan types that have traditionally facilitated marketplace sales (over 80% of the outstanding loan portfolio). Due to significant market dislocation, the secondary market prices were given little weighting in deriving the loan valuation at December 31, 2008.

Deposits - The fair value of savings, money market, and checking accounts is assumed to be their carrying amount. The fair value of certificates of deposit is based upon the present value of contractual cash flows using current interest 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.

Securities Sold Under Agreements to Repurchase and FHLBNY Advances - The fair value is measured by the discounted anticipated cash flows through contractual maturity or next interest repricing date, or an earlier call date if, as of the valuation date, the borrowing is expected to be called. The carrying amount of accrued interest payable is their fair value.

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 interest rates and the committed rates.

Based upon the aforementioned valuation methodologies, the estimated carrying amount and estimated fair values of all the Company's financial instruments were as follows:

At December 31, 2008	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$211,020	\$211,020
Investment securities held to maturity (pooled trust preferred securities)	10,861	9,082
Investment securities available-for-sale	16,602	16,602
MBS available-for-sale	301,351	301,351
Loans, net	3,274,051	3,300,154
Loans held for sale	-	-
MSR	2,778	2,841
Federal funds sold and other short-term investments	-	-
FHLBNY capital stock	53,435	53,435
Liabilities:		
Savings, money market and checking accounts	1,106,885	1,106,885
Certificates of deposit	1,153,166	1,160,436
Escrow and other deposits	130,121	130,121
Securities sold under agreements to repurchase	230,000	263,350
FHLBNY advances	1,019,675	1,077,362
Subordinated notes payable ¹	25,000	23,875
Trust Preferred securities payable ¹	72,165	40,412
Commitments to extend credit	272	272

At December 31, 2007	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$101,708	\$101,708
Investment securities held-to-maturity	80	80
Investment securities available-for-sale	34,095	34,095
MBS available-for-sale	162,764	162,764
Loans, net	2,860,748	2,848,863
Loans held for sale	890	890
MSR	2,496	3,914
Federal funds sold and other short-term investments	128,014	128,014
FHLBNY capital stock	39,029	39,029
Liabilities:		
Savings, money market and checking accounts	1,102,911	1,102,911
Certificates of deposit	1,077,087	1,076,362
Escrow and other deposits	52,209	52,209
Securities sold under agreements to repurchase	155,080	166,745
FHLBNY advances	706,500	719,452
Subordinated notes payable	25,000	25,750
Trust Preferred securities payable ¹	72,165	57,732
Commitments to extend credit	590	590

¹ The fair value of this liability is measured by independent market quotations obtained based upon transactions occurring in the market as of the disclosure date.

Assets Owned By the Employee Retirement Plan – The fair value of the assets owned by the Employee Retirement Plan, which, while not owned by the Company, were an integral part of the determination of the plan's funded status (which is recognized as an asset or liability by the Company) at December 31, 2008. The fair value of these assets was determined in accordance with the valuation hierarchy established by SFAS 157.

Non-financial Assets and Liabilities. The provisions of SFAS 157 related to disclosures surrounding non-financial assets and non-financial liabilities such as goodwill and OREO have not been applied since the Company elected the deferral rules of FSP 157-2 (discussed in Note 1 to the consolidated financial statements).

18. TREASURY STOCK

The Holding Company purchased 51,000 shares, 2,298,726 shares and 777,539 shares of its common stock into treasury during the years ended December 31, 2008, 2007 and 2006, respectively. All shares were purchased in accordance with applicable regulations of the Office of Thrift Supervision ("OTS") and the SEC.

19. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements established by the federal banking agencies. Failure to satisfy minimum capital requirements may result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated 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. As of December 31, 2008, the Bank satisfied all capital adequacy requirements to which it was subject.

As of December 31, 2008 and 2007, 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 was required to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables:

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Tangible capital	\$304,455	7.63%	\$59,873	1.5%	\$199,578	5.00%
Leverage capital	304,455	7.63	159,662	4.0%	199,578	5.00
Total risk-based capital (to risk weighted assets)	303,033	11.43	212,140	8.0%	265,176	10.00
Tier I risk-based capital (to risk weighted assets)	285,579	10.77	106,070	4.0%	159,105	6.00

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Tangible capital	\$269,231	7.88%	\$51,228	1.5%	\$170,761	5.00%
Leverage capital	269,231	7.88	136,609	4.0%	170,761	5.00
Total risk-based capital (to risk weighted assets)	266,645	11.92	178,954	8.0%	\$223,693	10.00
Tier I risk-based capital (to risk weighted assets)	251,258	11.23	89,477	4.0%	134,216	6.00

The following is a reconciliation of stockholders' equity to regulatory capital for the Bank:

	At December 31, 2008			At December 31, 2007		
	Tangible Capital	Leverage Capital	Total Risk-Based Capital	Tangible Capital	Leverage Capital	Total Risk-Based Capital
Stockholders' equity	\$350,715	\$350,715	\$350,715	\$321,091	\$321,091	\$321,091
Non-allowable assets:						
MSR	(281)	(281)	(281)	(254)	(254)	(254)
Accumulated other comprehensive loss	9,659	9,659	9,659	4,032	4,032	4,032
Goodwill	(55,638)	(55,638)	(55,638)	(55,638)	(55,638)	(55,638)
Tier 1 risk-based capital	304,455	304,455	304,455	269,231	269,231	269,231
Adjustment for recourse provision on loans sold	-	-	(18,876)	-	-	(17,973)
General valuation allowance	-	-	17,454	-	-	15,387
Total (Tier 2) risk based capital	304,455	304,455	303,033	269,231	269,231	266,645
Minimum capital requirement	59,873	159,662	212,140	51,228	136,609	178,954
Regulatory capital excess	\$244,582	\$144,793	\$90,893	\$218,003	\$132,622	\$87,691

20. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following represents the unaudited condensed consolidated results of operations for each of the quarters during the fiscal years ended December 31, 2008 and 2007:

	For the three months ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Net interest income	\$19,231	\$23,110	\$25,182	\$23,829
Provision for loan losses	60	310	596	1,040
Net interest income after provision for loan losses	19,171	22,800	24,586	22,789
Non-interest (loss) income	2,167	1,860	1,677	(2,890)
Non-interest expense	12,280	12,258	12,913	12,522
Income before income taxes	9,058	12,402	13,350	7,377
Income tax expense	3,101	3,977	4,997	2,084
Net income	\$5,957	\$8,425	\$8,353	\$5,293
Earnings per share (1):				
Basic	\$0.18	\$0.26	\$0.26	\$0.16
Diluted	\$0.18	\$0.26	\$0.25	\$0.16

	For the three months ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Net interest income	\$17,886	\$17,669	\$17,378	\$18,080
Provision for loan losses	60	60	60	60
Net interest income after provision for loan losses	17,826	17,609	17,318	18,020
Non-interest income	2,490	2,387	3,131	2,411
Non-interest expense	11,248	11,199	11,717	11,337
Income before income taxes	9,068	8,797	8,732	9,094
Income tax expense	3,251	3,152	3,188	3,657
Net income	\$5,817	\$5,645	\$5,544	\$5,437
Earnings per share (1):				
Basic	\$0.17	\$0.17	\$0.17	\$0.17
Diluted	\$0.17	\$0.17	\$0.17	\$0.17

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

21. CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following statements of condition as of December 31, 2008 and 2007, and the related statements of operations and cash flows for the years ended December 31, 2008, 2007 and 2006, reflect the Holding Company's investment in its wholly-owned subsidiaries, the Bank, 842 Manhattan Avenue Corp., and its unconsolidated subsidiary, Dime Community Capital Trust I, using, as deemed appropriate, the equity method of accounting:

DIME COMMUNITY BANCSHARES, INC. CONDENSED STATEMENTS OF FINANCIAL CONDITION

	At December 31, 2008	At December 31, 2007
ASSETS:		
Cash and due from banks	\$8,419	\$5,103
Investment securities available-for-sale	5,433	7,112
MBS available-for-sale	1,041	1,279
Federal funds sold and other short term investments	-	22,733
ESOP loan to subsidiary	4,325	4,444
Investment in subsidiaries	351,360	321,737
Other assets	5,575	5,690
Total assets	\$376,153	\$368,098
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Subordinated notes payable	\$25,000	\$25,000
Trust Preferred securities payable	72,165	72,165
Other liabilities	2,024	2,081
Stockholders' equity	276,964	268,852
Total liabilities and stockholders' equity	\$376,153	\$368,098

**DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2008	2007	2006
Net interest loss	\$(6,658)	\$(5,902)	\$(5,178)
Dividends received from Bank	-	35,000	58,012
Non-interest income	513	516	1,215
Non-interest expense	(408)	(424)	(484)
Income (Loss) before income taxes and equity in undistributed earnings of direct subsidiaries	(6,553)	29,190	53,565
Income tax credit	2,751	2,143	698
Income (Loss) before equity in undistributed earnings of direct subsidiaries	(3,802)	31,333	54,263
Equity in (overdistributed) undistributed earnings of subsidiaries	31,830	(8,890)	(23,671)
Net income	\$28,028	\$22,443	\$30,592

**DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
Cash flows from Operating Activities:			
Net income	\$28,028	\$22,443	\$30,592
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in (undistributed) overdistributed earnings of direct subsidiaries	(31,830)	8,890	23,671
Gain on sale of assets	-	-	(1,063)
Net (amortization) and accretion	(489)	(547)	(594)
(Increase) Decrease in other assets	115	(36)	703
(Decrease) Increase in other liabilities	930	(89)	596
Net cash (used in) provided by Operating Activities	(3,246)	30,661	53,905
Cash flows from Investing Activities:			
Net Decrease (Increase) in federal funds sold and other short-term Investments	22,733	16,945	(25,962)
Proceeds from maturities and redemptions of investment securities available-for-sale	4	-	3,000
Proceeds from sale of investment securities available-for-sale	-	-	3,032
Purchases of investment securities available-for-sale	-	-	(3,029)
Principal collected on MBS available-for-sale	209	507	571
Principal repayments on ESOP loan	119	110	102
Net cash provided by (used in) Investing Activities	23,065	17,562	(22,286)
Cash flows from Financing Activities:			
Cash dividends re-assumed through liquidation of RRP	-	958	-
Common stock issued for exercise of stock options	2,473	136	910
Purchase of common stock by the BMP	(66)	-	-
Cash dividends paid to stockholders	(18,256)	(18,991)	(19,751)
Purchase of treasury stock	(654)	(29,650)	(11,024)
Benefit plan payments reimbursed by subsidiary	-	-	-
Net cash used in financing activities	(16,503)	(47,547)	(29,865)
Net increase in cash and due from banks	3,316	676	1,754
Cash and due from banks, beginning of period	5,103	4,427	2,673
Cash and due from banks, end of period	\$8,419	\$5,103	\$4,427

* * * * *

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. (2)
- 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. (3)
- 4.4 Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock (4)
- 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 (4)
- 4.6 Form of Rights Certificate (4)
- 4.7 Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company as Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I and the holders from time to time of undivided beneficial interests in the assets of Dime Community Capital Trust I (9)
- 4.8 Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (9)
- 4.9 Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (9)
- 10.1 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano
- 10.2 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine
- 10.3 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon
- 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 (5)
- 10.7(i) Amendment to Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers
- 10.8 The Benefit Maintenance Plan of Dime Community Bancorp, Inc.
- 10.9 Severance Pay Plan of The Dime Savings Bank of Williamsburgh
- 10.10 Retirement Plan for Board Members of Dime Community Bancorp, Inc.
- 10.11 Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees, as amended by amendments number 1 and 2 (6)
- 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 (6)
- 10.13 Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 200 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan. (6)
- 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 and the 2004 Stock Incentive Plan (6)
- 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.(6)
- 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. (6)
- 10.17 Financial Federal Savings Bank Incentive Savings Plan in RSI Retirement Trust (7)
- 10.18 Financial Federal Savings Bank Employee Stock Ownership Plan (7)
- 10.19 Option Conversion Certificates between Dime Community Bancshares, Inc. and each of Messrs. Russo, Segrete, Calamari, Latawiec, 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. (7)
- 10.20 Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (8)
- 10.21 Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (12)
- 10.22 Waiver executed by Vincent F. Palagiano (11)
- 10.23 Waiver executed by Michael P. Devine (11)

- 10.24 Waiver executed by Kenneth J. Mahon (11)
 - 10.25 Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (10)
 - 10.26 Employee Retention Agreement between The Dime Savings Bank of Williamsburgh, Dime Community Bancshares, Inc. and Christopher D. Maher
 - 10.27 Form of restricted stock award notice for outside directors under the 2004 Stock Incentive Plan (10)
 - 10.28 Employee Retention Agreement between The Dime Savings Bank of Williamsburgh, Dime Community Bancshares, Inc. and Daniel Harris
 - 10.29 Dime Community Bancshares, Inc. Annual Incentive Plan
 - 10.30 Amendment to the Dime Savings Bank of Williamsburgh 401(K) Plan
 - 10.31 Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates
 - 31(i).1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
 - 31(i).2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
 - 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
 - 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed on August 9, 2007.
 - (3) 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.
 - (4) Incorporated by reference to the registrant's Current Report on Form 8-K dated April 9, 1998 and filed on April 16, 1998.
 - (5) 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.
 - (6) 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, and the Current Reports on Form 8-K filed on March 22, 2004 and March 29, 2005.
 - (7) 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.
 - (8) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003.
 - (9) Incorporated by reference to Exhibits to the registrant's Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.
 - (10) Incorporated by reference to the registrant's Current Report on Form 8-K filed on March 22, 2005.
 - (11) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 10, 2005.
 - (12) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed on August 8, 2008.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of the 31st day of December, 2008, by and between The Dime Savings Bank of Williamsburgh, a mutual savings bank organized and operating under the federal laws of the United States and having an office at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank") and Vincent F. Palagiano, residing at 44 Drenzo Court, Staten Island, New York 10309 and amends and restates the Amended and Restated Employment Agreement made as of June 26, 1996 between the Bank and Mr. Palagiano.

WITNESSETH:

WHEREAS, Mr. Palagiano currently serves the Bank in the capacity of Chairman of the Board and Chief Executive Officer; and

WHEREAS, the Bank is a wholly owned subsidiary of 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

WHEREAS, the Bank and Mr. Palagiano are parties to an Employment Agreement made and entered into as of the 1st day of January, 1992 (the "Initial Effective Date") and amended and restated as of the 1st day of October, 1995, and further amended on the 26th day of June, 1996 ("Prior Agreement"); and

WHEREAS, the Bank and Mr. Palagiano desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of Section 409A of the Internal Revenue Code of 1986 ("the Code"); and

WHEREAS, for purposes of securing for the Bank Mr. Palagiano's continued services, the Board of Directors of the Bank ("Board") has approved and authorized the execution of this Agreement with Mr. Palagiano; and

WHEREAS, Mr. Palagiano is willing to continue to make his services available to the Bank on the terms and conditions set forth herein.

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

1. Representations and Warranties of the Parties.

(a) The Bank hereby represents and warrants to Mr. Palagiano 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 Bank; 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 Bank 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 Bank or its business.

(b) Mr. Palagiano hereby represents and warrants to the Bank 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) including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to him.

2. Employment.

The Bank 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 Initial Effective Date and ending on the third anniversary date of the Initial Effective Date, plus such extensions, if any, as are provided by the Board pursuant to section 3(b).

(b) Prior to the first anniversary of the Initial Effective Date and each anniversary date thereafter (each, an "Anniversary Date"), the Board shall review the terms of this Agreement and Mr. Palagiano's performance of services hereunder and may, in the absence of objection from Mr. Palagiano, approve an extension of the Employment Period. In such event, the Employment Period shall be extended to the third anniversary of the relevant Anniversary Date.

(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 and the Bank is not subject to rules and regulations of the Office of Thrift Supervision, then the Employment Period shall be extended through and including the third anniversary of the earliest date after the effective date of such Change of Control on which either the Bank 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 of Control (as defined in section 13 of this Agreement), Mr. Palagiano has provided written notice to the Bank of his intent to discontinue the Employment Period.

(d) The Bank or Mr. Palagiano may, at any time by written notice given to the other, elect to terminate this Agreement. Any such notice given by the Bank 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 Bank 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 Bank 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 a period commencing on the date specified and ending on the last day of the third (3rd) year from the date specified, or, if neither party has given notice electing a discontinuance of the Employment Period, on the third (3rd) anniversary of the date specified.

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 Bank and use his best efforts to advance the Bank'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, in accordance with organization Certificate, By-laws, Applicable Laws, Statutes and Regulations, custom and practice of the Bank 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 Bank.

5. Compensation - -- Salary and Bonus.

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

(a) during the period beginning on January 1, 2009 and ending on December 31, 2009, no less than \$686,000;

(b) during each calendar year that begins after December 31, 2009, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2009; 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 Bank (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 Bank (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 Bank'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.

(d) 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 Bank.

6. Employee Benefits Plans and Programs; Other Compensation.

Except as otherwise provided in this Agreement, Mr. Palagiano shall be treated as an employee of the Bank and be entitled to participate in and receive benefits under the Bank'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 Bank 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 Bank'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.

In the event of a conversion of the Bank from a mutual savings bank to a form of organization owned by stockholders ("Conversion"), the Bank will provide, or cause to be provided, to Mr. Palagiano in connection with such Conversion, stock-based compensation and benefits, including, without limitation, stock options, restricted stock awards, and participation in tax-qualified stock bonus plans which, in the aggregate, are either (A) accepted by Mr. Palagiano in writing as being satisfactory for purposes of this Agreement or (B) in the written, good faith opinion of a nationally recognized executive compensation consulting firm selected by the Bank and satisfactory to Mr. Palagiano, whose agreement shall not be unreasonably withheld, are no less favorable than the stock-based compensation and benefits usually and customarily provided to similarly situated executives of similar financial institutions in connection with similar transactions.

7. Board Memberships and Personal Activities.

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. Mr. Palagiano may also serve as an officer or director of any parent of the Bank on such terms and conditions as the Bank and its parent 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.

8. Working Facilities and Expenses.

Mr. Palagiano's principal place of employment shall be at the Bank'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 Bank 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 Bank and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Bank shall provide Mr. Palagiano with an automobile suitable to his position with the Bank 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 Bank shall (i) reimburse Mr. Palagiano for the cost of maintenance and servicing such automobile and, for instance, gasoline and oil for such automobile; (ii) reimburse Mr. Palagiano for his ordinary and necessary business expenses incurred in the performance of his duties under this Agreement (including but not limited to travel and entertainment expenses); and (iii) reimburse Mr. Palagiano for fees for memberships in such clubs and organizations as Mr. Palagiano and the Bank, and such other expenses as Mr. Palagiano and the Bank, shall mutually agree are necessary and appropriate for business purposes, upon presentation to the Bank of an itemized account of such expenses in such form as the Bank may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last day of the year following the year in which the expense was incurred. Mr. Palagiano shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period. Mr. Palagiano shall be responsible for the payment of any taxes on account of his personal use of the automobile provided by the Bank and on account of any other benefit provided herein.

9. Termination Giving Rise to Severance Benefits.

(a) In the event that Mr. Palagiano's employment with the Bank shall terminate during the Employment Period on account of the termination of Mr. Palagiano's employment with the Bank other than:

(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 Bank 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 Bank within thirty (30) days after written notice requesting such return is given to Mr. Palagiano by the Bank; then the Bank 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 Bank shall terminate under circumstances described in section 9(a) of this Agreement or if the Bank terminates this Agreement pursuant to section 3(d), the following benefits and amounts shall be paid or provided to Mr. Palagiano (or, in the event of his death, to his estate), in accordance with section 26, on his termination of employment:

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

(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 Bank'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 the Remaining Unexpired Employment Period, 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 Bank 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) 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 Bank 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 Bank's regular payroll periods with respect to its officers, and, in the case of bonus, annually;

(v) 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 Bank (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 Bank 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 Bank 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 Bank 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"); provided, however, that if payments are made under this section 9(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) a lump sum payment in an amount equal to the excess, if any, of (A) the present value of the benefits attributable to the Bank's contribution to which he would be entitled under any defined contribution plans maintained by, or covering employees of, the Bank (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 Bank 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 Bank, and been fully vested in such plan or plans, over (B) the present value of the benefits attributable to the Bank's contributions to which he is actually entitled under such plans as of the date of his termination of employment with the Bank, 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 Bank's regular payroll periods with respect to its officers; provided, however, that if payments are made under this section 9(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vii) the payments that would have been made to Mr. Palagiano under any incentive compensation plan maintained by, or covering employees of, the Bank (other than bonus payments to which section 9(b)(iv) of this Agreement is applicable) if he had continued working for the Bank 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 Bank 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 Bank's officers under any such incentive compensation plan; and

(viii) the benefits to which Mr. Palagiano is entitled under the Bank'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 Bank's tax-qualified pension plan and a discount rate of 6% per annum. If the amount may be increased by a subsequent Change in Control, any additional payment shall be made at the time and in the form provided under the relevant plan, or, if no such time or form is provided, upon the first of the following events to occur on or after the date of such Change in Control: a change in control event (within the meaning of Treasury Regulation section 1.409A-3(i)(5)) with respect to Mr. Palagiano, Mr. Palagiano's separation from service (within the meaning of section 1.409A-1(h)), Mr. Palagiano's death or Mr. Palagiano's disability (within the meaning of Treasury Regulation section 1.409A-3(i)(4)). From the date of such Change of Control until the date of payment, any additional payment so deferred shall be held in trust for Mr. Palagiano, the terms of which trust shall be those set forth in section 26.

(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 Bank, or otherwise except as specifically provided in section 9(b)(iii) of this Agreement. The Bank 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 Bank 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 Bank 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 Bank'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 Bank, 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 Bank, the Bank will pay to him, in accordance with section 26, 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 Bank's long term disability policy.

(d) Payments under this section 11 shall be made upon Mr. Palagiano's death or disability.

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

(a) Mr. Palagiano's termination of employment with the Bank shall be deemed a "Termination for Cause" if such termination occurs for "cause," which, for purposes of this Agreement shall mean personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order, or any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that Mr. Palagiano shall not be deemed to have been discharged for cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to Mr. Palagiano and a reasonable opportunity for Mr. Palagiano to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging Mr. Palagiano for cause.

(b) Mr. Palagiano's termination of employment with the Bank 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 Bank 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; or (C) any Change in Control described in section 13(b);

(ii) a reduction by the Bank 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 Bank;

(iii) the relocation of the Bank's principal executive offices to a location outside the New York metropolitan area or the Bank's requiring Mr. Palagiano to be based anywhere other than the Bank's principal executive offices except for required travel on the Bank'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 Bank, 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 Bank, which failure is not inadvertent and immaterial and which is not promptly cured by the Bank after notice of such failure is given to the Bank by the Executive;

(v) the failure by the Bank to continue in effect any compensation plan in which Mr. Palagiano participates which is material to his total compensation, including but not limited to the Retirement Plan and the Bank'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 Bank 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 Bank;

(vi) the failure by the Bank to continue to provide Mr. Palagiano with benefits substantially similar to those enjoyed by Mr. Palagiano under the Retirement Plan and the Bank's Incentive Savings Plan or under any of the Bank'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 Bank 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 Bank, rank or otherwise, in accordance with the Bank's normal vacation policy, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Bank;

(vii) the failure of the Bank 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 Bank which is not effected pursuant to the provisions of section 12(a) regarding Termination for Cause or on account of Disability;

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

(x) in the event of a Change in Control described in section 13(b) of this Agreement, a failure of the Bank to provide, or cause to be provided, to Mr. Palagiano in connection with such Change in Control, stock-based compensation and benefits, including, without limitation, stock options, restricted stock awards, and participation in tax-qualified stock bonus plans which, in the aggregate, are either (A) accepted by Mr. Palagiano in writing as being satisfactory for purposes of this Agreement or (B) in the written, good faith opinion of a nationally recognized executive compensation consulting firm selected by the Bank and satisfactory to Mr. Palagiano, whose agreement shall not be unreasonably withheld, are no less favorable than the stock-based compensation and benefits usually and customarily provided to similarly situated executives of similar financial institutions in connection with similar transactions; or

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

(xii) in the event of a Change in Control described in section 13(a) of this Agreement, termination of employment for any or no reason whatsoever during the period of sixty (60) days beginning on the first anniversary of the effective date of such Change in Control.

13. Definition of Change in Control.

For purposes of this Agreement, a Change in Control of the Bank shall mean:

(a) 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 Bank; (B) a corporation owned, directly or indirectly, by the stockholders of the Bank in substantially the same proportions as their ownership of stock of the Bank; 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 Bank representing 25% or more of the combined voting power of all of the Bank's then outstanding securities; or

(b) the occurrence of any event upon which the individuals who on the Initial Effective Date are members of the Board, together with individuals (other than any individual designated by a person who has entered into an agreement with the Bank 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 Bank'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 Initial Effective Date 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 Bank (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(c) (i) the consummation of a merger or consolidation of the Bank with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(A) either (A) the members of the Board of the Bank 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 (B) the shareholders of the Bank 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 Bank before such merger or consolidation; and

(B) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform the Bank's obligations under this Agreement; or

(ii) the shareholders of the Bank approve either a plan of complete liquidation of the Bank or an agreement for the sale or disposition by the Bank of all or substantially all of its assets; and

(d) any event which would be described in section 13(a), (b) or (c) if the term "Company" were substituted for the term "Bank" therein. Such an event shall be deemed to be a Change in Control under the relevant provision of section 13(a), (b) or (c).

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.

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 Bank or by Mr. Palagiano, shall have no effect on the rights and obligations of the parties hereto under the Bank's the Retirement Plan and the Bank'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 Bank 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 Bank from time to time.

15. Successors and Assigns.

(a) The Bank 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 Bank to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such assumption and agreement prior to the effectiveness of any such succession shall be deemed to constitute a material breach of the Bank'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 Bank, 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 Bank 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:

44 Drenzo Court Staten Island, New York 10309

If to the Bank:

The Dime Savings Bank of Williamsburgh

209 Havemeyer Street

Brooklyn, New York 11211

Attention: Corporate Secretary

With a copy to:

Thacher Proffitt & Wood LLP

Two World Financial Center

New York, New York 10281

17. Indemnification and Attorneys' Fees.

The Bank 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 Mr. Palagiano shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement; provided, further, that this section 17 shall not obligate the Bank to pay costs and legal fees on behalf of Mr. Palagiano under this Agreement in excess of \$50,000. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which Mr. Palagiano incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to Mr. Palagiano's right to reimbursement; provided, however, that Mr. Palagiano shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of Mr. Palagiano's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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. Any reference to the term "Board" shall mean the Board of Trustees of the Bank while the Bank is a mutual savings bank and the Board of Directors of the Bank while the Bank is a stock savings bank. Any reference to the term "Bank" shall mean the Bank in its mutual form prior to the conversion and in its stock form on and after the conversion. If the Bank does not convert to stock form, any reference to the Bank's being a stock savings bank shall have no effect.

23. 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 Amended and Restated Employment Agreement dated June 26th, 1996 between the Bank and Mr. Palagiano. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; provided, however, that this Agreement shall be subject to amendment in the future in such manner as the Bank shall reasonably deem necessary or appropriate to effect compliance with Section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under Section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to Mr. Palagiano on a present value basis.

24. 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 Bank.

25. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Association:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to the Executive under section 9(b) hereof (exclusive of amounts described in section 9(b)(i) and (viii)) exceed the three times the Executive's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Association (or for his entire period of employment with the Association if less than five calendar years).

(b) Notwithstanding anything herein contained to the contrary, any payments to the Executive by the Association, 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 ("FDI Act"), 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Executive is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Association pursuant to a notice served under section 8(e)(3) or 8(g)(1) of the FDI Act, 12 U.S.C. Section 1818(e)(3) or 1818(g)(1), the Association's obligations under this Agreement shall be suspended as of the date of service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Association, in its discretion, may (i) pay to the Executive all or part of the compensation withheld while the Association's obligations

hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Executive is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all prospective obligations of the Association under this Agreement shall terminate as of the effective date of the order, but vested rights and obligations of the Association and the Executive shall not be affected.

(e) Notwithstanding anything herein contained to the contrary, if the Association is in default (within the meaning of section 3(x)(1) of the FDI Act, 12 U.S.C. Section 1813(x)(1), all prospective obligations of the Association under this Agreement shall terminate as of the date of default, but vested rights and obligations of the Association and the Executive shall not be affected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Association hereunder shall be terminated, except to the extent that a continuation of this Agreement is necessary for the continued operation of the Association: (i) by the Director of the OTS or his designee or the Federal Deposit Insurance Corporation ("FDIC"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in section 13(c) of the FDI Act, 12 U.S.C. Section 1823(c); (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Association or when the Association is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent that any of the foregoing provisions shall cease to be required or by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

26. Compliance with Section 409A of the Code.

Mr. Palagiano and the Bank acknowledge that each of the payments and benefits promised to Mr. Palagiano under this Agreement must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, Mr. Palagiano and the Bank agree that:

(a) the expense reimbursements described in Section 8 and legal fee reimbursements described in Section 17 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;

(b) the payment described in Section 9(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;

(c) the benefits and payments described in Section 9(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms; and

(d) the welfare benefits provided in kind under section 9(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income;

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of Mr. Palagiano's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after Mr. Palagiano's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if Mr. Palagiano is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following Mr. Palagiano's separation from service. Each amount payable under this plan that is required to be deferred beyond Mr. Palagiano's separation from service, shall be deposited on the date on which, but for such deferral, the Bank would have paid such amount to Mr. Palagiano, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Bank with the approval of Mr. Palagiano (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by Mr. Palagiano (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

26. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which Mr. Palagiano participates:

(a) Mr. Palagiano shall repay to the Company any bonus or incentive compensation paid to Mr. Palagiano while (i) Mr. Palagiano is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Palagiano (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Company may supply to Mr. Palagiano a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If Mr. Palagiano's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) Mr. Palagiano is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Company issued under the CPP, then payments to Mr. Palagiano that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the

affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Palagiano (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 26(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 26 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Company, under which the UST acquires equity or debt securities of the Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 26(a) shall not be required by the Relevant Implementation of section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 26(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 26(b)(ii) shall be paid on the earliest date on which the Company reasonably anticipates that such amount may be paid without violating such limitation.

IN WITNESS WHEREOF, the Bank 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

THE DIME SAVINGS BANK OF WILLIAMSBURGH

By:

By:

FRED P. FEHRENBACH

Committee
Directors

Chairman, Compensation
Secretary Of the Board of

[Seal]

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of the 31st day of December, 2008, by and between The Dime Savings Bank of Williamsburgh, a mutual savings bank organized and operating under the federal laws of the United States and having an office at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank") and Michael P. Devine, residing at 5 Beacon Road, Summit, New Jersey 07901 and amends and restates the Amended and Restated Employment Agreement made as of June 26, 1996 between the Bank and Mr. Devine.

WITNESSETH:

WHEREAS, Mr. Devine currently serves the Bank in the capacity of President and Chief Operating Officer; and

WHEREAS, the Bank is a wholly owned subsidiary of 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

WHEREAS, the Bank and Mr. Devine are parties to an Employment Agreement made and entered into as of the 1st day of January, 1992 (the "Initial Effective Date") and amended and restated as of the 1st day of October, 1995, and further amended on the 26th day of June, 1996 ("Prior Agreement"); and

WHEREAS, the Bank and Mr. Devine desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of Section 409A of the Internal Revenue Code of 1986 ("the Code"); and

WHEREAS, for purposes of securing for the Bank Mr. Devine's continued services, the Board of Directors of the Bank ("Board") has approved and authorized the execution of this Agreement with Mr. Devine; and

WHEREAS, Mr. Devine is willing to continue to make his services available to the Bank on the terms and conditions set forth herein.

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

1. Representations and Warranties of the Parties.

(a) The Bank 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 Bank; 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 Bank 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 Bank or its business.

(b) Mr. Devine hereby represents and warrants to the Bank 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) including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to him.

2. Employment.

The Bank 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 Initial Effective Date and ending on the third anniversary date of the Initial Effective Date, plus such extensions, if any, as are provided by the Board pursuant to section 3(b).

(b) Prior to the first anniversary of the Initial Effective Date and each anniversary date thereafter (each, an "Anniversary Date"), the Board shall review the terms of this Agreement and Mr. Devine's performance of services hereunder and may, in the absence of objection from Mr. Devine, approve an extension of the Employment Period. In such event, the Employment Period shall be extended to the third anniversary of the relevant Anniversary Date.

(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 and the Bank is not subject to rules and regulations of the Office of Thrift Supervision, then the Employment Period shall be extended through and including the third anniversary of the earliest date after the effective date of such Change of Control on which either the Bank 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 of Control (as defined in section 13 of this Agreement), Mr. Devine has provided written notice to the Bank of his intent to discontinue the Employment Period.

(d) The Bank or Mr. Devine may, at any time by written notice given to the other, elect to terminate this Agreement. Any such notice given by the Bank 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 Bank 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 Bank 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 a period commencing on the date specified and ending on the last day of the third (3rd) year from the date specified, or, if neither party has given notice electing a discontinuance of the Employment Period, on the third (3rd) anniversary of the date specified.

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 Bank and use his best efforts to advance the Bank'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, in accordance with organization Certificate, By-laws, Applicable Laws, Statutes and Regulations, custom and practice of the Bank 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 Bank.

5. Compensation - -- Salary and Bonus.

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

(a) during the period beginning on January 1, 2009 and ending on December 31, 2009, no less than \$541,000;

(b) during each calendar year that begins after December 31, 2009, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2009; 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 Bank (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 Bank (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 Bank'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.

(d) 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 Bank.

6. Employee Benefits Plans and Programs; Other Compensation.

Except as otherwise provided in this Agreement, Mr. Devine shall be treated as an employee of the Bank and be entitled to participate in and receive benefits under the Bank'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 Bank may maintain from time to time, in accordance with the terms and conditions of such employee benefit plans and programs and with the Bank'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.

In the event of a conversion of the Bank from a mutual savings bank to a form of organization owned by stockholders ("Conversion"), the Bank will provide, or cause to be provided, to Mr. Devine in connection with such Conversion, stock-based compensation and benefits, including, without limitation, stock options, restricted stock awards, and participation in tax-qualified stock bonus plans which, in the aggregate, are either (A) accepted by Mr. Devine in writing as being satisfactory for purposes of this Agreement or (B) in the written, good faith opinion of a nationally recognized executive compensation consulting firm selected by the Bank and satisfactory to Mr. Devine, whose agreement shall not be unreasonably withheld, are no less favorable than the stock-based compensation and benefits usually and customarily provided to similarly situated executives of similar financial institutions in connection with similar transactions.

7. Board Memberships and Personal Activities.

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. Mr. Devine may also serve as an officer or director of any parent of the Bank on such terms and conditions as the Bank and its parent 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.

8. Working Facilities and Expenses.

Mr. Devine's principal place of employment shall be at the Bank'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 Bank 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 Bank and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Bank shall provide Mr. Devine with an automobile suitable to his position with the Bank 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 Bank shall (i) reimburse Mr. Devine for the cost of maintenance and servicing such automobile and, for instance, gasoline and oil for such automobile; (ii) reimburse Mr. Devine for his ordinary and necessary business expenses incurred in the performance of his duties under this Agreement (including but not limited to travel and entertainment expenses); and (iii) reimburse Mr. Devine for fees for memberships in such clubs and organizations as Mr. Devine and the Bank, and such other expenses as Mr. Devine and the Bank, shall mutually agree are necessary and appropriate for business purposes, upon presentation to the Bank of an itemized account of such expenses in such form as the Bank may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last day of the year following the year in which the expense was incurred. Mr. Devine shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period. Mr. Devine shall be responsible for the payment of any taxes on account of his personal use of the automobile provided by the Bank and on account of any other benefit provided herein.

9. Termination Giving Rise to Severance Benefits.

(a) In the event that Mr. Devine's employment with the Bank shall terminate during the Employment Period on account of the termination of Mr. Devine's employment with the Bank other than:

(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 Bank 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 Bank within thirty (30) days after written notice requesting such return is given to Mr. Devine by the Bank; then the Bank 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 Bank shall terminate under circumstances described in section 9(a) of this Agreement or if the Bank terminates this Agreement pursuant to section 3(d), the following benefits and amounts shall be paid or provided to Mr. Devine (or, in the event of his death, to his estate), in accordance with section 26, on his termination of employment:

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

(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 Bank'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 the Remaining Unexpired Employment Period, 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 Bank 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) 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 Bank 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 Bank's regular payroll periods with respect to its officers, and, in the case of bonus, annually;

(v) 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 Bank (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 Bank 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 Bank 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 Bank 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"); provided, however, that if payments are made under this section 9(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) a lump sum payment in an amount equal to the excess, if any, of (A) the present value of the benefits attributable to the Bank's contribution to which he would be entitled under any defined contribution plans maintained by, or covering employees of, the Bank (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 Bank 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 Bank, and been fully vested in such plan or plans, over (B) the present value of the benefits attributable to the Bank's contributions to which he is actually entitled under such plans as of the date of his termination of employment with the Bank, 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 Bank's regular payroll periods with respect to its officers; provided, however, that if payments are made under this section 9(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vii) the payments that would have been made to Mr. Devine under any incentive compensation plan maintained by, or covering employees of, the Bank (other than bonus payments to which section 9(b)(iv) of this Agreement is applicable) if he had continued working for the Bank 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 Bank 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 Bank's officers under any such incentive compensation plan; and

(viii) the benefits to which Mr. Devine is entitled under the Bank'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 Bank's tax-qualified pension plan and a discount rate of 6% per annum. If the amount may be increased by a subsequent Change in Control, any additional payment shall be made at the time and in the form provided under the relevant plan, or, if no such time or form is provided, upon the first of the following events to occur on or after the date of such Change in Control: a change in control event (within the meaning of Treasury Regulation section 1.409A-3(i)(5)) with respect to Mr. Devine, Mr. Devine's separation from service (within the meaning of section 1.409A-1(h)), Mr. Devine's death or Mr. Devine's disability (within the meaning of Treasury Regulation section 1.409A-3(i)(4)). From the date of such Change of Control until the date of payment, any additional payment so deferred shall be held in trust for Mr. Devine, the terms of which trust shall be those set forth in section 26.

(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 Bank, or otherwise except as specifically provided in section 9(b)(iii) of this Agreement. The Bank 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 Bank 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 Bank 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 Bank'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 Bank, 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 Bank, the Bank will pay to him, in accordance with section 26, 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 Bank's long term disability policy.
- (d) Payments under this section 11 shall be made upon Mr. Devine's death or disability.

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

(a) Mr. Devine's termination of employment with the Bank shall be deemed a "Termination for Cause" if such termination occurs for "cause," which, for purposes of this Agreement shall mean personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order, or any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that Mr. Devine shall not be deemed to have been discharged for cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to Mr. Devine and a reasonable opportunity for Mr. Devine to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging Mr. Devine for cause.

(b) Mr. Devine's termination of employment with the Bank 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 President and Chief Operating Officer of the Bank 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; or (C) any Change in Control described in section 13(b);

(ii) a reduction by the Bank 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 Bank;

(iii) the relocation of the Bank's principal executive offices to a location outside the New York metropolitan area or the Bank's requiring Mr. Devine to be based anywhere other than the Bank's principal executive offices except for required travel on the Bank'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 Bank, 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 Bank, which failure is not inadvertent and immaterial and which is not promptly cured by the Bank after notice of such failure is given to the Bank by the Executive;

(v) the failure by the Bank to continue in effect any compensation plan in which Mr. Devine participates which is material to his total compensation, including but not limited to the Retirement Plan and the Bank'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 Bank 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 Bank;

(vi) the failure by the Bank to continue to provide Mr. Devine with benefits substantially similar to those enjoyed by Mr. Devine under the Retirement Plan and the Bank's Incentive Savings Plan or under any of the Bank'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 Bank 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 Bank, rank or otherwise, in accordance with the Bank's normal vacation policy, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Bank;

(vii) the failure of the Bank 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 Bank 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 Bank, which the Bank fails to cure within thirty (30) days following written notice thereof from Mr. Devine;

(x) in the event of a Change in Control described in section 13(b) of this Agreement, a failure of the Bank to provide, or cause to be provided, to Mr. Devine in connection with such Change in Control, stock-based compensation and benefits, including, without limitation, stock options, restricted stock awards, and participation in tax-qualified stock bonus plans which, in the aggregate, are either (A) accepted by Mr. Devine in writing as being satisfactory for purposes of this Agreement or (B) in the written, good faith opinion of a nationally recognized executive compensation consulting firm selected by the Bank and satisfactory to Mr. Devine, whose agreement shall not be unreasonably withheld, are no less favorable than the stock-based compensation and benefits usually and customarily provided to similarly situated executives of similar financial institutions in connection with similar transactions; or

(xi) a change in the position to which Mr. Devine reports;

(xii) in the event of a Change in Control described in section 13(a) of this Agreement, termination of employment for any or no reason whatsoever during the period of sixty (60) days beginning on the first anniversary of the effective date of such Change in Control.

13. Definition of Change in Control.

For purposes of this Agreement, a Change in Control of the Bank shall mean:

(a) 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 Bank; (B) a corporation owned, directly or indirectly, by the stockholders of the Bank in substantially the same proportions as their ownership of stock of the Bank; 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 Bank representing 25% or more of the combined voting power of all of the Bank's then outstanding securities; or

(b) the occurrence of any event upon which the individuals who on the Initial Effective Date are members of the

Board, together with individuals (other than any individual designated by a person who has entered into an agreement with the Bank 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 Bank'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 Initial Effective Date 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 Bank (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(c) (i) the consummation of a merger or consolidation of the Bank with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(A) either (A) the members of the Board of the Bank 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 (B) the shareholders of the Bank 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 Bank before such merger or consolidation; and

(B) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform the Bank's obligations under this Agreement; or

(ii) the shareholders of the Bank approve either a plan of complete liquidation of the Bank or an agreement for the sale or disposition by the Bank of all or substantially all of its assets; and

(d) any event which would be described in section 13(a), (b) or (c) if the term "Company" were substituted for the term "Bank" therein. Such an event shall be deemed to be a Change in Control under the relevant provision of section 13(a), (b) or (c).

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.

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 Bank or by Mr. Devine, shall have no effect on the rights and obligations of the parties hereto under the Bank's the Retirement Plan and the Bank'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 Bank 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 Bank from time to time.

15. Successors and Assigns.

(a) The Bank 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 Bank to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such assumption and agreement prior to the effectiveness of any such succession shall be deemed to constitute a material breach of the Bank'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 Bank, 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 Bank 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:

5 Beacon Road Summit, NJ 07901

If to the Bank:

The Dime Savings Bank of Williamsburgh

209 Havemeyer Street

Brooklyn, New York 11211

Attention: Corporate Secretary

With a copy to:

Thacher Proffitt & Wood LLP

Two World Financial Center

New York, New York 10281

Attention: W. Edward Bright

17. Indemnification and Attorneys' Fees.

The Bank 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 Mr. Devine shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement; provided, further, that this section 17 shall not obligate the Bank to pay costs and legal fees on behalf of Mr. Devine under this Agreement in excess of \$50,000. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which Mr. Devine incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to Mr. Devine's right to reimbursement; provided, however, that Mr. Devine shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of Mr. Devine's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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. Any reference to the term "Board" shall mean the Board of Trustees of the Bank while the Bank is a mutual savings bank and the Board of Directors of the Bank while the Bank is a stock savings bank. Any reference to the term "Bank" shall mean the Bank in its mutual form prior to the conversion and in its stock form on and after the conversion. If the Bank does not convert to stock form, any reference to the Bank's being a stock savings bank shall have no effect.

23. 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 Amended and Restated Employment Agreement dated June 26 1996 between the Bank and Mr. Devine. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; provided, however, that this Agreement shall be subject to amendment in the future in such manner as the Bank shall reasonably deem necessary or appropriate to effect compliance with Section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under Section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to Mr. Devine on a present value basis.

24. 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 Bank.

25. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Association:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to the Executive under section 9(b) hereof (exclusive of amounts described in section 9(b)(i) and (viii)) exceed the three times the Executive's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Association (or for his entire period of employment with the Association if less than five calendar years).

(b) Notwithstanding anything herein contained to the contrary, any payments to the Executive by the Association, 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 ("FDI Act"), 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Executive is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Association pursuant to a notice served under section 8(e)(3) or 8(g)(1) of the FDI Act, 12 U.S.C. Section 1818(e)(3) or 1818(g)(1), the Association's obligations under this Agreement shall be suspended as of the date of service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Association, in its discretion, may (i) pay to the Executive all or part of the compensation withheld while the Association's obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Executive is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all prospective obligations of the Association under this Agreement shall terminate as of the effective

date of the order, but vested rights and obligations of the Association and the Executive shall not be affected.

(e) Notwithstanding anything herein contained to the contrary, if the Association is in default (within the meaning of section 3(x)(1) of the FDI Act, 12 U.S.C. Section 1813(x)(1), all prospective obligations of the Association under this Agreement shall terminate as of the date of default, but vested rights and obligations of the Association and the Executive shall not be affected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Association hereunder shall be terminated, except to the extent that a continuation of this Agreement is necessary for the continued operation of the Association: (i) by the Director of the OTS or his designee or the Federal Deposit Insurance Corporation ("FDIC"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in section 13(c) of the FDI Act, 12 U.S.C. Section 1823(c); (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Association or when the Association is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent that any of the foregoing provisions shall cease to be required or by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

26. Compliance with Section 409A of the Code.

Mr. Devine and the Bank acknowledge that each of the payments and benefits promised to Mr. Devine under this Agreement must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, Mr. Devine and the Bank agree that:

(a) the expense reimbursements described in Section 8 and legal fee reimbursements described in Section 17 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;

(b) the payment described in Section 9(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;

(c) the benefits and payments described in Section 9(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms; and

(d) the welfare benefits provided in kind under section 9(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income;

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of Mr. Devine's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after Mr. Devine's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if Mr. Devine is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following Mr. Devine's separation from service. Each amount payable under this plan that is required to be deferred beyond Mr. Devine's separation from service, shall be deposited on the date on which, but for such deferral, the Bank would have paid such amount to Mr. Devine, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Bank with the approval of Mr. Devine (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by Mr. Devine (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

26. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which Mr. Devine participates:

(a) Mr. Devine shall repay to the Company any bonus or incentive compensation paid to Mr. Devine while (i) Mr. Devine is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Devine (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Company may supply to Mr. Devine a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If Mr. Devine's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) Mr. Devine is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Company issued under the CPP, then payments to Mr. Devine that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Devine (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 26(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first

business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 26 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Company, under which the UST acquires equity or debt securities of the Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 26(a) shall not be required by the Relevant Implementation of section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 26(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 26(b)(ii) shall be paid on the earliest date on which the Company reasonably anticipates that such amount may be paid without violating such limitation.

IN WITNESS WHEREOF, the Bank 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.

MICHAEL P. DEVINE

ATTEST

THE DIME SAVINGS BANK OF WILLIAMSBURGH

By:

By:

Secretary

VINCENT F. PALAGIANO

CHAIRMAN, BOARD OF DIRECTORS

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of the 31st day of December 2008, by and between The Dime Savings Bank of Williamsburgh, a mutual savings bank organized and operating under the federal laws of the United States and having an office at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank") and Kenneth J. Mahon, residing at 135 Rotary Drive, Summit, New Jersey 07901 and amends and restates the Amended and Restated Employment Agreement made as of June 26, 1996 between the Bank and Mr. Mahon.

WITNESSETH:

WHEREAS, Mr. Mahon currently serves the Bank in the capacity of First Executive Vice President and Chief Financial Officer; and

WHEREAS, the Bank is a wholly owned subsidiary of 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

WHEREAS, the Bank and Mr. Mahon are parties to an Employment Agreement made and entered into as of the 1st day of January, 1992 (the "Initial Effective Date") and amended and restated as of the 1st day of October, 1995, and further amended on the 26th day of June, 1996 ("Prior Agreement"); and

WHEREAS, the Bank and Mr. Mahon desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of Section 409A of the Internal Revenue Code of 1986 ("the Code"); and

WHEREAS, for purposes of securing for the Bank Mr. Mahon's continued services, the Board of Directors of the Bank ("Board") has approved and authorized the execution of this Agreement with Mr. Mahon; and

WHEREAS, Mr. Mahon is willing to continue to make his services available to the Bank on the terms and conditions set forth herein.

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

1. Representations and Warranties of the Parties.

(a) The Bank 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 Bank; 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 Bank 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 Bank or its business.

(b) Mr. Mahon hereby represents and warrants to the Bank 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) including, without limitation, any statute, rule or regulation or any order of any court or administrative agency, applicable to him.

2. Employment.

The Bank 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 Initial Effective Date and ending on the third anniversary date of the Initial Effective Date, plus such extensions, if any, as are provided by the Board pursuant to section 3(b).

(b) Prior to the first anniversary of the Initial Effective Date and each anniversary date thereafter (each, an "Anniversary Date"), the Board shall review the terms of this Agreement and Mr. Mahon's performance of services hereunder and may, in the absence of objection from Mr. Mahon, approve an extension of the Employment Period. In such event, the Employment Period shall be extended to the third anniversary of the relevant Anniversary Date.

(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 and the Bank is not subject to rules and regulations of the Office of Thrift Supervision, then the Employment Period shall be extended through and including the third anniversary of the earliest date after the effective date of such Change of Control on which either the Bank 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 of Control (as defined in section 13 of this Agreement), Mr. Mahon has provided written notice to the Bank of his intent to discontinue the Employment Period.

(d) The Bank or Mr. Mahon may, at any time by written notice given to the other, elect to terminate this Agreement. Any such notice given by the Bank 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 Bank 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 Bank 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 a period commencing on the date specified and ending on the last day of the third (3rd) year from the date specified, or, if neither party has given notice electing a discontinuance of the Employment Period, on the third (3rd) anniversary of the date specified.

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 Bank and use his best efforts to advance the Bank's interests;

(b) serve as First 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, in accordance with organization Certificate, By-laws, Applicable Laws, Statutes and Regulations, custom and practice of the Bank 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 Bank.

5. Compensation - -- Salary and Bonus.

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

(a) during the period beginning on January 1, 2009 and ending on December 31, 2009, no less than \$388,000;

(b) during each calendar year that begins after December 31, 2009, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2009; 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 Bank (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 Bank (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 Bank'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.

(d) 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 Bank.

6. Employee Benefits Plans and Programs; Other Compensation.

Except as otherwise provided in this Agreement, Mr. Mahon shall be treated as an employee of the Bank and be entitled to participate in and receive benefits under the Bank'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 Bank 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 Bank'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.

In the event of a conversion of the Bank from a mutual savings bank to a form of organization owned by stockholders ("Conversion"), the Bank will provide, or cause to be provided, to Mr. Mahon in connection with such Conversion, stock-based compensation and benefits, including, without limitation, stock options, restricted stock awards, and participation in tax-qualified stock bonus plans which, in the aggregate, are either (A) accepted by Mr. Mahon in writing as being satisfactory for purposes of this Agreement or (B) in the written, good faith opinion of a nationally recognized executive compensation consulting firm selected by the Bank and satisfactory to Mr. Mahon, whose agreement shall not be unreasonably withheld, are no less favorable than the stock-based compensation and benefits usually and customarily provided to similarly situated executives of similar financial institutions in connection with similar transactions.

7. Board Memberships and Personal Activities.

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. Mr. Mahon may also serve as an officer or director of any parent of the Bank on such terms and conditions as the Bank and its parent 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.

8. Working Facilities and Expenses.

Mr. Mahon's principal place of employment shall be at the Bank'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 Bank 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 Bank and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Bank shall (i) reimburse Mr. Mahon for his ordinary and necessary business expenses incurred in the performance of his duties under this Agreement (including but not limited to travel and entertainment expenses); and (iii) reimburse Mr. Mahon for fees for memberships in such clubs and organizations as Mr. Mahon and the Bank, and such other expenses as Mr. Mahon and the Bank, shall mutually agree are necessary and appropriate for business purposes, upon presentation to the Bank of an itemized account of such expenses in such form as the Bank may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last day of the year following the year in which the expense was incurred. Mr. Mahon shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period. Mr. Mahon shall be responsible for the payment of any taxes on account of any benefit provided herein.

9. Termination Giving Rise to Severance Benefits.

(a) In the event that Mr. Mahon's employment with the Bank shall terminate during the Employment Period on account of the termination of Mr. Mahon's employment with the Bank other than:

(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 Bank 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 Bank within thirty (30) days after written notice requesting such return is given to Mr. Mahon by the Bank; then the Bank 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 Bank shall terminate under circumstances described in section 9(a) of this Agreement or if the Bank terminates this Agreement pursuant to section 3(d), the following benefits and amounts shall be paid or provided to Mr. Mahon (or, in the event of his death, to his estate), in accordance with section 26, on his termination of employment:

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

(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 Bank'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 the Remaining Unexpired Employment Period, 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 Bank 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) 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 Bank 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 Bank's regular payroll periods with respect to its officers, and, in the case of bonus, annually;

(v) 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 Bank (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 Bank 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 Bank 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 Bank 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"); provided, however, that if payments are made under this section 9(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) a lump sum payment in an amount equal to the excess, if any, of (A) the present value of the benefits attributable to the Bank's contribution to which he would be entitled under any defined contribution plans maintained by, or covering employees of, the Bank (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 Bank 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 Bank, and been fully vested in such plan or plans, over (B) the present value of the benefits attributable to the Bank's contributions to which he is actually entitled under such plans as of the date of his termination of employment with the Bank, 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 Bank's regular payroll periods with respect to its officers; provided, however, that if payments are made under this section 9(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vii) the payments that would have been made to Mr. Mahon under any incentive compensation plan maintained by, or covering employees of, the Bank (other than bonus payments to which section 9(b)(iv) of this Agreement is applicable) if he had continued working for the Bank 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 Bank 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 Bank's officers under any such incentive compensation plan; and

(viii) the benefits to which Mr. Mahon is entitled under the Bank'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 Bank's tax-qualified pension plan and a discount rate of 6% per annum. If the amount may be increased by a subsequent Change in Control, any additional payment shall be made at the time and in the form provided under the relevant plan, or, if no such time or form is provided, upon the first of the following events to occur on or after the date of such Change in Control: a change in control event (within the meaning of Treasury Regulation section 1.409A-3(i)(5)) with respect to Mr. Mahon, Mr. Mahon's separation from service (within the meaning of section 1.409A-1(h)), Mr. Mahon's death or Mr. Mahon's disability (within the meaning of Treasury Regulation section 1.409A-3(i)(4)). From the date of such Change of Control until the date of payment, any additional payment so deferred shall be held in trust for Mr. Mahon, the terms of which trust shall be those set forth in section 26.

(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 Bank, or otherwise except as specifically provided in section 9(b)(iii) of this Agreement. The Bank 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 Bank 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 Bank 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 Bank'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 Bank, 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 Bank, the Bank will pay to him, in accordance with section 26, 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 Bank's long term disability policy.
- (d) Payments under this section 11 shall be made upon Mr. Mahon's death or disability.

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

(a) Mr. Mahon's termination of employment with the Bank shall be deemed a "Termination for Cause" if such termination occurs for "cause," which, for purposes of this Agreement shall mean personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order, or any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that Mr. Mahon shall not be deemed to have been discharged for cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to Mr. Mahon and a reasonable opportunity for Mr. Mahon to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging Mr. Mahon for cause.

(b) Mr. Mahon's termination of employment with the Bank 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 First Executive Vice President and Chief Financial Officer of the Bank 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; or (C) any Change in Control described in section 13(b);

(ii) a reduction by the Bank 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 Bank;

(iii) the relocation of the Bank's principal executive offices to a location outside the New York metropolitan area or the Bank's requiring Mr. Mahon to be based anywhere other than the Bank's principal executive offices except for required travel on the Bank'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 Bank, 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 Bank, which failure is not inadvertent and immaterial and which is not promptly cured by the Bank after notice of such failure is given to the Bank by the Executive;

(v) the failure by the Bank to continue in effect any compensation plan in which Mr. Mahon participates which is material to his total compensation, including but not limited to the Retirement Plan and the Bank'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 Bank 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 Bank;

(vi) the failure by the Bank to continue to provide Mr. Mahon with benefits substantially similar to those enjoyed by Mr. Mahon under the Retirement Plan and the Bank's Incentive Savings Plan or under any of the Bank'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 Bank 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 Bank, rank or otherwise, in accordance with the Bank's normal vacation policy, unless such failure is the result of action mandated at the initiation of any regulatory authority having jurisdiction over the Bank;

(vii) the failure of the Bank 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 Bank 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 Bank, which the Bank fails to cure within thirty (30) days following written notice thereof from Mr. Mahon;

(x) in the event of a Change in Control described in section 13(b) of this Agreement, a failure of the Bank to provide, or cause to be provided, to Mr. Mahon in connection with such Change in Control, stock-based compensation and benefits, including, without limitation, stock options, restricted stock awards, and participation in tax-qualified stock bonus plans which, in the aggregate, are either (A) accepted by Mr. Mahon in writing as being satisfactory for purposes of this Agreement or (B) in the written, good faith opinion of a nationally recognized executive compensation consulting firm selected by the Bank and satisfactory to Mr. Mahon, whose agreement shall not be unreasonably withheld, are no less favorable than the stock-based compensation and benefits usually and customarily provided to similarly situated executives of similar financial institutions in connection with similar transactions; or

(xi) a change in the position to which Mr. Mahon reports;

(xii) in the event of a Change in Control described in section 13(a) of this Agreement, termination of employment for any or no reason whatsoever during the period of sixty (60) days beginning on the first anniversary of the effective date of such Change in Control.

13. Definition of Change in Control.

For purposes of this Agreement, a Change in Control of the Bank shall mean:

(a) 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 Bank; (B) a corporation owned, directly or indirectly, by the stockholders of the Bank in substantially the same proportions as their ownership of stock of the Bank; 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 Bank representing 25% or more of the combined voting power of all of the Bank's then outstanding securities; or

(b) the occurrence of any event upon which the individuals who on the Initial Effective Date are members of the

Board, together with individuals (other than any individual designated by a person who has entered into an agreement with the Bank 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 Bank'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 Initial Effective Date 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 Bank (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(c) (i) the consummation of a merger or consolidation of the Bank with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(A) either (A) the members of the Board of the Bank 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 (B) the shareholders of the Bank 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 Bank before such merger or consolidation; and

(B) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform the Bank's obligations under this Agreement; or

(ii) the shareholders of the Bank approve either a plan of complete liquidation of the Bank or an agreement for the sale or disposition by the Bank of all or substantially all of its assets; and

(d) any event which would be described in section 13(a), (b) or (c) if the term "Company" were substituted for the term "Bank" therein. Such an event shall be deemed to be a Change in Control under the relevant provision of section 13(a), (b) or (c).

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.

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 Bank or by Mr. Mahon, shall have no effect on the rights and obligations of the parties hereto under the Bank's the Retirement Plan and the Bank'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 Bank 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 Bank from time to time.

15. Successors and Assigns.

(a) The Bank 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 Bank to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession had taken place. Failure of the Bank to obtain such assumption and agreement prior to the effectiveness of any such succession shall be deemed to constitute a material breach of the Bank'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 Bank, 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 Bank 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:

135 Rotary Drive Summit, NJ 07901

If to the Bank:

The Dime Savings Bank of Williamsburgh

209 Havemeyer Street

Brooklyn, New York 11211

Attention: Corporate Secretary

With a copy to:

Thacher Proffitt & Wood LLP

Two World Financial Center

New York, New York 10281

Attention: W. Edward Bright, Esq.

17. Indemnification and Attorneys' Fees.

The Bank 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 Mr. Mahon shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement; provided, further, that this section 17 shall not obligate the Bank to pay costs and legal fees on behalf of Mr. Mahon under this Agreement in excess of \$50,000. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which Mr. Mahon incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to Mr. Mahon's right to reimbursement; provided, however, that Mr. Mahon shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of Mr. Mahon's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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. Any reference to the term "Board" shall mean the Board of Trustees of the Bank while the Bank is a mutual savings bank and the Board of Directors of the Bank while the Bank is a stock savings bank. Any reference to the term "Bank" shall mean the Bank in its mutual form prior to the conversion and in its stock form on and after the conversion. If the Bank does not convert to stock form, any reference to the Bank's being a stock savings bank shall have no effect.

23. 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 Amended and Restated Employment Agreement dated June 26, 1996 between the Bank and Mr. Mahon. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; provided, however, that this Agreement shall be subject to amendment in the future in such manner as the Bank shall reasonably deem necessary or appropriate to effect compliance with Section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under Section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to Mr. Mahon on a present value basis.

24. 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 Bank.

25. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Association:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to the Executive under section 9(b) hereof (exclusive of amounts described in section 9(b)(i) and (viii)) exceed the three times the Executive's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Association (or for his entire period of employment with the Association if less than five calendar years).

(b) Notwithstanding anything herein contained to the contrary, any payments to the Executive by the Association, 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 ("FDI Act"), 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Executive is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Association pursuant to a notice served under section 8(e)(3) or 8(g)(1) of the FDI Act, 12 U.S.C. Section 1818(e)(3) or 1818(g)(1), the Association's obligations under this Agreement shall be suspended as of the date of service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Association, in its discretion, may (i) pay to the Executive all or part of the compensation withheld while the Association's obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Executive is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all prospective obligations of the Association under this Agreement shall terminate as of the effective

date of the order, but vested rights and obligations of the Association and the Executive shall not be affected.

(e) Notwithstanding anything herein contained to the contrary, if the Association is in default (within the meaning of section 3(x)(1) of the FDI Act, 12 U.S.C. Section 1813(x)(1), all prospective obligations of the Association under this Agreement shall terminate as of the date of default, but vested rights and obligations of the Association and the Executive shall not be affected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Association hereunder shall be terminated, except to the extent that a continuation of this Agreement is necessary for the continued operation of the Association: (i) by the Director of the OTS or his designee or the Federal Deposit Insurance Corporation ("FDIC"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in section 13(c) of the FDI Act, 12 U.S.C. Section 1823(c); (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Association or when the Association is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent that any of the foregoing provisions shall cease to be required or by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

26. Compliance with Section 409A of the Code.

Mr. Mahon and the Bank acknowledge that each of the payments and benefits promised to Mr. Mahon under this Agreement must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, Mr. Mahon and the Bank agree that:

(a) the expense reimbursements described in Section 8 and legal fee reimbursements described in Section 17 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;

(b) the payment described in Section 9(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;

(c) the benefits and payments described in Section 9(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms; and

(d) the welfare benefits provided in kind under section 9(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income;

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of Mr. Mahon's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after Mr. Mahon's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if Mr. Mahon is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following Mr. Mahon's separation from service. Each amount payable under this plan that is required to be deferred beyond Mr. Mahon's separation from service, shall be deposited on the date on which, but for such deferral, the Bank would have paid such amount to Mr. Mahon, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Bank with the approval of Mr. Mahon (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by Mr. Mahon (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

26. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which Mr. Mahon participates:

(a) Mr. Mahon shall repay to the Company any bonus or incentive compensation paid to Mr. Mahon while (i) Mr. Mahon is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Mahon (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Company may supply to Mr. Mahon a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If Mr. Mahon's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) Mr. Mahon is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Company issued under the CPP, then payments to Mr. Mahon that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Mahon (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 26(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first

business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 26 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Company, under which the UST acquires equity or debt securities of the Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 26(a) shall not be required by the Relevant Implementation of section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 26(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 26(b)(ii) shall be paid on the earliest date on which the Company reasonably anticipates that such amount may be paid without violating such limitation.

IN WITNESS WHEREOF, the Bank 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.

KENNETH J. MAHON

ATTEST

THE DIME SAVINGS BANK OF WILLIAMSBURGH

By:

By:

Secretary

VINCENT F. PALAGIANO

CHAIRMAN, BOARD OF DIRECTORS

[Seal]

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of _____, 2008, 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 "Initial Effective Date") 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, such Agreement was amended as of January 1, 2003 (the "Prior Agreement"); and

WHEREAS, the parties desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of Section 409A of the Internal Revenue Code of 1986 ("the Code"); 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:

(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. 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 Initial Effective Date and ending on the third anniversary date of the Initial Effective Date, plus such extensions, if any, as are provided pursuant to section 3(b).

(b) Except as provided in section 3(c), beginning on the Initial Effective Date, 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 Initial Effective Date, 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, 2009 and ending on December 31, 2009, no less than \$_____;

(b) during each calendar year that begins after December 31, 2009, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2009; 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 (i) reimburse Mr. Palagiano for the cost of maintenance and servicing such automobile and, for instance, gasoline and oil for such automobile; (ii) reimburse Mr. Palagiano for his ordinary and necessary business expenses, incurred in the performance of his duties under this Agreement (including but not limited to travel and entertainment expenses); and (iii) reimburse Mr. Palagiano for fees for memberships in such clubs and organizations as Mr. Palagiano and the Company and such other expenses as Mr. Palagiano and the Company shall mutually agree are necessary and appropriate for business purposes, upon presentation to the Company of an itemized account of such expenses in such form as the Company may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last day of the year following the year in which the expense was incurred. Mr. Palagiano shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period. Mr. Palagiano shall be responsible for the payment of any taxes on account of his personal use of the automobile provided by the Company and on account of any other benefit provided herein.

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), in accordance with section 30, on his termination of employment:

(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) 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) 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"); provided, however, that if payments are made under this section 9(b)(v) as a

result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) 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; provided, however, that if payments are made under this section 9(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(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. If the amount may be increased by a subsequent Change in Control, any additional payment shall be made at the time and in the form provided under the relevant plan, or, if no such time or form is provided, upon the first of the following events to occur on or after the date of such Change in Control: a change in control event (within the meaning of Treasury Regulation section 1.409A-3(i)(5)) with respect to Mr. Palagiano, Mr. Palagiano's separation from service (within the meaning of section 1.409A-1(h)), Mr. Palagiano's death or Mr. Palagiano's disability (within the meaning of Treasury Regulation section 1.409A-3(i)(4)). From the date of such Change of Control until the date of payment, any additional payment so deferred shall be held in trust for Mr. Palagiano, the terms of which trust shall be those set forth in section 30.

(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, in accordance with section 30, 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 upon 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 Initial Effective Date 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 Initial Effective Date 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) (A) the consummation of 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) the shareholders of the Company approve either 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 pay the following sums into a trust for the benefit of 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 to the trust whether or not Mr. Palagiano's employment has terminated. The entire amount in the trust shall be paid to Mr. Palagiano on the first day of the seventh month following his separation from service within the meaning of section 409A of the Code. The terms of the trust shall be those set forth in section 30. 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 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. 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.

209 Havemeyer Street

Brooklyn, New York 11211

Attention: Corporate Secretary

with a copy to:

Thacher Proffitt & Wood LLP

Two World Financial Center

New York, New York 10281

Attention: W. Edward Bright, Esq.

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. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which Mr. Palagiano incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to Mr. Palagiano's right to reimbursement; provided, however, that Mr. Palagiano shall have submitted to the Company documentation supporting such expenses at such time and in such manner as the Company may reasonably require.

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 18, 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. Any payment pursuant to this section 18(c) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the Tax Indemnity Payment is to be made are remitted to the Internal Revenue Service.

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; provided, however, that this Agreement shall be subject to amendment in the future in such manner as the Company shall reasonably deem necessary or appropriate to effect compliance with Section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under Section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to Mr. Palagiano on a present value basis.

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 Mr. Palagiano is or may be entitled to under the terms and conditions of the employment agreement dated as of the _____ day of _____, 2008 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 Amended and Restated Employment Agreement between the Company and Mr. Palagiano made and entered into as of June 26, 1996, as amended, 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.

30. Compliance with Section 409A of the Code.

Mr. Palagiano and the Company acknowledge that each of the payments and benefits promised to Mr. Palagiano under this Agreement must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, Mr. Palagiano and the Company agree that:

(a) the expense reimbursements described in Section 8 and legal fee reimbursements described in Section 17 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;

(b) the payment described in Section 9(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Company's customary payment timing arrangement;

(c) the benefits and payments described in Section 9(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;

(d) the welfare benefits provided in kind under section 9(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and

(e) the Tax Indemnity Payment provided under section 18 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of Mr. Palagiano's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after Mr. Palagiano's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if Mr. Palagiano is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following Mr. Palagiano's separation from service. Each amount payable under this plan that is required to be deferred beyond Mr. Palagiano's separation from service, shall be deposited on the date on which, but for such deferral, the Company would have paid such amount to Mr. Palagiano, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Company with the approval of Mr. Palagiano (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by Mr. Palagiano (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

31. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which Mr. Palagiano participates:

(a) Mr. Palagiano shall repay to the Company any bonus or incentive compensation paid to Mr. Palagiano while (i) Mr. Palagiano is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Palagiano (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Company may supply to Mr. Palagiano a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If Mr. Palagiano's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) Mr. Palagiano is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Company issued under the CPP, then payments to Mr. Palagiano that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Palagiano (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 31(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first

business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 31 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Company, under which the UST acquires equity or debt securities of the Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 31(a) shall not be required by the Relevant Implementation of section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 31(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 31(b)(ii) shall be paid on the earliest date on which the Company reasonably anticipates that such amount may be paid without violating such limitation.

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

DIME COMMUNITY BANCSHARES, INC.

ATTEST

By:
Assistant Secretary

By:
for the Board of Directors

[Seal]

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of _____, 2008, 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 "Initial Effective Date") 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, such Agreement was amended as of January 1, 2003 (the "Prior Agreement"); and

WHEREAS, the parties desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of Section 409A of the Internal Revenue Code of 1986 ("the Code"); 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 Initial Effective Date and ending on the third anniversary date of the Initial Effective Date, plus such extensions, if any, as are provided pursuant to section 3(b).

(b) Except as provided in section 3(c), beginning on the Initial Effective Date, 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 Initial Effective Date, 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, 2009 and ending on December 31, 2009, no less than \$_____;
- (b) during each calendar year that begins after December 31, 2009, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2009; 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 (i) reimburse Mr. Devine for the cost of maintenance and servicing such automobile and, for instance, gasoline and oil for such automobile; (ii) reimburse Mr. Devine for his ordinary and necessary business expenses, incurred in the performance of his duties under this Agreement (including but not limited to travel and entertainment expenses); and (iii) reimburse Mr. Devine for fees for memberships in such clubs and organizations as Mr. Devine and the Company and such other expenses as Mr. Devine and the Company shall mutually agree are necessary and appropriate for business purposes, upon presentation to the Company of an itemized account of such expenses in such form as the Company may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last day of the year following the year in which the expense was incurred. Mr. Devine shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period. Mr. Devine shall be responsible for the payment of any taxes on account of his personal use of the automobile provided by the Company and on account of any other benefit provided herein.

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), in accordance with section 30, on his termination of employment:

- (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) 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) 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"); provided, however, that if payments are made under this section 9(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) 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; provided, however, that if payments are made under this section 9(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(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. If the amount may be increased by a subsequent Change in Control, any additional payment shall be made at the time and in the form provided under the relevant plan, or, if no such time or form is provided, upon the first of the following events to occur on or after the date of such Change in Control: a change in control event (within the meaning of Treasury Regulation section 1.409A-3(i)(5)) with respect to Mr. Devine, Mr. Devine's separation from service (within the meaning of section 1.409A-1(h)), Mr. Devine's death or Mr. Devine's disability (within the meaning of Treasury Regulation section 1.409A-3(i)(4)). From the date of such Change of Control until the date of payment, any additional payment so deferred shall be held in trust for Mr. Devine, the terms of which trust shall be those set forth in section 30.

(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, in accordance with section 30, 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 upon 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 Initial Effective Date 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 Initial Effective Date 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) (A) the consummation of 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) the shareholders of the Company approve either 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 pay the following sums into a trust for the benefit of 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 to the trust whether or not Mr. Devine's employment has terminated. The entire amount in the trust shall be paid to Mr. Devine on the first day of the seventh month following his separation from service within the meaning of section 409A of the Code. The terms of the trust shall be those set forth in section 30. 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:

If to the Company:

Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

with a copy to:

Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York 10281
Attention: W. Edward Bright, Esq.

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. . Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which Mr. Devine incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to Mr. Devine's right to reimbursement; provided, however, that Mr. Devine shall have submitted to the Company documentation supporting such expenses at such time and in such manner as the Company may reasonably require

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 18, 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. Any payment pursuant to this section 18(c) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the Tax Indemnity Payment is to be made are remitted to the Internal Revenue Service.

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; provided, however, that this Agreement shall be subject to amendment in the future in such manner as the Company shall reasonably deem necessary or appropriate to effect compliance with Section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under Section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to Mr. Devine on a present value basis.

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 Mr. Devine is or may be entitled to under the terms and conditions of the employment agreement dated as of the ____ day of _____, 2008 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 Amended and Restated Employment Agreement between the Company and Mr. Devine made and entered into as of June 26, 1996, as amended, 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.

30. Compliance with Section 409A of the Code.

Mr. Devine and the Company acknowledge that each of the payments and benefits promised to Mr. Devine under this Agreement must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, Mr. Devine and the Company agree that:

- (a) the expense reimbursements described in Section 8 and legal fee reimbursements described in Section 17 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;
- (b) the payment described in Section 9(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Company's customary payment timing arrangement;
- (c) the benefits and payments described in Section 9(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;
- (d) the welfare benefits provided in kind under section 9(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and
- (e) the Tax Indemnity Payment provided under section 18 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of Mr. Devine's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after Mr. Devine's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if Mr. Devine is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following Mr. Devine's separation from service. Each amount payable under this plan that is required to be deferred beyond Mr. Devine's separation from service, shall be deposited on the date on which, but for such deferral, the Company would have paid such amount to Mr. Devine, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Company with the approval of Mr. Devine (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by Mr. Devine (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

31. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which Mr. Devine participates:

- (a) Mr. Devine shall repay to the Company any bonus or incentive compensation paid to Mr. Devine while (i) Mr. Devine is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Devine (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Company may supply to Mr. Devine a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.
- (b) (i) If Mr. Devine's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) Mr. Devine is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Company issued under the CPP, then payments to Mr. Devine that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Devine (which approval shall not be unreasonably withheld or delayed).
- (ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 31(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 31 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Company, under which the UST acquires equity or debt securities of the Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 31(a) shall not be required by the Relevant Implementation of section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 31(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 31(b)(ii) shall be paid on the earliest date on which the Company reasonably anticipates that such amount may be paid without violating such limitation.

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.

MICHAEL P. DEVINE

ATTEST

DIME COMMUNITY BANCSHARES, INC.

By:
Assistant Secretary

By:
for the Board of Directors

[Seal]

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of _____, 2008, 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 "Initial Effective Date") pursuant to which Mr. Mahon serves the Company in the capacity of First Executive Vice President and Chief Financial Officer of the Company and its wholly owned subsidiary, The Dime Savings Bank of Williamsburgh ("Bank"); and

WHEREAS, such Agreement was amended as of January 1, 2003 (the "Prior Agreement"); and

WHEREAS, the parties desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of Section 409A of the Internal Revenue Code of 1986 ("the Code"); 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 Initial Effective Date and ending on the third anniversary date of the Initial Effective Date, plus such extensions, if any, as are provided pursuant to section 3(b).

(b) Except as provided in section 3(c), beginning on the Initial Effective Date, 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 Initial Effective Date, 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 First 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, 2009 and ending on December 31, 2009, no less than \$_____;
- (b) during each calendar year that begins after December 31, 2009, such amount as the Board may, in its discretion, determine, but in no event less than the rate in effect on December 31, 2009; 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 (i) reimburse Mr. Mahon for the cost of maintenance and servicing such automobile and, for instance, gasoline and oil for such automobile; (ii) reimburse Mr. Mahon for his ordinary and necessary business expenses, incurred in the performance of his duties under this Agreement (including but not limited to travel and entertainment expenses); and (iii) reimburse Mr. Mahon for fees for memberships in such clubs and organizations as Mr. Mahon and the Company and such other expenses as Mr. Mahon and the Company shall mutually agree are necessary and appropriate for business purposes, upon presentation to the Company of an itemized account of such expenses in such form as the Company may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last day of the year following the year in which the expense was incurred. Mr. Mahon shall be entitled to no less than four (4) weeks of paid vacation during each year in the Employment Period. Mr. Mahon shall be responsible for the payment of any taxes on account of his personal use of the automobile provided by the Company and on account of any other benefit provided herein.

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), in accordance with section 30, on his termination of employment:

- (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) 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) 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"); provided, however, that if payments are made under this section 9(b)(v) as a

result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) 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; provided, however, that if payments are made under this section 9(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(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. If the amount may be increased by a subsequent Change in Control, any additional payment shall be made at the time and in the form provided under the relevant plan, or, if no such time or form is provided, upon the first of the following events to occur on or after the date of such Change in Control: a change in control event (within the meaning of Treasury Regulation section 1.409A-3(i)(5)) with respect to Mr. Mahon, Mr. Mahon's separation from service (within the meaning of section 1.409A-1(h)), Mr. Mahon's death or Mr. Mahon's disability (within the meaning of Treasury Regulation section 1.409A-3(i)(4)). From the date of such Change of Control until the date of payment, any additional payment so deferred shall be held in trust for Mr. Mahon, the terms of which trust shall be those set forth in section 30.

(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, in accordance with section 30, 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 upon 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 Initial Effective Date 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 Initial Effective Date 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)

(A) the consummation of 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) the shareholders of the Company approve either 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 pay the following sums into a trust for the benefit of 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 to the trust whether or not Mr. Mahon's employment has terminated. The entire amount in the trust shall be paid to Mr. Mahon on the first day of the seventh month following his separation from service within the meaning of section 409A of the Code. The terms of the trust shall be those set forth in section 30. 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:

If to the Company:

Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

with a copy to:

Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York 10281
Attention: W. Edward Bright, Esq.

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. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which Mr. Mahon incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to Mr. Mahon's right to reimbursement; provided, however, that Mr. Mahon shall have submitted to the Company documentation supporting such expenses at such time and in such manner as the Company may reasonably require.

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 18, 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. Any payment pursuant to this section 18(c) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the Tax Indemnity Payment is to be made are remitted to the Internal Revenue Service.

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; provided, however, that this Agreement shall be subject to amendment in the future in such manner as the Company shall reasonably deem necessary or appropriate to effect compliance with Section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under Section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to Mr. Mahon on a present value basis.

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 Mr. Mahon is or may be entitled to under the terms and conditions of the employment agreement dated as of the _____ day of _____, 2008 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 Amended and Restated Employment Agreement between the Company and Mr. Mahon made and entered into as of June 26, 1996, as amended, 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.

30. Compliance with Section 409A of the Code.

Mr. Mahon and the Company acknowledge that each of the payments and benefits promised to Mr. Mahon under this Agreement must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from

compliance. To that end, Mr. Mahon and the Company agree that:

- (a) the expense reimbursements described in Section 8 and legal fee reimbursements described in Section 17 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;
- (b) the payment described in Section 9(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Company's customary payment timing arrangement;
- (c) the benefits and payments described in Section 9(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;
- (d) the welfare benefits provided in kind under section 9(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and
- (e) the Tax Indemnity Payment provided under section 18 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of Mr. Mahon's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after Mr. Mahon's earliest separation from service (within the meaning of Treasury Regulation Section 1.409A-1(h)) and, if Mr. Mahon is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following Mr. Mahon's separation from service. Each amount payable under this plan that is required to be deferred beyond Mr. Mahon's separation from service, shall be deposited on the date on which, but for such deferral, the Company would have paid such amount to Mr. Mahon, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Company with the approval of Mr. Mahon (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by Mr. Mahon (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

31. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which Mr. Mahon participates:

(a) Mr. Mahon shall repay to the Company any bonus or incentive compensation paid to Mr. Mahon while (i) Mr. Mahon is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Mahon (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Company may supply to Mr. Mahon a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If Mr. Mahon's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) Mr. Mahon is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Company issued under the CPP, then payments to Mr. Mahon that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Company and approved by Mr. Mahon (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 31(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 31 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Company, under which the UST acquires equity or debt securities of the Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 31(a) shall not be required by the Relevant Implementation of section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 31(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 31(b)(ii) shall be paid on the earliest date on which the Company reasonably anticipates that such amount may be paid without violating such limitation.

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.

KENNETH J. MAHON

ATTEST

DIME COMMUNITY BANCSHARES, INC.

By:
Assistant Secretary

By:
for the Board of Directors

[Seal]

**AMENDED AND RESTATED
EMPLOYEE RETENTION AGREEMENT**

by and among

THE DIME SAVINGS BANK OF WILLIAMSBURGH,

DIME COMMUNITY BANCSHARES, INC.

and

TIMOTHY B. KING / MICHAEL PUCELLA

made and entered into as of
_____, 2008

**AMENDED AND RESTATED
EMPLOYEE RETENTION AGREEMENT**

This **AMENDED AND RESTATED EMPLOYEE RETENTION AGREEMENT ("Agreement")** is made and entered into as of _____, 2008 by and among **THE DIME SAVINGS BANK of WILLIAMSBURGH**, a savings bank organized and operating under the federal laws of the United States and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank"); **DIME COMMUNITY BANCSHARES, INC.**, a business corporation organized and existing under the laws of the State of Delaware and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Holding Company"); and Timothy B. King, an individual residing at _____ ("Officer")

W I T N E S S E T H:

WHEREAS, the Officer and the Bank are parties to an Employee Retention Agreement ("Prior Agreement") made and entered into as of June 26, 1999 ("Initial Effective Date"), pursuant to which the Bank has agreed to provide certain payments to the Officer in the event that his employment is terminated under certain circumstances as a result of a Change of Control; and

WHEREAS, the parties desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of section 409A of the Internal Revenue Code of 1986 ("the Code"); and

WHEREAS, the Bank desires to assure for itself the continued availability of the Officer's services and the ability of the Officer to perform such services with a minimum of personal distraction in the event of a pending or threatened Change of Control, and

WHEREAS, the Officer is willing to continue to serve the Bank on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Bank, the Holding Company and the Officer hereby agree as follows:

Section 1. Effective Date

(a) This Agreement shall be effective as of the Initial Effective Date and shall remain in effect during the term of this Agreement which shall be for a period of three (3) years commencing on the Initial Effective Date, plus such extensions as are provided pursuant to section 1(b); *provided, however*, that if the term of this Agreement has not otherwise terminated, the term of this Agreement will terminate on the date of the Officer's termination of employment with the Bank; and *provided, further*, that the obligations under section 8 of this Agreement shall survive the term of this Agreement if payments become due hereunder.

(b) Prior to each anniversary date of this Agreement, the Board shall consider the advisability of an extension of the term in light of the circumstances then prevailing and may, in its discretion, approve an extension to take effect as of the upcoming anniversary date. If an extension is approved, the term of this Agreement shall be extended so that it will expire three (3) years after such anniversary date.

(c) Notwithstanding anything herein contained to the contrary: (i) the Officer's employment with the Bank may be terminated at any time, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Officer's employment following the expiration of the Assurance Period upon such terms and conditions as the Bank and the Officer may mutually agree upon.

Section 2. Assurance Period.

(a) The assurance period ("Assurance Period") shall be for a period commencing on the date of a Change of Control, as defined in section 10 of this Agreement, and ending on the third anniversary of the date on which the Assurance Period commences, plus such extensions as are provided pursuant to the following sentence. The Assurance Period shall be automatically extended for one (1) additional day each day, unless either the Bank or the Officer elects not to extend the Assurance Period further by giving written notice to the other party, in which case the Assurance Period shall become fixed and shall end on the third anniversary of the date on which such written notice is given; *provided, however*, that if following a Change of Control, the Office of Thrift Supervision (or its successor) is the Bank's primary federal regulator, the Agreement shall be subject to extension not more frequently than annually and only upon review and approval of the Board.

(b) Upon termination of the Officer's employment with the Bank, any daily extensions provided pursuant to the preceding sentence, if not theretofore discontinued, shall cease and the remaining unexpired Assurance Period under this Agreement shall be a fixed period ending on the later of the third anniversary of the date of the Change of Control, as defined in section 10 of this Agreement, or the third anniversary of the date on which the daily extensions were discontinued.

Section 3. Duties.

During the period of the Officer's employment that falls within the Assurance Period, the Officer shall: (a) except to the extent allowed under section 6 of this Agreement, devote his full business time and attention (other than during weekends, holidays, vacation periods, and periods of illness, disability or approved leave of absence) to the business and affairs of the Bank and use his best efforts to advance the Bank's interests; (b) serve in the position to which the Officer is appointed by the Bank, which, during the Assurance Period, shall be the position that the Officer held on the day before the Assurance Period commenced or any higher office at the Bank to which he may subsequently be appointed; and (c) subject to the direction of the Board and the By-laws of the Bank, have such functions, duties, responsibilities and authority commonly associated with such position.

Section 4. Compensation.

In consideration for the services rendered by the Officer during the Assurance Period, the Bank shall pay to the Officer during the Assurance Period a salary at an annual rate equal to the greater of:

- (a) the annual rate of salary in effect for the Officer on the day before the Assurance Period commenced; or
- (b) such higher annual rate as may be prescribed by or under the authority of the Board;

provided, however, that in no event shall the Officer's annual rate of salary under this Agreement in effect at a particular time during the Assurance Period be reduced without the Officer's prior written consent. The annual salary payable under this section 4 shall be subject to review at least once annually and shall be paid in approximately equal installments in accordance with the Bank's customary payroll practices. Nothing in this section 4 shall be deemed to prevent the Officer from receiving additional compensation other than salary for his services to the Bank, or additional compensation for his services to the Holding Company, upon such terms and conditions as may be prescribed by or under the authority of the Board or the Board of Directors of the Holding Company.

Section 5. Employee Benefit Plans and Programs

Except as otherwise provided in this Agreement, the Officer shall, during the Assurance Period, be treated as an employee of the Bank and be eligible to participate in and receive benefits under any qualified or non-qualified defined benefit or defined contribution retirement plan, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans, and such other employee benefit plans and programs, including, but not limited to, any incentive compensation plans or programs (whether or not employee benefit plans or programs), any stock option and appreciation rights plan, employee stock ownership plan and restricted stock plan, as may from time to time be maintained by, or cover employees of, the Bank, in accordance with the terms and conditions of such employee benefit plans and programs and compensation plans and programs and with the Bank's customary practices.

Section 6. Board Memberships.

The Officer may serve as a member of the boards of directors of such business, community and charitable organizations as he may disclose to and as may be approved by the Board (which approval shall not be unreasonably withheld), 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.

Section 7. Working Facilities and Expenses.

During the Assurance Period, the Officer's principal place of employment shall be at the Bank's executive offices at the address first above written, or at such other location within the City of New York at which the Bank shall maintain its principal executive offices, or at such other location as the Bank and the Officer may mutually agree upon. The Bank shall provide the Officer, at his principal place of employment, with a private office and support services and facilities suitable to his position with the Bank and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Bank shall reimburse the Officer for his ordinary and necessary business expenses, including, without limitation, the Officer's travel and entertainment expenses, incurred in connection with the performance of the Officer's duties under this Agreement, upon presentation to the Bank of an itemized account of such expenses in such form as the Bank may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last year in which the expense was incurred.

Section 8. Termination of Employment with Severance Benefits.

(a) In the event that the Officer's employment with the Bank shall terminate during the Assurance Period, or prior to the commencement of the Assurance Period but within three (3) months of and in connection with a Change of Control as defined in section 10 of this Agreement on account of:

(i) The Officer's voluntary resignation from employment with the Bank within ninety (90) days following:

(A) the failure of the Bank's Board to appoint or re-appoint or elect or re-elect the Officer to serve in the same position in which the Officer was serving, on the day before the Assurance Period commenced or a more senior office;

(B) the failure of the stockholders of the Holding Company to elect or re-elect the Officer as a member of the Board, if he was a member of the Board on the day before the Assurance Period commenced;

(C) the expiration of a thirty (30) day period following the date on which the Officer gives written notice to the Bank of its material failure, whether by amendment of the Bank's Organization Certificate or By-laws, action of the Board or the Holding Company's stockholders or otherwise, to vest in the Officer the functions, duties, or responsibilities vested in the Officer on the day before the Assurance Period commenced (or the functions, duties and responsibilities of a more senior office to which the Officer may be appointed), unless during such thirty (30) day period, the Bank cures such failure;

(D) the failure of the Bank to cure a material breach of this Agreement by the Bank, within thirty (30) days following written notice from the Officer of such material breach;

(E) a reduction in the compensation provided to the Officer, or a material reduction in the benefits provided to the Officer under the Bank's program of employee benefits, compared with the compensation and benefits that were provided to the Officer on the day before the Assurance Period commenced;

(F) a change in the Officer's principal place of employment that would result in a one-way commuting time in excess of the greater of (I) 30 minutes or (II) the Officer's commuting time immediately prior to such change; or

(ii) the discharge of the Officer by the Bank for any reason other than for "cause" as provided in section 9(a);

then, subject to section 21, the Bank shall provide the benefits and pay to the Officer the amounts provided for under section 8(b) of this Agreement; *provided, however*, that if benefits or payments become due hereunder as a result of the Officer's termination of employment prior to the commencement of the Assurance Period, the benefits and payments provided for under section 8(b) of this Agreement shall be determined as though the Officer had remained in the service of the Bank (upon the terms and conditions in effect at the time of his actual termination of service) and had not terminated employment with the Bank until the date on which the Officer's Assurance Period would have commenced.

(b) Upon the termination of the Officer's employment with the Bank under circumstances described in section 8(a) of this Agreement, the Bank shall pay and provide to the Officer (or, in the event of the Officer's death, to the Officer's estate) on his termination of employment, subject to section 24 :

(i) the Officer's earned but unpaid compensation (including, without limitation, all items which constitute wages under section 190.1 of the New York Labor Law and the payment of which is not otherwise provided for under this section 8(b)) as of the date of the termination of the Officer's employment with the Bank, such payment to be made at the time and in the manner prescribed by law applicable to the payment of wages but in no event later than thirty (30) days after termination of employment;

(ii) the benefits, if any, to which the Officer is entitled as a former employee under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the Bank's officers and employees;

(iii) continued group life, health (including hospitalization, medical and major medical), accident and long term disability insurance benefits, in addition to that provided pursuant to section 8(b)(i) and after taking into account the coverage provided by any subsequent employer, if and to the extent necessary to provide for the Officer, for the remaining unexpired Assurance Period, coverage equivalent to the coverage to which the Officer 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 of Control, on the date of such Change of Control, whichever benefits are greater) if the Officer had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of compensation achieved during the Officer's period of actual employment with the Bank;

(iv) a lump sum payment, in an amount equal to the present value of the salary that the Officer would have earned if the Officer had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of salary achieved during the Officer's period of actual employment with the Bank, where such present value is to be determined using a discount rate equal to the applicable short-term federal rate prescribed under section 1274(d) of the Internal Revenue Code of 1986 ("Code") ("Applicable Short-Term Rate"), compounded using the compounding periods corresponding to the Bank's regular payroll periods for its officers, such lump sum to be paid in lieu of all other payments of salary provided for under this Agreement in respect of the period following any such termination;

(v) a lump sum payment in an amount equal to the excess, if any, of:

(A) the present value of the aggregate benefits to which the Officer would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by, or covering employees of, the Bank if the Officer were 100% vested thereunder and had continued working for the Bank during the remaining unexpired Assurance 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 Assurance 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 8(b)(I), (iv) and (vii);

(B) the present value of the benefits to which the Officer is actually entitled under such defined benefit pension plans as of the date of his termination;

where such present values are to be determined using the mortality tables prescribed under section 415(b)(2)(E)(v) of the Code and a discount rate, compounded monthly, equal to the applicable long-term federal rate prescribed under section 1274(d) of the Code for the month in which his employment terminates; provided, however, that if payments are made under this section 8(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) a lump sum payment in an amount equal to the present value of the additional employer contributions (or if greater in the case of a leveraged employee stock ownership plan or similar arrangement, the additional assets allocable to him through debt service, based on the fair market value of such assets at termination of employment) to which he would have been entitled under any and all qualified and non-qualified defined contribution plans maintained by, or covering employees of, the Bank, if he were 100% vested thereunder and had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of compensation achieved during the Officer's period of actual employment with the Bank, and making the maximum amount of employee contributions, if any, required under such plan or plans, such present value to be determined on the basis of the discount rate, compounded using the compounding period that corresponds to the frequency with which employer contributions are made to the relevant plan, equal to the Applicable Short-Term Rate; *provided, however*, that if payments are made under this section 8(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vii) the payments that would have been made to the Officer under any cash bonus or long-term or short-term cash incentive compensation plan maintained by, or covering employees of, the Bank, if he had continued working for the Bank during the remaining unexpired Assurance Period and had earned the maximum bonus or incentive award in each calendar year that ends during the remaining unexpired Assurance Period, such payments to be equal to the product of:

(A) the maximum percentage rate at which an award was ever available to the Officer under such incentive compensation plan; multiplied by

(B) the salary that would have been paid to the Officer during each such calendar year at the highest annual rate of salary achieved during the remaining unexpired Assurance Period, such payments to be made without discounting for early payment ..

The Bank and the Officer hereby stipulate that the damages which may be incurred by the Officer following any such termination of employment are not capable of accurate measurement as of the date first above written and that the payments and benefits contemplated by this section 8(b) 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. Such damages shall be payable without any requirement of proof of actual damage and without regard to the Officer's efforts, if any, to mitigate damages. The Bank and the Officer further agree that the Bank may condition the payments and benefits (if any) due under sections 8(b)(iii), (iv), (v), (vi) and (vii) on the receipt of the Officer's resignation from any and all positions which he holds as an officer, director or committee member with respect to the Bank, the Company or any subsidiary or affiliate of either of them.

Section 9. Termination without Severance Benefits.

In the event that the Officer's employment with the Bank shall terminate during the Assurance Period on account of:

(a) the discharge of the Officer for "cause," which, for purposes of this Agreement shall mean personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order, or any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; *provided, however*, that the Officer shall not be deemed to have been discharged for cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to the Officer and a reasonable opportunity for the Officer to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging the Officer for cause; or

(b) the Officer's voluntary resignation from employment with the Bank for reasons other than those specified in section 8(a)(I); or

(c) the Officer's death; or

(d) a determination that the Officer is eligible for long-term disability benefits under the Bank's long-term disability insurance program or, if there is no such program, under the federal Social Security Act; then the Bank shall have no further obligations under this Agreement, other than the payment to the Officer (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 the Officer is entitled as a former employee under the employee benefit plans and programs and compensation plans and programs maintained by, or covering employees of, the Bank.

Section 10. Change of Control.

(a) A Change of Control of the Bank ("Change of Control") shall be deemed to have occurred upon the happening of any of the following events:

(i) the reorganization, merger or consolidation of the Bank, respectively, with one or more other persons, other than a transaction following which:

(A) at least 51% of the equity ownership interests of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the outstanding equity ownership interests in the Bank; and

(B) at least 51% of the securities entitled to vote generally in the election of directors of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the securities entitled to vote generally in the election of directors of the Bank;

(ii) the acquisition of substantially all of the assets of the Bank or beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the outstanding securities of the Bank entitled to vote generally in the election of directors by any person or by any persons acting in concert;

(iii) a complete liquidation or dissolution of the Bank, or approval by the stockholders of the Bank of a plan for such liquidation or dissolution;

(iv) the occurrence of any event if, immediately following such event, at least fifty percent (50%) of the members of the Board do not belong to any of the following groups:

(A) individuals who were members of the Board on the date of this Agreement; or

(B) individuals who first became members of the Board after the date of this Agreement either:

(1) upon election to serve as a member of the Board by affirmative vote of three-quarters (3/4) of the members of such Board, or a nominating committee thereof, in office at the time of such first election; or

(2) upon election by the stockholders of the Board to serve as a member of the Board, but only if nominated for election by affirmative vote of three quarters(3/4) of the members of the Board, or of a nominating committee thereof, in office at the time of such first nomination;

provided, however, that such individual's election or nomination did not result from an actual or threatened election contest (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) other than by or on behalf of the Board of the Bank; or

(v) any event which would be described in section 10(a)(i), (ii), (iii) or (iv) if the term "Holding Company" were substituted for the term "Bank" therein.

(b) In no event, however, shall a Change of Control be deemed to have occurred as a result of any acquisition of securities or assets of the Holding Company, the Bank or any subsidiary of either of them, by the Holding Company, the Bank or any subsidiary of either of them, or by any employee benefit plan maintained by any of them.

Section 11. Excise Tax Indemnification.

(a) This section 11 shall apply if the Officer's employment is terminated in circumstances giving rise to liability for excise taxes under section 4999 of the Code. If this Section 11 applies, then, if for any taxable year, the Officer shall be liable for the payment of an excise tax under section 4999 of the Code with respect to any payment in the nature of compensation made by the Company or any direct or indirect subsidiary or affiliate of the Holding Company to (or for the benefit of) the Officer, the Holding Company shall pay to the Officer an amount equal to X determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

E = the rate at which the 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 11;

FI = the highest marginal rate of income tax applicable to the Officer under the Code for the taxable year in question;

SLI = the sum of the highest marginal rates of income tax applicable to the Officer under all applicable state and local laws for the taxable year in question; and

M = the highest marginal rate of Medicare tax applicable to the Officer under the Code for the taxable year in question.

With respect to any payment in the nature of compensation that is made to (or for the benefit of) the Officer under the terms of this Agreement, or otherwise, and on which an excise tax under section 4999 of the Code will be assessed, the payment determined under this section 11(a) shall be made to the Officer on the earlier of (i) the date the Holding Company or any direct or indirect subsidiary or affiliate of the Holding Company is required to withhold such tax, or (ii) the date the tax is required to be paid by the Officer.

(b) Notwithstanding anything in this section 11 to the contrary, in the event that the Officer'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 determined by the formula $(X + P) \times E$, where X, P and E have the meanings provided in section 11(a), the Officer or the Holding 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 11(a), when increased by the amount of the payment made to the Officer under this section 11(b) by the Holding Company, or when reduced by the amount of the payment made to the Company under this section 11(b) by the Officer, equals the amount that should have properly been paid to the Officer under section 11(a). The interest paid under this section 11(b) shall be determined at the rate provided under section 1274(b)(2)(B) of the Code. To confirm that the proper amount, if any, was paid to the Officer under this section 11, the Officer shall furnish to the Holding Company a copy of each tax return which reflects a liability for an excise tax payment made by the Holding Company, at least 20 days before the date on which such return is required to be filed with the Internal Revenue Service. Any payment pursuant to this Section 11(b) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the payment is to be made are remitted to the Internal Revenue Service.

(c) The provisions of this section 11 are designed to reflect the provisions of applicable federal, state and local tax laws in effect on the date of this Agreement. If, after the date hereof, there shall be any change in any such laws, this section 11 shall be modified in such manner as the Officer and the Holding Company may mutually agree upon if and to the extent necessary to assure that the Officer is fully indemnified against the economic effects of the tax imposed under section 4999 of the Code or any similar federal, state or local tax.

Section 12. No Effect on Employee Benefit Plans or Programs.

The termination of the Officer's employment during the Assurance Period or thereafter, whether by the Bank or by the Officer, shall have no effect on the rights and obligations of the parties hereto under the Bank's qualified and non-qualified defined benefit or defined contribution retirement plans, 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 any defined contribution plan, employee stock ownership plan, stock option and appreciation rights plan, and restricted stock plan, as may be maintained by, or cover employees of, the Bank from time to time; *provided, however*, that nothing in this Agreement shall be deemed to duplicate any compensation or benefits provided under any agreement, plan or program covering the Officer to which the Bank or the Holding Company is a party and any duplicative amount payable under any such agreement, plan or program shall be applied as an offset to reduce the amounts otherwise payable hereunder.

Section 13. Successors and Assigns.

This Agreement will inure to the benefit of and be binding upon the Officer, his legal representatives and testate or intestate distributes, and the Bank and the Holding 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 Bank or the Holding Company may be sold or otherwise transferred.

Section 14. 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 the Officer:

Mr. Timothy B. King

If to the Bank:

The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

If to the Holding Company:

Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

Section 15. Indemnification and Attorneys' Fees.

The Bank shall indemnify, hold harmless and defend the Officer against reasonable costs, including legal fees, incurred by the Officer in connection with or arising out of any action, suit or proceeding in which the Officer may be involved, as a result of the Officer's efforts, in good faith, to defend or enforce the terms of this Agreement; provided, however, that the Officer shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement; *provided, further*, that this section 15 shall not obligate the Bank to pay costs and legal fees on behalf of the Officer under this Agreement in excess of \$20,000. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of the Officer's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which the Officer incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to the Officer's right to reimbursement; provided, however, that the Officer shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require.

Section 16. 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.

Section 17. 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 whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder 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.

Section 18. 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.

Section 19. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the federal laws of the United States, and in the absence of controlling federal law, the laws of the State of New York, without reference to conflicts of law principles.

Section 20. 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.

Section 21. 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 Employee Retention Agreement made and entered into as of June 26, 1996. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; *provided, however*, that this Agreement shall be subject to amendment in the future in such manner as the Bank and the Holding Company shall reasonably deem necessary or appropriate to effect compliance with section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to the Officer on a present value basis.

Section 22. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Bank:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to the Officer by the Bank under section 8(b) hereof (exclusive of amounts described in section 8(b) (i)) exceed the three times the Officer's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Bank (or for his entire period of employment with the Bank if less than five calendar years). This section 22(a) shall not affect or limit payments made by the Holding Company hereunder pursuant to sections 8(b), 11 or otherwise. The Holding Company agrees that, if this section 22(a) would limit payments by the Bank to the Officer pursuant to section 8(b) or otherwise, the Holding Company shall make such payments to the Officer.

(b) Notwithstanding anything herein contained to the contrary, any payments to the Officer by the Bank, 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 ("FDI Act"), 12 U.S.C. Sec. 1828(k), and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Officer is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Bank pursuant to a notice served under section 8(e)(3) or 8(g) (1) of the FDI Act, 12 U.S.C. Sec. 1818(e)(3) or 1818(g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of Service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Bank, in its discretion, may (i) pay to the Officer all or part of the compensation withheld while the Bank's obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Officer is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. sec. 1818(e)(4) or (g)(1), all prospective obligations of the order, but vested rights and obligations of the Bank and the Officer shall not be effected.

(e) Notwithstanding anything herein contained to the contrary, if the Bank is in default (within the meaning of section 3(x)(1) of the FDI Act, 12 U.S.C. Sec. 1813(x)(1), all prospective obligations of the Bank under this Agreement shall terminate as of the date of default, but vested rights and obligations of the Bank and the Officer shall not be effected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Bank hereunder shall be terminated, except to the extent that a continuation of this Agreement is necessary for the continued operation of the Bank: (i) by the Director of the Office of Thrift Supervision ("OTS") or his designee or the Federal Deposit Insurance Corporation ("FDIC"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in section 13(c) of the FDI Act, 12 U.S.C. sec. 1823(c); (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Bank or when the Bank is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent any of the foregoing provisions shall cease to be required by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

Section 23. Guaranty.

The Holding Company hereby irrevocably and unconditionally guarantees to the Officer the payment of all amounts, and the performance of all other obligations, due from the Bank in accordance with the terms of this Agreement as and when due without any requirement of presentment, demand of payment, protest or notice of dishonor or nonpayment. For purposes of this section 23, the application of sections 21(a), (c), (d), (e) or (f) to the Bank shall have no effect on the Holding Company's obligations hereunder.

Section 24. Compliance with Section 409A of the Code.

The Officer, the Bank and the Holding Company acknowledge that each of the payments and benefits promised to the Officer under this Agreement must either comply with the requirements of section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, the Officer, the Bank and the Holding Company agree that:

- (a) the expense reimbursements described in section 7 and legal fee reimbursements described in section 15 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;
- (b) the payment described in section 8(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;
- (c) the benefits and payments described in section 8(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;
- (d) the welfare benefits provided in kind under section 8(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and
- (e) the tax indemnity payment provided under section 11 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of the Officer's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after the Officer's earliest separation from service (within the meaning of Treasury Regulation section 1.409A-1(h)) and, if the Officer is a specified employee (within the meaning of Treasury Regulation section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following the Officer's separation from service. Each amount payable under this plan that is required to be deferred beyond the Officer's separation from service, shall be deposited on the date on which, but for such deferral, the Holding Company would have paid such amount to the Officer, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Holding Company with the approval of the Officer (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by the Officer (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

Section 25. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Holding Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which the Officer participates:

(a) The Officer shall repay to the Holding Company any bonus or incentive compensation paid to the Officer while (i) the Officer is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Holding Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Holding Company and approved by the Officer (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Holding Company may supply to the Officer a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If the Officer's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) the Officer is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Holding Company issued under the CPP, then payments to the Officer that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Holding Company and approved by the Officer (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 25(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 25 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Holding Company, under which the UST acquires equity or debt securities of the Holding Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 25(a) shall not be required by the Relevant Implementation of

section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 25(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 25(b)(ii) shall be paid on the earliest date on which the Holding Company reasonably anticipates that such amount may be paid without violating such limitation.

IN WITNESS WHEREOF, the Bank and the Holding Company have caused this Agreement to be executed and the Officer has hereunto set his hand, all as of the day and year first above written.

TIMOTHY B. KING / MICHAEL PUCELLA

ATTEST:

THE DIME SAVINGS BANK of WILLIAMSBURGH

By: _____
Secretary
[Seal]
Name : Vincent F. Palagiano
Title : Chairman of the Board & CEO

By: _____

ATTEST:

DIME COMMUNITY BANCSHARES, INC.

By: _____
Secretary
[Seal]
Title : Chairman of the Board & CEO

By: _____
Name : Vincent F. Palagiano

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Timothy B. King, to me known, and known to me to be the individual described in the foregoing instrument, who, being by me duly sworn, did depose and say that he resides at the address set forth in said instrument, and that he signed his name to the foregoing instrument.

Notary Public

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Vincent F. Palagiano to me known, who, being by me duly sworn, did depose and say that he resides at 44 Direnzo Court, Staten Island, N.Y., that he is a member of the Board of Directors of THE DIME SAVINGS BANK OF WILLIAMSBURGH, the savings bank described in and which executed the foregoing instrument; that he knows the seal of said mutual savings bank; that the seal affixed to said instrument is such seal; that it was so affixed by authority of the Board of Directors of said savings bank; and that he signed his name thereto by like authority.

Notary Public

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Vincent F. Palagiano, to me known, who, being by me duly sworn, did depose and say that he resides at 44 Direnzo Court, Staten Island, N. Y., that he is a member of the Board of Directors of DIME COMMUNITY BANCSHARES, INC., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such seal; that it was so affixed by order of the Board of Directors of said corporation; and that he signed his name thereto by like order.

Notary Public

MODIFICATION OF EMPLOYEE RETENTION AGREEMENT

This **MODIFICATION OF EMPLOYEE RETENTION AGREEMENT** ("Modification") is made and entered into as of December 31, 2008 by and among **THE DIME SAVINGS BANK OF WILLIAMSBURGH**, a savings bank organized and operating under the federal laws of the United States and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank"); **DIME COMMUNITY BANCSHARES, Inc.**, a business corporation organized and existing under the laws of the State of Delaware and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Holding Company"); and _____, an individual residing at _____ ("Officer").

WITNESSETH

WHEREAS, the Bank, the Holding Company and the Officer are parties to an Employee Retention Agreement ("Agreement") made and entered into as of February 22, 2007, pursuant to which the Bank has agreed to provide certain payments to the Officer in the event that his employment is terminated under certain circumstances as a result of a Change of Control, and the Bank desires to assure for itself the continued availability of the Officer's services and the ability of the Officer to perform such services with a minimum of personal distraction in the event of a pending or threatened Change of Control, and the Officer is willing to continue to serve the Bank on the terms and conditions set forth herein; and

WHEREAS, the parties desire to modify the Agreement for the purpose, among others, of compliance with the applicable requirements of section 409A of the Internal Revenue Code of 1986; and

WHEREAS, section 21 of the Agreement provides for modification of the Agreement in a writing signed by the parties thereto;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Bank, the Holding Company and the Officer hereby agree as follows:

1. The last sentence of section 7 of the Agreement is modified to add the following clause at the end thereof:

each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last year in which the expense was incurred.

2. Section 8(b) of the Agreement is modified to add the words "on his termination of employment, subject to section 24" after the clause "(or, in the event of the Officer's death, to the Officer's estate)".

3. Section 8(b)(iv), (v) and (vi) of the Agreement are modified to strike the text "within thirty (30) days following the Officer's termination of employment with the Bank," where it appears therein.

4. Section 8(b)(v) of the Agreement is modified to add the following text to the end thereof:

provided, however, that if payments are made under this section 8(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

5. Section 8(b)(vi) of the Agreement is modified to add the following text to the end thereof:

provided, however, that if payments are made under this section 8(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

6. Subsection 8(b)(vii)(B) of the Agreement is modified to read as follows:

(B) the salary that would have been paid to the Officer during each such calendar year at the highest annual rate of salary achieved during the remaining unexpired Assurance Period, such payments to be made without discounting for early payment.

7. The text in section 10(a)(i) of the Agreement that precedes section 10(a)(i)(A) is modified to read as follows:

(i) the reorganization, merger or consolidation of the Bank, respectively, with one or more other persons, other than a transaction following which:

8. Section 10(a)(ii) of the Agreement is modified to read as follows:

(ii) the acquisition of substantially all of the assets of the Bank or beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the outstanding securities of the Bank entitled to vote generally in the election of directors by any person or by any persons acting in concert, or approval by the stockholders of the Bank of any transaction which would result in an acquisition;

9. Section 11(b) of the Agreement is modified to add the following sentence to the end thereof:

Any payment pursuant to this Section 11(b) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the payment is to be made are remitted to the Internal Revenue Service.

10. Section 15 of the Agreement is modified to add the following sentence to the end thereof:

Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which the Officer incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to the Officer's right to reimbursement; provided, however, that the Officer shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require.

11. The last sentence of section 21 of the Agreement is modified to read as follows:

No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; provided, however, that this

Agreement shall be subject to amendment in the future in such manner as the Bank and the Holding Company shall reasonably deem necessary or appropriate to effect compliance with section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to the Officer on a present value basis.

12. The Agreement is modified to include a new section 24, entitled "Compliance with Section 409A of the Code," to read in its entirety as follows:

Section 24. Compliance with Section 409A of the Code.

The Officer, the Bank and the Holding Company acknowledge that each of the payments and benefits promised to the Officer under this Agreement must either comply with the requirements of section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, the Officer, the Bank and the Holding Company agree that:

(a) the expense reimbursements described in section 7 and legal fee reimbursements described in section 15 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv) (A) and shall be administered to satisfy such requirements;

(b) the payment described in section 8(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;

(c) the benefits and payments described in section 8(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;

(d) the welfare benefits provided in kind under section 8(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and

(e) the tax indemnity payment provided under section 11 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of the Officer's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after the Officer's earliest separation from service (within the meaning of Treasury Regulation section 1.409A-1(h)) and, if the Officer is a specified employee (within the meaning of Treasury Regulation section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following the Officer's separation from service. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

13. The Agreement is modified to include a new section 25, entitled "Compliance with the Emergency Economic Stabilization Act of 2008," to read in its entirety as follows:

Section 25. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Holding Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), and the Officer becomes a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer"), the Officer acknowledges that any compensation payable to the Officer under this Agreement or under any compensation, bonus, incentive or other benefit plan, arrangement or agreement of or with the Holding Company or the Bank, shall be subject to the limits of section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the date of such issue of debt or equity to the UST pursuant to the CPP.

IN WITNESS WHEREOF, the Bank and the Holding Company have caused this Modification to be executed and the Officer has hereunto set his or her hand.

Name:

THE DIME SAVINGS BANK OF WILLIAMSBURGH

By:

Name: Vincent F. Palagiano
Title: Chairman & Chief Executive Officer

DIME COMMUNITY BANCSHARES, INC.

By:

Name: Vincent F. Palagiano
Title: Chairman & Chief Executive Officer

**BENEFIT MAINTENANCE PLAN
OF
DIME COMMUNITY BANCSHARES, INC.**

Adopted Effective as of November 1, 1992
Amended and Restated Effective as of December 31, 2008

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BENEFIT MAINTENANCE PLAN

OF

DIME COMMUNITY BANCSHARES, INC.

ARTICLE I

DEFINITIONS

Wherever appropriate to the purposes of the Plan, capitalized terms shall have the meanings assigned to them under the Retirement Plan, Savings Plan or ESOP, as applicable; *provided, however*, that the following special definitions shall apply for purposes of the Plan, unless a different meaning is clearly indicated by the context:

Section 1.1 **Actuarial Equivalent** means a benefit of equivalent value determined on the basis of interest rate and mortality assumptions prescribed under the Retirement Plan. If it shall be necessary to determine an Actuarial Equivalent in any case for which interest rate and mortality assumptions shall not have been prescribed under the Retirement Plan, the Actuarial Equivalent shall be determined using the interest rate and mortality assumptions prescribed by the Commissioner of Internal Revenue pursuant to section 417(e) of the Code for the month in which the determination is being made.

Section 1.2 **Affiliated Employer** means any corporation which is a member of a controlled group of corporations (as defined in section 414(b) of the Code) that includes the Company; any trade or business (whether or not incorporated) that is under common control (as defined in section 414(c) of the Code) with the Company; any organization (whether or not incorporated) that is a member of an affiliated service group (as defined in section 414(m) of the Code) that includes the Company; any leasing organization (as defined in section 414(n) of the Code) to the extent that any of its employees are required pursuant to section 414(n) of the Code to be treated as employees of the Company; and any other entity that is required to be aggregated with the Company pursuant to regulations under section 414(o) of the Code.

Section 1.3 **Applicable Limitation** means any of the following: (a) the limitation on annual compensation that may be recognized under a tax-qualified plan for benefit computation purposes pursuant to section 401(a)(17) of the Code; (b) the maximum limitation on annual benefits payable by a tax-qualified defined benefit plan pursuant to section 415(b) of the Code; (c) the maximum limitation on annual additions to a tax-qualified defined contribution plan pursuant to section 415(c) of the Code; (d) the maximum limitation on aggregate annual benefits and annual additions under a combination of tax-qualified defined benefit and defined contribution plans maintained by a single employer pursuant to section 415(e) of the Code; (e) the maximum limitation on annual elective deferrals to a qualified cash or deferred arrangement pursuant to section 402(g) of the Code; (f) the annual limitation on elective deferrals under a qualified cash or deferred arrangement by highly compensated employees pursuant to section 401(k) of the Code; and (g) the annual limitation on voluntary employee contributions by, and employer matching contributions for, highly compensated employees pursuant to section 401(m) of the Code.

Section 1.4 **Bank** means The Dime Savings Bank of Williamsburgh, a federal stock savings bank, and its successors or assigns.

Section 1.5 **Beneficiary** means any person, other than a Participant or Former Participant, who is determined to be entitled to benefits under the terms of the Plan.

Section 1.6 **Board** means the Board of Directors of the Company.

Section 1.7 **Change in Control** means, with respect to a Participant: (a) a change in ownership of the Participant's Relevant Corporation (as defined below); (b) a change in effective control of the Participant's Relevant Corporation; or (c) a change in the ownership of a substantial portion of the assets of the Participant's Relevant Corporation. The existence of a Change in Control shall be determined by the Committee in accordance with section 409A of the Code and the regulations thereunder. For purposes of this section, Relevant Corporation means, with respect to a Participant on any date: (w) the corporation for which the Participant is performing services on such date; (x) all corporations that are liable to the Participant for the benefits due to him under the Plan; (y) a corporation that is a majority shareholder of a corporation described in section 1.7(w) or (x); or (z) any corporation in a chain of corporations each of which is a majority shareholder of another corporation in the chain, ending in a corporation described in section 1.7(w) or (x).

Section 1.8 **Code** means the Internal Revenue Code of 1986 (including the corresponding provisions of any prior law or succeeding law).

Section 1.9 **Committee** means the Compensation Committee of the Board of Directors of the Company, or such other person, committee or other entity as shall be designated by or on behalf of the Board to perform the duties set forth in Article VII.

Section 1.10 **Company** means, Dime Community Bancshares, Inc., a Delaware corporation, any successor thereto.

Section 1.11 **Disability** means, with respect to a Participant, any medically determinable physical or mental impairment which can be expected to result in death or to last for a continuous period of at least twelve (12) months and as a result of which either: (a) the Participant is unable to engage in any substantial gainful activity or (b) the Participant has been receiving income replacement benefits for a period of at least three (3) months under an accident and health plan covering employees of the Participant's employer; provided, however, that a Participant will be deemed disabled and a Disability will be deemed to exist under the Plan if such Participant is determined to be totally disabled by the Social Security Administration or Railroad Retirement Board. The existence of a Disability shall be determined by the Committee in accordance with section 409A and the regulations thereunder.

Section 1.12 **Eligible Employee** means an Employee who is eligible for participation in the Plan in accordance with the provisions of Article II.

Section 1.13 **Employee** means any person, including an officer, who is employed by the Employer.

Section 1.14 **Employer** means Dime Community Bancshares, Inc., and any successor thereto and The Dime Savings Bank of Williamsburgh and any successor thereto and any Affiliated Employer which, with the prior written approval of the Board of Directors of Dime Community Bancshares, Inc. and subject to such terms and conditions as may be imposed by the Board of Directors of Dime Community Bancshares, Inc., shall adopt this Plan.

Section 1.15 **Employer Contributions** means contributions by any Employer to the Savings Plan or the ESOP.

Section 1.16 **ERISA** means the Employee Retirement Income Security Act of 1974, as amended from time to time (including the corresponding provisions of any succeeding law).

Section 1.17 **ESOP** means the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates, as amended from time to time (including the corresponding provisions of any successor qualified employee stock ownership plan adopted by the Company).

Section 1.18 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time (including the corresponding provisions of any succeeding law).

Section 1.19 **Fair Market Value of a Share** means, with respect to a Share on a specified date:

- (a) the final reported sales price on the date in question (or if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) as reported in the principal consolidated reporting system with respect to securities listed or admitted to trading on the principal United States securities exchange on which the Shares are listed or admitted to trading; or
- (b) if the Shares are not listed or admitted to trading on any such exchange, the closing bid quotation with respect to a Share on such date on the National Association of Securities Dealers Automated Quotations System, or, if no such quotation is provided, on another similar system, selected by the Committee, then in use; or
- (c) if sections 1.19(a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

Section 1.20 **Former Participant** means a person whose participation in the Plan has terminated as provided under section 1.30.

Section 1.21 **Savings Plan** means the 401(k) Savings Plan of The Dime Savings Bank of Williamsburgh, as amended from time to time (including the provisions of any successor qualified defined contribution plan adopted by the Company).

Section 1.22 Memorandum Account means, collectively, all of the accounts that hold all of the deferred compensation credited to a Participant under Article III reduced to reflect distributions.

Section 1.23 Participant Account means any person who is participating in the Plan in accordance with its terms.

Section 1.24 Plan means the Benefit Maintenance Plan of Dime Community Bancshares, Inc., as amended from time to time (including the corresponding provisions of any successor plan adopted by the Company).

Section 1.25 Retirement Plan means the Retirement Plan of The Dime Savings Bank of Williamsburgh, as amended from time to time (including the corresponding provisions of any successor qualified defined benefit plan adopted by the Bank).

Section 1.26 Specified Employee has the meaning set forth in section 409A of the Code.

Section 1.27 Share means a share of common stock, par value \$.01 per share, of Dime Community Bancshares., Inc.

Section 1.28 Stock Unit means a right to receive a payment under the Plan in an amount equal, on the date as of which such Payment is made, to the Fair Market Value of a Share.

Section 1.29 Termination of Service means cessation of all services to all Relevant Employers (as defined below) in all capacities other than as a director of such Relevant Employer's board of directors. The occurrence of a Termination of Service shall be determined by the Committee in accordance with the rules for determining whether a "separation from service" has occurred under section 409A of the Code and the regulations thereunder. For purposes of this section, Relevant Employer means, with respect to a Participant on any date: any Employer for whom the Participant performs services and with respect to whom the Participant's rights under this Plan arise, and any corporation, or trade or business whether or not incorporated, that is considered a "single employer" with such Employer within the meaning of section 414(b) or section 414(c) of the Code; provided that when applying sections 1563(a)(1), (2) and (3) of the Code or Treasury Regulation section 1.414(c)-2 pursuant to section 414(b) or section 414(c) of the Code, the phrase "at least 50 percent" shall be used instead of the phrase "at least 80 percent" in each place it appears therein.

Section 1.30 Unforeseeable Emergency means, with respect to a Participant, a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, beneficiary or dependent (within the meaning of section 152 of the Code, without regard to sections 152(b)(1), (b)(2), and (d)(1)(B) of the Code), loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The existence of an Unforeseeable Emergency shall be determined by the Committee in accordance with section 409A of the Code and the regulations thereunder.

ARTICLE II
PARTICIPATION

Section 2.1 **Eligibility for Participation.**

Only Eligible Employees may be or become Participants. An Employee shall become an Eligible Employee if:

(a) he has been designated an Eligible Employee by resolution of the Committee; and

(b) he is a Participant in the Retirement Plan, the Savings Plan or the ESOP, or any combination thereof, and the benefits to which he is entitled thereunder are limited by one or more of the Applicable Limitations;

provided, however, that no person shall be named an Eligible Employee, nor shall any person who has been an Eligible Employee continue as an Eligible Employee, to the extent that such person's participation, or continued participation, in the Plan would cause the Plan to fail to be considered maintained for the primary purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of ERISA.

Section 2.2 **Commencement of Participation**

An Employee shall become a Participant on the date when he first becomes an Eligible Employee, unless the Committee shall, by resolution, establish an earlier or later effective date of participation for a Participant.

Termination of Participation

Participation in the Plan shall cease on the earlier of (a) the date of the Participant's Termination of Service or (b) the date on which he ceases to be an Eligible Employee.

ARTICLE III
BENEFITS TO PARTICIPANTS

Section 3.1 **Supplemental Retirement Benefit**

(a) A Participant whose benefits under the Retirement Plan are limited by one or more of the Applicable Limitations shall be eligible for a supplemental retirement benefit under this Plan in an amount equal to the excess of:

(i) the retirement benefit to which he would be entitled under the Retirement Plan in the absence of the Applicable Limitations; over

(ii) the aggregate amount of Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the Savings Plan) actually credited to the Participant's account under the Savings Plan for such periods;

adjusted for earnings and losses as provided in section 3.2(b); *provided, however*, that if the Participant dies before the payment of such supplemental savings benefit begins, no benefit shall be payable under this section 3.2 and the survivor benefit, if any, which may be payable shall be determined under section 4.2.

(b) The Committee shall cause to be maintained a bookkeeping account to reflect all Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the Savings Plan) that cannot be made to a Participant's account under the Savings Plan due to the Applicable Limitations and amounts under section 3.2(c), and shall cause such bookkeeping account to be credited with all such Employer Contributions as of the date on which such Employer Contributions would have been credited to the Participant's account in the Savings Plan in the absence of the Applicable Limitations. The balance credited to such bookkeeping account shall be adjusted for distributions, withdrawals, earnings or losses as follows:

(i) except as provided in section 3.2(b)(ii), the balance credited to such bookkeeping account shall be credited with interest as of the last day of each calendar month at a rate for such month equal to one-twelfth of the annualized yield on 30-year Treasury Securities, Constant Maturities, prescribed by the Commissioner of Internal Revenue for such month pursuant to section 417(e) of the Code; or

(ii) if and to the extent permitted by the Committee, as though such Employer Contributions had been contributed to a trust fund and invested, for the benefit of the Participant, in such investments at such time or times as the Participant shall have designated in such form and manner as the Committee shall prescribe.

(iii) The balance credited to the bookkeeping account shall be reduced for any distributions or withdrawals.

(c) Effective June 15, 2008, the balance credited to the bookkeeping accounts of Messrs. Timothy King and Michael Pucella under this section 3.2 shall be adjusted as follows:

(i) in the case of Mr. King, the balance credited to his a bookkeeping account shall be credited with an additional Seven Thousand Seven Hundred Sixty-Eight Dollars (\$7,768); and

(ii) in the case of Mr. Pucella, the balance credited to his bookkeeping account shall be credited with an additional Six Thousand One Hundred Ninety-One Dollars (\$6,191).

(d) The supplemental savings benefit payable to a Participant hereunder shall be paid in a single lump sum within the first thirty days of the calendar year following the calendar year in which the Participant's Termination of Service occurs and shall be equal to the balance credited to his bookkeeping account as of the last day of the last calendar month to end prior to the date of payment. Notwithstanding the foregoing, a Participant may, subject to the restrictions in section 5.1, within thirty (30) days after first becoming eligible to participate in the Plan for purposes of receiving a supplemental savings benefit, elect that such supplemental savings benefit (to the extent that such benefit is attributable to compensation for services performed after such election) be paid in a different form or commencing at a different time by filing a written election, in such form and manner as the Committee may prescribe, within such thirty (30) day period.

(e) Notwithstanding section 3.2(d), subject to the consent of the Committee in its sole and absolute discretion, each Participant may, by written election given in such form and manner as the Committee may prescribe, elect to change the time and manner of distribution of the balance credited to the supplemental savings benefit; provided, however, that:

(i) any such election shall not take effect until twelve (12) months after it is received by the Committee;

(ii) in the case of an election to defer a payment to be made on account of an event other than the Participant's death, Disability or Unforeseeable Emergency, the first payment made under such election shall not occur until at least five (5) years later than such payment would otherwise have been made (or begin to be made); and

(iii) any such election is subject to the restrictions in section 5.1.

Section 3.3

Supplemental ESOP Benefits

(a) A Participant whose benefits under the ESOP are limited by one of more of the Applicable Limitations shall be eligible for a supplemental ESOP benefit under this Plan in an amount equal to the sum of:

(i) for each period for which an allocation of Shares is made under the ESOP, a number of Stock Units the excess of (A) the number of Shares that bears the same relationship to such Participant's compensation taken into account in determining allocations under the ESOP (without regard to any limit on such compensation pursuant to any Applicable Limitation) as the number of Shares allocated for such period under the ESOP to an individual whose allocation is not limited by any Applicable Limitation bears to such person's compensation taken into account in determining allocations under the ESOP over (b) the actual number of Shares allocated to such Participant under the ESOP for such period, taking into account in both cases Shares allocated as a result of forfeitures; and

(ii) if and to the extent that Employer Contributions to the ESOP result in allocations to the Participant's account of assets other than Shares for any period, an amount for each period equal to the excess (if any) of (A) the dollar amount that bears the same relationship to such Participant's compensation taken into account in allocating Employer Contributions under the ESOP (without regard to any limit on such compensation pursuant to any Applicable Limitation) as the dollar amount of Employer Contributions allocated for such period under the ESOP to an individual whose allocation is not limited by any Applicable Limitation bears to such person's compensation taken into account in determining allocations under the ESOP over (b) the actual dollar amount of Employer Contributions allocated to such Participant under the ESOP for such period, taking into account in both cases dollar amounts allocated as a result of forfeitures.

adjusted for earnings and losses as provided in section 3.3(b); *provided, however*, that if the Participant dies before the payment of such supplemental ESOP benefit begins, no benefit shall be payable under this section 3.3 and the survivor benefit, if any, which may be payable shall be determined under section 4.3.

(b) The Committee shall cause to be maintained a bookkeeping account to reflect all Shares and Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the ESOP) that cannot be allocated to a Participant's account under the ESOP due to the Applicable Limitations and amounts under section 3.3(c), and shall cause such bookkeeping account to be credited with such Employer Contributions and Stock Units reflecting such Shares as of the date on which such Employer Contributions and Shares, respectively, would have been credited to the Participant's account in the ESOP in the absence of the Applicable Limitations. The balance credited to such bookkeeping account shall be adjusted for distributions, withdrawals, earnings or losses as follows:

(i) all Stock Units shall be adjusted from time to time so that the value of a Stock Unit on any date is equal to the Fair Market Value of Share on such date and the number of Stock Units shall be adjusted as and when appropriate to reflect any stock dividend, stock split, reverse stock split, exchange, conversion, or other event generally affecting the number of Shares held by all holders of Shares; and

(ii) (A) except as provided in section 3.3(b)(ii)(B), the balance credited to such bookkeeping account that does not consist of Stock Units shall be credited with interest as of the last day of each calendar month at a rate for such month equal to one twelfth of the annualized yield on 30-year Treasury Securities, Constant Maturities, prescribed by the Commissioner of Internal Revenue for such month pursuant to section 417(e) of the Code; or

(B) if and to the extent permitted by the Committee, the balance credited to such bookkeeping account that does not consist of Stock Units shall be adjusted as though such Employer Contributions had been contributed to a trust fund and invested, for the benefit of the Participant, in such investments at such time or times as the Participant shall have designated in such form and manner as the Committee shall prescribe;

(iii) The balance credited to the bookkeeping account shall be reduced for any distributions or withdrawals.

provided, however, that to the extent that the Participant shall receive on a current basis any dividend paid with respect to Shares credited to his account under the ESOP, the bookkeeping account established for him under this Plan shall not be adjusted to reflect such dividend and, instead, the Participant shall be paid an amount per Stock Unit equal to the dividend per Share received by the Participant under the ESOP, at substantially the same time as such dividend is paid under the ESOP.

(c) Effective June 15, 2008, the balance credited to the bookkeeping accounts of Messrs. Timothy King and Michael Pucella under this section 3.3 shall be adjusted as follows:

(i) in the case of Mr. King, the balance credited to his a bookkeeping account shall be credited with an additional Twenty-Seven Thousand Sixty-Nine Dollars (\$27,069); and

(ii) in the case of Mr. Pucella, the balance credited to his bookkeeping account shall be credited with an additional Twenty-Two Thousand Five Hundred Seventy-Three Dollars (\$22,573).

(d) The supplemental ESOP benefit payable to a Participant hereunder shall be paid in a single lump sum within the first thirty days of the calendar year in which the Participant's Termination of Service occurs and shall be in an amount equal to the balance credited to his bookkeeping account. Notwithstanding the foregoing, a Participant may, subject to the restrictions in section 5.1, within thirty (30) days after first becoming eligible to participate in the Plan for purposes of receiving a supplemental ESOP benefit, elect that such supplemental ESOP benefit (to the extent that such benefit is attributable to compensation for services performed after such election) be paid in a different form or commencing at a different time by filing a written election, in such form and manner as the Committee may prescribe, within such thirty (30) day period.

(e) Notwithstanding section 3.3(d), subject to the consent of the Committee in its sole and absolute discretion, each Participant may, by written election given in such form and manner as the Committee may prescribe, elect to change the time and manner of distribution of the balance credited to the supplemental retirement benefit; provided, however, that:

- (i) any such election shall not take effect until twelve (12) months after it is received by the Committee;
- (ii) in the case of an election to defer a payment to be made on account of an event other than the Participant's death, Disability or Unforeseeable Emergency, the first payment made under such election shall not occur until at least five (5) years later than such payment would otherwise have been made (or begin to be made); and
- (iii) any such election is subject to the restrictions in section 5.1.

ARTICLE IV
DEATH BENEFITS

Section 4.1 **Supplemental Retirement Plan Death Benefits.**

If a Participant who is eligible for a supplemental retirement benefit under section 3.1 dies before the payment of such benefit begins, a supplemental survivor's retirement benefit shall be payable to the Participant's Beneficiary under this Plan in amount equal to the excess (if any) of (a) the survivor's benefit that would have been payable under the Retirement Plan commencing at the earliest permissible date in the absence of the Applicable Limitations if the Participant had effectively designated such Beneficiary as his beneficiary under the Retirement Plan, over (b) the survivor's benefit would have been payable under the Retirement Plan commencing at the earliest permissible date after giving effect too the Applicable Limitations if the Participate had effectively designated such Beneficiary as his beneficiary under the Retirement Plan. Such benefit shall be paid in a single lump sum which is the Actuarial Equivalent of the benefit described in the preceding sentence within the first thirty days of the calendar year following the death of the Participant.

Section 4.2 **Supplemental Savings Plan Death Benefits.**

If a Participant who is eligible for a supplemental savings benefit under section 3.2 dies before the payment of such benefit begins, a supplemental survivor's savings benefit shall be payable to the Participant's Beneficiary under this Plan in amount equal to the balance credited to the bookkeeping account established for the Participant under section 3.2(b). Such benefit shall be paid in a single lump within the first thirty days of the calendar year following the death of the Participant and the bookkeeping account established for such Participant pursuant to section 3.2(b) shall continue to be adjusted as provided therein through the last day of the last calendar month to end prior to the date of payment.

Section 4.3 **Supplement ESOP Death Benefits.**

If a Participant who is eligible for a supplemental ESOP benefit under section 3.3 dies before the payment of such benefit begins, a supplemental ESOP benefit shall be payable to the Participant's Beneficiary under this Plan in amount equal to the balance credited to the bookkeeping account established for the Participant under section 3.3(b). Such benefit shall be paid in a single lump within the first thirty days of the calendar year following the death of the Participant, and the bookkeeping account established for such Participant pursuant to section 3.3(b) shall continue to be adjusted as provided therein through the last day of the last calendar month to end prior to the date of payment.

Section 4.4 **Beneficiaries**

A Participant or Former Participant may designate a Beneficiary or Beneficiaries to receive any survivor benefits payable under the Plan upon his death. Any such designation, or change therein or revocation thereof, shall be made in writing in the form and manner prescribed by the Committee, shall be revocable until the death of the Participant, and shall thereafter be irrevocable; *provided, however*, that any change or revocation shall be effective only if received by the Committee prior to the Participant's or Former Participant's death. If a Participant or Former Participant shall die without having effectively named a Beneficiary, he shall be deemed to have named his estate as his sole Beneficiary. If a Participant or Former Participant and his designated Beneficiary shall die in circumstances which give rise to doubt as to which of them shall have been the first to die, the Participant or Former Participant shall be deemed to have survived the Beneficiary. If a Participant or Former Participant designates more than one Beneficiary, all shall be deemed to have equal shares unless the Participant or Former Participant shall expressly provide otherwise.

ARTICLE V
DISTRIBUTIONS

Section 5.1 **Scheduled Distributions to Participant.**

If a Participant so elects in his initial election to participate or in any subsequent deferral election, payment of balances attributable to amounts deferred pursuant to such election may be made:

- (a) in a single payment as of a designated date (not earlier than the first date such balances are otherwise payable) specified by the Participant in his election;
- (b) in the case of benefits under section 3.1 of this Plan, in a single life annuity or such different form of payment provided for benefits under the Retirement Plan as the Committee may provide; or
- (c) in the case of benefits under sections 3.2 or 3.3 of this Plan, in monthly, quarterly or annual installments over such number of years (not to exceed fifteen (15)) and payable beginning on such date (not earlier than the first date such balances are otherwise payable) specified by the Participant in his election. In the event that payment is to be made in installments, each installment shall be equal to the balance credited to the Participant's Memorandum Account (or, if applicable, the portion of such Participant's Memorandum Account attributable to sections 3.2 or 3.3 of this Plan) as of the last day of the quarter ending immediately prior to the date on which payment is to be made, divided by the number of installment payments remaining to be paid (including the payment then being computed).

Section 5.2

Mandatory Cashout of Small Balances

Notwithstanding anything in the Plan to the contrary, if, as of December 31 of any calendar year following a Participant's Termination of Service, the balance credited to his Memorandum Account is less than or equal to the applicable dollar amount under section 402(g)(1)(B) of the Code, the entire balance credited to his Memorandum Account shall be distributed in a single lump sum payment as soon as practicable during the immediately following calendar year; provided, however that if the Participant has deferrals of compensation under any other account balance plan that would be aggregated with this plan for purposes of section 409A of the Code pursuant to Treasury Regulation section 1.409A-1(c)(2)(i)(B), no distribution shall be allowed under this section unless (a) the sum of (i) the balance credited to the Participant's Memorandum Account and (ii) all amounts deferred under such other plan or plans is less than or equal to the applicable dollar amount under 402(g)(1)(B) of the Code, (b) all such other plans provide for such a mandatory cashout distribution, and (c) all amounts deferred under all such plans are distributed at the same time.

Section 5.3

Restrictions on Payments to Specified Employees

Notwithstanding anything in the Plan to the contrary, to the extent required under section 409A of the Code, any payment under this Plan that is made to a Specified Employee on account of his Termination of Service shall be delayed and shall be paid on the first day of the seventh month following such Participant's Termination of Service.

Section 5.4

One-Time Election During 2008

Notwithstanding anything in the Plan to the contrary, subject to the consent of the Committee in its sole and absolute discretion, a Participant may, at any time prior to January 1, 2009, elect a new time and form of payment for the balance credited to his Memorandum Account (or, if applicable, the portion of such Participant's Memorandum Account attributable to section 3.1, 3.2 or 3.3 of this Plan) as of December 31, 2008; *provided, however*, that the payment (or the first payment in a series of payments) (a) shall be made no earlier than January 1, 2009, (b) shall be made, in the case of amounts attributable to section 3.1 of this Plan, in a single lump sum, a single life annuity, or such different form of payment provided for benefits under the Retirement Plan as of December 31, 2008 as the Committee may provide, (c) shall be made, in the case of amounts attributable to section 3.2 or 3.3 of this Plan, in a single lump sum or by monthly, quarterly or annual installments for a period not to exceed fifteen (15) years, and (c) shall be made no earlier than January 1 of the year immediately following the year of such Participant's Termination of Service. Such an election shall be made in the form and manner to be determined by the Committee.

ARTICLE VII
ADMINISTRATION

Section 7.1

The Committee

Except for the functions reserved to the Company or the Board, the Administration of the Plan shall be the responsibility of the Committee. The Committee shall have the power and the duty to take all actions and to make all decisions necessary or proper to carry out the Plan. The determination of the Committee as to any question involving the general administration and interpretation of the Plan shall be final, conclusive and binding. Any discretionary actions to be taken under the Plan by the Committee shall be uniform in their nature and applicable to all persons similarly situated. Without limiting the generality of the foregoing, the Committee shall have the following powers:

- (a) to furnish to all Participants, upon request, copies of the Plan and to require any person to furnish such information as it may request for the purpose of the proper administration of the Plan as a condition to receiving any benefits under the Plan;
- (b) to make and enforce such rules and regulations and prescribe the use of such forms as it shall deem necessary for the efficient administration of the Plan;
- (c) to interpret the Plan, and to resolve ambiguities, inconsistencies and omissions, and the determinations of the Committee in respect thereof shall be binding, final and conclusive upon all interested parties;
- (d) to decide on questions concerning the Plan in accordance with the provisions of the Plan;
- (e) to determine the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan, to hear and decide claims for benefits, and to provide a full and fair review to any Participant whose claim for benefits has been denied in whole or in part;
- (f) to designate a person, who may or may not be a member of the Committee, as "plan administrator" for purposes of the ERISA;
- (g) to allocate any such powers and duties to or among individual members of the Committee; and

(h) the power to designate persons other than Committee members to carry out any duty or power which would otherwise be a responsibility of the Committee or Administrator, under the terms of the Plan.

Section 7.2 **Liability of Committee Members and their Delegates**

To the extent permitted by law, the Committee and any person to whom it may delegate any duty or power in connection with administering the Plan, the Bank, the Company, Employer, and the officers and directors thereof shall be entitled to rely conclusively upon, and shall be fully protected in any action taken or suffered by them in good faith in the reliance upon, any actuary, counsel, accountant, other specialist, or other person selected by the Committee, or in reliance upon any tables, valuations, certificates, opinions or reports which shall be furnished by any of them. Farther, to the extent permitted by law, no member of the Committee, nor the Bank, the Company, any Employer, nor the officers or directors thereof, shall be liable for any neglect, omission or wrongdoing of any other members of the Committee, agent, officer or employee of the Bank, the Company or any Employer. Any person claiming benefits under the Plan shall look solely to the Employer for redress.

Section 7.3 **Plan Expenses**

All expenses incurred prior to the termination of the Plan that shall arise in connection with the administration of the Plan (including, but not limited to administrative expenses, proper charges and disbursements, compensation and other expenses and charges of any actuary, counsel, accountant, specialist, or other person who shall be employed by the Committee in connection with the administration of the Plan), shall be paid by the Company.

Section 7.4 **Facility of Payment**

If the Company is unable to make payment to any Participant, Former Participant Beneficiary, or any other person to whom a payment is due under the Plan, because it cannot ascertain the identity or whereabouts of such Participant, Former Participant Beneficiary, or other person after reasonable efforts have been made to identify or locate such person (including a notice of the payment so due mailed to the last known address of such Participant, Former Participant Beneficiary, or other person shown on the records of the Employer), such payment and all subsequent payments otherwise due to such Participant, Former Participant or other person shall be forfeited twenty-four (24) months after the date such payment first became due; provided, however, that such payment and any subsequent payments shall be reinstated, retroactively, no later than sixty (60) days after the date on which the Participant, Former Participant, Beneficiary, or other person is identified or located.

ARTICLE VIII
AMENDMENT AND TERMINATION

Section 8.1 **Amendment by the Company**

The headings of Articles and sections are included solely for convenience of reference. If there is any conflict between such headings and the text of the Agreement, the text shall control.

Section 9.3 **Non-Alienation of Benefits**

Except as may otherwise be required by law, no distribution or payment under the Plan to any Participant, Former Participant or Beneficiary shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void; nor shall any such distribution or payment be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to such distribution or payment. If any Participant, Former Participant or Beneficiary is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any such distribution or payment, voluntarily or involuntarily, the Committee, in its sole discretion, may cancel such distribution or payment or may hold or cause to be held or applied such distribution or payment, or any part thereof, to or for the benefit of such Participant, Former Participant or Beneficiary, in such manner as the Committee still direct; *provided*, however, that no such action by the Committee shall cause the acceleration or deferral of any benefit payments from the date on which such payments are scheduled to be made.

Section 9.4 **Indemnification**

The Company shall indemnify, hold harmless and defend each Participant, Former Participant and Beneficiary, against their reasonable costs, including legal fees, incurred by them or arising out of any action, suit or proceeding in which they may be involved, as a result of their efforts, in good faith, to defend or enforce the obligation of the Bank, the Company and any other Employer under the terms of the Plan.

Section 9.5 **Severability**

A determination that any provision of the Plan is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

Section 9.6 **Waiver**

Failure to insist upon strict compliance with any of the terms, covenants or conditions of the Plan shall not be deemed a waiver of such term, covenant or condition. A waiver of any provision of the Plan must be made in writing, designated as a waiver, and signed by the party against whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder 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.

Section 9.7 **Governing Law**

The Plan shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal laws of the United States. Any payments made pursuant to this Plan are subject to and conditioned upon their compliance with 12 U.S.C. § 1828(k) and any regulations promulgated thereunder.

Section 9.8

Taxes

The Employer shall have the right to retain a sufficient portion of any payment made under the Plan to cover the amount required to be withheld pursuant to any applicable federal, state and local tax law.

Section 9.9

No Deposit Account

Nothing in the Plan shall be held or construed to establish any deposit account for any Participant or any deposit liability on the part of the Bank. Participants' rights hereunder shall be equivalent to those of a general unsecured creditor of each Employer.

Section 9.10

No Right to Continued Employment

Neither the establishment of the Plan, nor any provisions of the Plan nor any action of the Plan Administrator, the Committee or any Employer shall be held or construed to confer upon any Employee any right to a continuation of employment by the Employer. The Employer reserves the right to dismiss any Employee or otherwise deal with any Employee to the same extent as though the Plan had not been adopted.

Section 9.11

Status of Plan Under ERISA

The Plan is intended to be (a) to the maximum extent permitted under applicable laws, an unfunded, non-qualified excess benefit plan as contemplated by section 3(36) of ERISA for the purpose of providing benefits in excess of the limitations imposed under section 415 of the Code, and (b) to the extent not so permitted, an unfunded, non-qualified plan maintained primarily for the purpose of providing deferred compensation for highly compensated employees, as contemplated by sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. The Plan is not intended to comply with the requirements of section 401(a) of the Code or to be subject to Parts 2, 3 and 4 of Title I of ERISA. The Plan shall be administered and, construed so as to effectuate this intent.

Section 9.12

Compliance with Section 409A of the Code

The Plan is intended to be a non-qualified deferred compensation plan described in section 409A of the Code. The Plan shall be operated, administered and construed to give effect to such intent. In addition, notwithstanding Article VIII, the Plan shall be subject to amendment, with or without advance notice to Participants and other interested parties, and on a prospective or retroactive basis, including but not limited to amendment in a manner that adversely affects the rights of participants and other interested parties, to the extent necessary to effect such compliance.

ARTICLE X
EFFECTIVE DATE OF THE AMENDED AND RESTATED PLAN

This amended and restated Plan is effective from and after December 31, 2008. Prior to December 31, 2008, the previous version of the Plan that was amended and restated in June 1997 and incorporates amendments 1, 2, 3 & 4 shall control.

Severance Pay Plan

of

The Dime Savings Bank of Williamsburgh

Adopted on February 8, 1996

Effective on November 1, 1995, Amended and Restated Effective as of January 1, 2008

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**SEVERANCE PAY PLAN OF THE
DIME SAVINGS BANK OF WILLIAMSBURGH**

ARTICLE I

PURPOSE

Section 1 **Statement of Purpose.**

The Dime Savings Bank of Williamsburgh adopts this Severance Pay Plan for the benefit of its eligible Employees. The Bank recognizes that, as a public company, it will be subject to the possibility of a negotiated or unsolicited change of control which may result in a loss of employment for some of its Employees and that it may acquire other companies in transactions which may result in a loss of employment for the employees of the Acquired Companies. The purpose of the Plan is to encourage the Bank's Employees and those of Acquired Companies to continue working for their employers with their full time and attention devoted to their employer's affairs by providing prescribed income security and job placement assistance in the event of an Involuntary Severance following a Change of Control. Effective as of January 1, 2008, the Plan is amended and restated to comply with the applicable requirements of section 409A of the Internal Revenue Code of 1986, as amended ("Code.")

ARTICLE II

DEFINITIONS

For purposes of the Plan, the following terms shall have the meanings assigned to them below, unless a different meaning is plainly indicated by the context:

Section 2.1 **Acquired Company** means any of the following companies which is acquired by, or merged or consolidated with, the Bank:

1. Pioneer Savings Bank, F.S.B
2. Conestoga Bancorp, Inc

Section 2.2 **Acquired Employee** means a person who is employed by an Acquired Company at the time when such company becomes an Acquired Company and who becomes an employee of the Bank immediately thereafter. An Acquired Employee whose employment by the Bank terminates for any reason and who is subsequently re-employed by the Bank shall not be considered an Acquired Employee following such re-employment.

Section 2.3 **Bank** means The Dime Savings Bank of Williamsburgh (or its successors or assigns, whether by merger, consolidation, sale of assets, statutory receivership, operation of law or otherwise) and any affiliate of The Dime Savings Bank of Williamsburgh which, with the approval of the Board of Directors of The Dime Savings Bank of Williamsburgh, and subject to such conditions as may be imposed by such Board, adopts this Plan.

Section 2.4 **Board** means the Board of Directors of The Dime Savings Bank of Williamsburgh.

Section 2.5 **Cause** means, with respect to the conduct of an Employee in connection with his employment with the Bank, personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that following a Change of Control of the Bank or a company which owns 100% of the outstanding common stock of the Bank, an Employee shall not be deemed to have been discharged for Cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to the Employee and a reasonable opportunity for the Employee to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging the Employee for "Cause".

Section 2.6 **Change of Control** means

(a) with respect to The Dime Savings Bank of Williamsburgh:

(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 Dime Savings Bank of Williamsburgh; (B) a corporation owned, directly or indirectly, by the stockholders of The Dime Savings Bank of Williamsburgh in substantially the same proportions as their ownership of stock of The Dime Savings Bank of Williamsburgh; or (C) any group constituting a person in which employees of The Dime Savings Bank of Williamsburgh are substantial members, becomes the "*beneficial owner*" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities issued by The Dime Savings Bank of Williamsburgh representing 25% or more of the combined voting power of all of The Dime Savings Bank of Williamsburgh's then outstanding securities; or

(ii) the occurrence of any event upon which the individuals who on the date the Plan is adopted are members of the Board, together with individuals whose election by the Board or nomination for election by The Dime Savings Bank of Williamsburgh's stockholders was approved by the affirmative vote of at least two-thirds of the members of the Board then in office who were either members of the Board on the date this Plan is adopted 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 Dime Savings Bank of Williamsburgh (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) the shareholders of The Dime Savings Bank of Williamsburgh (or, if The Dime Savings Bank of Williamsburgh is not then a stock form institution, the Board of The Dime Savings Bank of Williamsburgh) approve either:

(A) a merger or consolidation of The Dime Savings Bank of Williamsburgh with any other corporation, other than a merger or consolidation following which both of the following conditions are satisfied:

(I) either (1) the members of the Board of The Dime Savings Bank of Williamsburgh 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 (2) the shareholders of The Dime Savings Bank of Williamsburgh 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 Dime Savings Bank of Williamsburgh before such merger or consolidation; and

(II) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform The Dime Savings Bank of Williamsburgh's obligations under the Plan; or

(B) a plan of complete liquidation of The Dime Savings Bank of Williamsburgh or an agreement for the sale or disposition by The Dime Savings Bank of Williamsburgh of all or substantially all of its assets; and

(b) with respect to any company which owns 100% of the outstanding common stock The Dime Savings Bank of Williamsburgh, any event that would be described in section 2.6(a) if the name of such company were substituted for "The Dime Savings Bank of Williamsburgh" therein; and

(c) with respect to an Acquired Company, the transaction by which such company becomes an Acquired Company.

In no event, however, shall the transaction by which The Dime Savings Bank of Williamsburgh converts from a mutual savings bank to a stock savings bank, or any transaction by which a company wholly owned by The Dime Savings Bank of Williamsburgh becomes the parent company of The Dime Savings Bank of Williamsburgh be deemed a Change of Control.

Section 2.7 Employee means any person, including an Officer, who is employed by the Bank, other than: (a) a person who is compensated on an hourly rate basis; (b) a person who works for the Bank on a part-time or temporary basis; (c) an Employee receiving long-term disability benefits; or (d) a person who has an employment contract, change of control agreement or other agreement with the Bank or who is covered by other programs which provide severance benefits or by their terms exclude such person from participation in this Plan.

Section 2.8 FDI Act means the Federal Deposit Insurance Act, as the same may be amended from time to time, and the corresponding provisions of any successor statute.

Section 2.9 Involuntary Severance means (a) the discharge or dismissal of an Employee by the Bank other than for Cause, or the resignation by the Employee from his position with the Bank, which resignation the Employee is asked or compelled by the Bank to tender other than for Cause; or (b) termination of employment at an Employee's election within sixty (60) days after any action following a Change of Control which, either alone or together with other actions, results in: (i) the reduction in the Employee's Salary by more than 20%; (ii) the assignment of the Employee to a job requiring relocation of his residence in order to be able to commute without unreasonable difficulty, expense or inconvenience; (iii) the assignment of the Employee to duties or to an office or working space which involves unreasonable personal embarrassment; or (iv) a material adverse change in the Employee's title, position or responsibilities at the Bank.

Section 2.10 Officer means, in the case of an Employee, an officer of the Bank and in the case of an Acquired Employee, a person who is an officer of the Acquired Company immediately prior to the closing of the transaction pursuant to which such company becomes an Acquired Company.

Section 2.11 OTS means the Office of Thrift Supervision of the United States Department of the Treasury, and its successors.

Section 2.12 Plan means this Severance Pay Plan of The Dime Savings Bank of Williamsburgh, as the same may be amended from time to time.

Section 2.13 Plan Administrator means the Compensation Committee of the Board of Directors of The Dime Savings Bank of Williamsburgh.

Section 2.14 Plan Year means the calendar year.

Section 2.15 Salary means (a) in the case of an Employee, the highest basic annual rate of salary of the Employee for his services to the Bank (excluding overtime, bonuses and other forms of additional compensation) attained by the Employee during his employment with the Bank, and (b) in the case of an Acquired Employee, the highest basic annual rate of salary of an the Acquired Employee for his services to the Acquired Company (excluding overtime, bonuses and other forms of additional compensation) attained by the Employee during his employment with the Acquired Company.

Section 2.16 Service means service rendered by an Employee that is, or would be, recognized under the Retirement Plan of The Dime Savings Bank of Williamsburgh in RSI Retirement Trust for vesting purposes as of the date of the Employee's Involuntary Severance.

ARTICLE III

BENEFITS

Section 3.1 Severance Benefits for Employees.

(a) An Employee with at least one (1) year of Service whose employment with the Bank is terminated under circumstances constituting an Involuntary Severance, other than for Cause, as a result of, within twelve months following or within three (3) months prior to, a Change of Control with respect to the Bank or any company which owns 100% of the outstanding common stock of the Bank shall be entitled to the following benefits:

(i) if the Employee is or has, at any time after November 1, 1995, been an Officer of the Bank, he shall be entitled, as severance pay, to a weekly payment in an amount equal to one week's Salary, commencing with the first week following the date of the Employee's Involuntary Severance and continuing for twice the number of weeks as the Employee has whole years of Service, or, if less, for thirty-nine (39) weeks; or

(ii) if the Employee is not an Employee described in section 3.1(a)(i), he shall be entitled, as severance pay, to a weekly payment in an amount equal to one week's Salary, commencing with the first week following the date of the Employee's Involuntary Severance and continuing for the same number of weeks as the Employee has whole years of Service, or, if less, for twenty-six (26) weeks; provided, however, that in no event shall any Employee described in section 3.1(a)(i) or (ii) receive, as severance pay under this Plan, less than four weeks' Salary.

(b) Each Employee who is entitled to payments under section 3.1(a)(i) or (ii) shall, for the duration of such payments, continue to be eligible for all of the benefits provided under the Bank's employee benefit plans and programs (excluding tax-qualified plans and other plans which by law must restrict participation to active employees) as if he were still an Employee and working at the Bank, except that he shall cease to accrue vacation and shall be paid a lump sum payment at the date of his Involuntary Severance in lieu of any unused accrued vacation.

(c) Each Employee who is entitled to benefits under section 3.1(a)(i) or (ii) shall also be entitled to outplacement services as follows:

(i) an Employee described in section 3.1(a)(i) shall be entitled to utilize the services of an outplacement counseling firm at the Bank's expense for assistance in preparing a resume, developing interviewing skills, identifying career opportunities and evaluating job offers and for access to office and secretarial facilities, provided that the fee for such services shall not exceed 12% of the Employee's Salary; and

(ii) if the Employee is not an Employee described in section 3.1(a)(i), he shall be entitled to utilize the services of an outplacement counseling firm at the Bank's expense, for assistance in preparing a resume, developing interviewing skills, identifying career opportunities and evaluating job offers, provided that the fee for such services shall not exceed 6% of the Employee's Salary or \$1,000, whichever is higher.

The outplacement firm utilized by any Employee or group of Employees shall be selected by the Plan Administrator or, if permitted by the Plan Administrator selected by the Employee or Employees subject to the Plan Administrator's approval.

Section 3.2 **Severance Benefits for Acquired Employees.**

(a) An Acquired Employee with at least one (1) year of Service whose employment with the Bank is terminated under circumstances constituting an Involuntary Severance, other than for Cause within twelve months following a Change of Control with respect to the relevant Acquired Company shall be entitled to the following benefits:

(i) if the Employee was an Officer of the Acquired Company, he shall be entitled, as severance pay, to a weekly payment in an amount equal to one week's Salary, commencing with the first week following the date of the Employee's Involuntary Severance and continuing for twice the number of weeks as the Employee has whole years of Service, or, if less, for thirty-nine (39) weeks; or

(ii) if the Employee is not an Employee described in section 3.1(a)(i), he shall be entitled, as severance pay, to a weekly payment in an amount equal to one week's Salary, commencing with the first week following the date of the Employee's Involuntary Severance and continuing for the same number of weeks as the Employee has whole years of Service, or, if less, for twenty-six (26) weeks; provided, however, that in no event shall any Employee described in section 3.1(a)(i) or (ii) receive, as severance pay under this Plan, less than four weeks' Salary.

(b) Each Employee who is entitled to payments under section 3.1(a)(i) or (ii) shall, for the duration of such payments, continue to be eligible for all of the benefits provided under the Bank's employee benefit plans and programs (excluding tax-qualified plans and other plans which by law must restrict participation to active employees) as if he were still an Employee and working at the Bank, except that he shall cease to accrue vacation and shall be paid a lump sum payment at the date of his Involuntary Severance in lieu of any unused accrued vacation.

(c) Each Employee who is entitled to benefits under section 3.1(a)(i) or (ii) shall also be entitled to outplacement services as follows:

(i) an Employee described in section 3.1(a)(i) shall be entitled to utilize the services of an outplacement counseling firm at the Bank's expense for assistance in preparing a resume, developing interviewing skills, identifying career opportunities and evaluating job offers and for access to office and secretarial facilities, provided that the fee for such services shall not exceed 12% of the Employee's Salary; and

(ii) if the Employee is not an Employee described in section 3.1(a)(i), he shall be entitled to utilize the services of an outplacement counseling firm at the Bank's expense, for assistance in preparing a resume, developing interviewing skills, identifying career opportunities and evaluating job offers, provided that the fee for such services shall not exceed 6% of the Employee's Salary or \$1,000, whichever is higher.

The outplacement firm utilized by any Employee or group of Employees shall be selected by the Plan Administrator or, if permitted by the Plan Administrator selected by the Employee or Employees subject to the Plan Administrator's approval. Any payment which is reimbursed to the Employee under this section 3.2(c) shall be made on or before the last day of the Employee's taxable year following the taxable year in which the expense was incurred.

Section 3.3 **Vesting.**

The benefits to be provided under this Article III of the Plan to an Employee shall be completely vested and nonforfeitable upon the occurrence of a Change of Control with respect to the Bank or any company which owns 100% of the outstanding common stock of the Bank.

Section 3.4 **Indemnification.**

The Bank shall indemnify, hold harmless and defend each Employee against costs or expenses, including reasonable attorneys' fees, incurred by him 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 his rights under this Plan; provided, however, that the Employee shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of the Employee's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise. Any payment which is reimbursed to the Employee under this section 3.4 shall be made on or before the last day of the Employee's taxable year following the taxable year in which the expense was incurred.

ARTICLE IV

ADMINISTRATION

Section 4.1 **Named Fiduciaries.**

The term "Named Fiduciary" shall mean (but only to the extent of the responsibilities of each of them) the Plan Administrator and the Board. This Article V is intended to allocate to each Named Fiduciary the responsibility for the prudent execution of the functions assigned to him or it, and none of such responsibilities or any other responsibility shall be shared by two or more of such Named Fiduciaries. Whenever one Named Fiduciary is required by the Plan to follow the directions of another Named Fiduciary, the two Named Fiduciaries shall not be deemed to have been assigned a shared responsibility, but the responsibility of the Named Fiduciary giving the directions shall be deemed his sole responsibility, and the responsibility of the Named Fiduciary receiving those directions shall be to follow them insofar as such instructions are on their face proper under applicable law.

Section 4.2 **Plan Administrator.**

The Plan Administrator shall subject to the responsibilities of the Board, have the responsibility for the day-to-day control, management, operation and administration of the Plan. The Plan Administrator shall have the following responsibilities:

- (a) To maintain records necessary or appropriate for the administration of the Plan;
- (b) To give and receive such instructions, notices, information, materials, reports and certifications as may be necessary or appropriate in the administration of the Plan;
- (c) To prescribe forms and make rules and regulations consistent with the terms of the Plan and with the interpretations and other actions of the Committee;
- (d) To require such proof or evidence of any matter from any person as may be necessary or appropriate in the administration of the Plan;
- (e) To prepare and file, distribute or furnish all reports, plan descriptions, and other information concerning the Plan, including, without limitation, filings with the Secretary of Labor and employee communications as shall be required of the Plan Administrator under ERISA;
- (f) To determine any question arising in connection with the Plan, including any question of Plan interpretation, and the Plan Administrator's decision or action in respect thereof shall be final and conclusive and binding upon all persons having an interest under the Plan;
- (g) To review and dispose of claims under the Plan filed pursuant to section 4.3 and appeals of claims decisions pursuant to section 4.4;
- (h) If the Plan Administrator shall determine that by reason of illness, senility, insanity, or for any other reason, it is undesirable to make any payment to the person entitled thereto, to direct the application of any amount so payable to the use or benefit of such person in any manner that the Plan Administrator may deem advisable or to direct in the Plan Administrator's discretion the withholding of any payment under the Plan due to any person under legal disability until a representative competent to receive such payment in his behalf shall be appointed pursuant to law;
- (i) To discharge such other responsibilities or follow such directions as may be assigned or given by the Board; and
- (j) To perform any duty or take any action which is allocated to the Plan Administrator under the Plan.

The Plan Administrator shall have the power and authority necessary or appropriate to carry out his responsibilities.

Section 4.3 **Claims Procedure.**

Any claim relating to benefits under the Plan shall be filed with the Plan Administrator on a form prescribed by it. If a claim is denied in whole or in part, the Plan Administrator shall give the claimant written notice of such denial, which notice shall specifically set forth:

- (a) The reasons for the denial;
- (b) The pertinent Plan provisions on which the denial was based;
- (c) Any additional material or information necessary for the claimant to perfect his claim and an explanation of why such material or information is needed; and
- (d) An explanation of the Plan's procedure for review of the denial of the claim.

In the event that the claim is not granted and notice of denial of a claim is not furnished by the 30th day after such claim was filed, the claim shall be deemed to have been denied on that day for the purpose of permitting the claimant to request review of the claim.

Section 4.4 **Claims Review Procedure.**

Any person whose claim filed pursuant to section 4.3 has been denied in whole or in part by the Plan Administrator may request review of the claim by the Plan Administrator, upon a form prescribed by the Plan Administrator. The claimant shall file such form (including a statement of his position) with the Plan Administrator no later than 60 days after the mailing or delivery of the written notice of denial provided for in section 4.3, or, if such notice is not provided, within 60 days after such claim is deemed denied pursuant to section 4.3. The claimant shall be permitted to review pertinent documents. A decision shall be rendered by the Plan Administrator and communicated to the claimant not later than 30 days after receipt of the claimant's written request for review. However, if the Plan Administrator finds it necessary, due to special circumstances (for example, the need to hold a hearing), to extend this period and so notifies the claimant in writing, the decision shall be rendered as soon as practicable, but in no event later than 120 days after the claimant's request for review. The Plan Administrator's decision shall be in writing and shall specifically set forth:

- (a) The reasons for the decision; and
- (b) The pertinent Plan provisions on which the decision is based.

Any such decision of the Plan Administrator shall be binding upon the claimant and the Bank, and the Plan Administrator shall take appropriate action to carry out such decision.

Section 4.5 **Allocation of Fiduciary Responsibilities and Employment of Advisors.**

Any Named Fiduciary may:

- (a) Allocate any of his or its responsibilities (other than trustee responsibilities) under the Plan to such other person or persons as he or it may

designate, provided that such allocation and designation shall be in writing and filed with the Plan Administrator;

- (b) Employ one or more persons to render advice to him or it with regard to any of his or its responsibilities under the Plan; and
- (c) Consult with counsel, who may be counsel to the Bank.

Section 4.6 **Other Administrative Provisions.**

(a) Any person whose claim has been denied in whole or in part must exhaust the administrative review procedures provided in section 4.4 prior to initiating any claim for judicial review.

(b) No bond or other security shall be required of the Plan Administrator, or any officer or Employee of the Bank to whom fiduciary responsibilities are allocated by a Named Fiduciary, except as may be required by ERISA.

(c) Subject to any limitation on the application of this section 4.6(c) pursuant to ERISA, neither the Plan Administrator, nor any officer or Employee of the Bank to whom fiduciary responsibilities are allocated by a Named Fiduciary, shall be liable for any act of omission or commission by himself or by another person, except for his own individual willful and intentional malfeasance.

(d) The Plan Administrator may, except with respect to actions under section 4.4, shorten, extend or waive the time (but not beyond 60 days) required by the Plan for filing any notice or other form with the Plan Administrator, or taking any other action under the Plan.

(e) Any person, group of persons, committee, corporation or organization may serve in more than one fiduciary capacity with respect to the Plan.

(f) Any action taken or omitted by any fiduciary with respect to the Plan, including any decision, interpretation, claim denial or review on appeal, shall be conclusive and binding on the Bank and all interested parties and shall be subject to judicial modification or reversal only to the extent it is determined by a court of competent jurisdiction that such action or omission was arbitrary and capricious and contrary to the terms of the Plan.

ARTICLE V

MISCELLANEOUS

Section 5.1 **Rights of Employees.**

No Employee shall have any right or claim to any benefit under the Plan except in accordance with the provisions of the Plan. The establishment of the Plan shall not be construed as conferring upon any Employee or other person any legal right to a continuation of employment or to any terms or conditions of employment, nor as limiting or qualifying the right of the Bank to discharge any Employee.

Section 5.2 **Non-alienation of Benefits.**

The right to receive a benefit under the Plan shall not be subject in any manner to anticipation, alienation, or assignment, nor shall such right be liable for or subject to debts, contracts, liabilities, or torts.

Section 5.3 **Non-Duplication of Benefits.**

No provisions in this Plan shall be deemed to duplicate any compensation or benefits provided under any agreement, plan or program covering the Employee to which the Bank is a party and any duplicative amount payable under any such agreement, plan or program shall be applied as an offset to reduce the amounts otherwise payable hereunder.

Section 5.4 **Construction.**

Whenever appropriate in the Plan, words used in the singular may be read in the plural; words used in the plural may be read in the singular; and the masculine gender shall be deemed equally to refer to the feminine gender or the neuter. Any reference to a section number shall refer to a section of this Plan, unless otherwise stated.

Section 5.5 **Headings.**

The headings of sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of the Plan, the text shall control.

Section 5.6 **Governing Law.**

Except to the extent preempted by federal law, the Plan shall be construed, administered and enforced according to the laws of the State of New York applicable to contracts between citizens and residents of the State of New York entered into and to be performed entirely within such jurisdiction.

Section 5.7 **Severability.**

The invalidity or unenforceability, in whole or in part, of any provision of this Plan shall in no way affect the validity or enforceability of the remainder of such provision or of any other provision of this Plan, and any provision, or part thereof, deemed to be invalid or unenforceable shall be reformed as necessary to render it valid and enforceable to the maximum possible extent.

Section 5.8 **Termination or Amendment.**

The Bank intends to keep this Plan in effect, but, subject to the provisions of section 4 hereunder, the Bank expressly reserves the right to terminate or amend the Plan, in whole or in part, at any time by action of the Board; provided, however, that no such amendment or termination which adversely affects the current or prospective rights of any Employee shall be effective earlier than six (6) months after written notice thereof is given to such Employee.

Section 5.9**Required Regulatory Provisions.**

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Bank:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to any person under Article III of this Plan exceed the three times such person's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Bank (or for his entire period of employment with the Bank and its predecessors, if less than five calendar years).

(b) Notwithstanding anything herein contained to the contrary, any payments to the Employee by the Bank, whether pursuant to this Plan or otherwise, are subject to and conditioned upon their compliance with section 18(k) of the FDI Act and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Employee is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Bank pursuant to a notice served under section 8(e)(3) or 8(g)(1) of the FDI Act, the Bank's obligations under this Plan shall be suspended as of the date of service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Bank, in its discretion, may (i) pay to the Employee all or part of the compensation withheld while the Bank's obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Employee is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, all prospective obligations of the Bank under this Plan shall terminate as of the effective date of the order, but vested rights and obligations of the Bank and the Employee shall not be affected.

(e) Notwithstanding anything herein contained to the contrary, if the Bank is in default (within the meaning of section 3(x)(1) of the FDI Act, all prospective obligations of the Bank under this Plan shall terminate as of the date of default, but vested rights and obligations of the Bank and the Employee shall not be affected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Bank hereunder shall be terminated, except to the extent that a continuation of this Plan is necessary for the continued operation of the Bank: (i) by the Director of the OTS or his designee or the FDIC, at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in section 13(c) of the FDI Act; (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Bank or when the Bank is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent that any of the foregoing provisions shall cease to be required by applicable law, rule or regulation, the same shall become inoperative automatically as though eliminated by formal amendment of the Plan.

Section 5.10**Withholding.**

Payments from this Plan shall be subject to all applicable federal, state and local income withholding taxes.

Section 5.11**Status as Welfare Benefit Plan Under ERISA.**

This Plan is an "employee welfare benefit plan" within the meaning of section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and shall be construed, administered and enforced according to the provisions of ERISA.

Section 5.12**Compliance with Section 409A of the Code.**

The Company intends that each of the payments and benefits under this Plan must either comply with the requirements of Section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, the Company intends that:

(a) the benefits and payments described in Section 3.2(a) for severance benefits are expected to comply with or be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(9) or section 1.409A-3(b);

(b) the welfare benefits provided in kind under section 3.2(b) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation Section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and

(c) the outplacement services provided in section 3.2(c) are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements; and

(d) the legal fee reimbursements described in Section 3.4 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements.

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation Section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of the Employee's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after the Employee's earliest separation from service within the meaning of Treasury Regulation Section 1.409A-1(h) and, if the Employee is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following the Employee's separation from service. Each amount payable under this plan that is required to be deferred beyond the Employee's separation from service, shall be deposited on the date on which, but for such deferral, the Company would have paid such amount to the Employee, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Company with the approval of the Employee (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by the Employee (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

RETIREMENT PLAN FOR BOARD MEMBERS

OF

DIME COMMUNITY BANCORP, INC.

Adopted on February 8, 1996
Effective as of June 26, 1996, Amended Effective December 31, 2008

RETIREMENT PLAN FOR BOARD MEMBERS

OF

DIME COMMUNITY BANCORP, INC.

Article I

DEFINITIONS

The following definitions shall apply for the purposes of this Plan unless a different meaning is plainly indicated by the context:

· **Annual Compensation** means, on any date for any Board Member, the amount of compensation paid to such Board Member for service as a Board Member during the twelve (12) month period ending on such date, including retainer payments, fees paid solely on the basis of attendance at meetings as a Board Member and any amounts thereof deferred at the request of the Board Member, but excluding compensation in the form of stock options, appreciation rights or restricted property, or other special forms of remuneration. In the case of a Board Member who is a non-employee director and who later becomes an employee-director, "Annual Compensation" means the amount of such compensation during the twelve (12) month period immediately preceding service as a employee-director.

· **Bank** means The Dime Savings Bank of Williamsburgh, a federal stock savings bank, and any successor thereto.

· **Beneficiary** means the Person or Persons designated by the Participant or Retired Participant to receive a survivor benefit under one of the optional forms of retirement allowance provided under section 3.3. If more than one Person is designated, each shall have an equal share unless the Participant or Retired Participant directed otherwise.

· **Board** means the Board of Directors of the Company.

· **Board Member** means any individual who is a voting member of the Board or a voting member of the Board of Directors of the Bank or a voting member of the board of directors of a Participating Company.

· **Change in Control of the Bank** means (a) a change in ownership or effective control of the Bank or any company which owns 100% of the outstanding common stock the Bank; or (c) a change in the ownership of a substantial portion of the assets of the Bank or any company which owns 100% of the outstanding common stock the Bank. The existence of a Change in Control shall be determined by the Committee in accordance with section 409A of the Code and the regulations thereunder.

In no event, however, shall the transaction by which the Bank converts from a mutual savings bank to a stock savings bank, or any transaction by which a company wholly owned by the Bank becomes the parent company of the Bank be deemed a Change of Control of the Bank.

· **Code** means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

· **Committee** means the Compensation Committee of the Board and any successor thereto.

· **Company** means Dime Community Bancorp, Inc. and any successor thereto.

· **Participant** means a Board Member who satisfies the eligibility requirements set forth in section 2.1 and whose participation in the Plan has not terminated pursuant to section 2.2.

· **Participating Company** means any savings bank, savings and loan association, bank, corporation, financial institution or other business organization or institution which, with the prior approval of the Board, and subject to such terms and conditions as may be imposed by the Board, shall adopt this Plan for the benefit of members of its board of directors.

· **Person** means an individual, a corporation, a bank, a savings bank, a savings and loan association, a financial institution, a partnership, an association, a joint-stock company, a trust, an estate, any unincorporated organization and any other business organization or institution.

· **Predecessor Board** means, with the prior approval of the Board and subject to such terms and conditions as may be imposed by the Board, the board of trustees or the board of directors of a Participating Company, prior to the date such a company became a Participating Company.

· **Plan** means the Retirement Plan for Board Members, as amended from time to time. The Plan may be referred to as the "Retirement Plan for Board Members of Dime Community Bancorp, Inc."

· **Reorganization Date** means the effective date of the transaction pursuant to which The Dime Savings Bank of Williamsburgh becomes a wholly-owned subsidiary of the Company.

· **Retired Participant** means a former Participant who is receiving a retirement allowance under this Plan or who is entitled to receive a retirement allowance under this Plan at a future date.

· **Spouse** means an individual who is legally married to a Participant or Retired Participant.

· **Years of Service** means the period beginning on the first day of the month in which an individual becomes a Board Member and ending on the last day of the month in which such individual ceases to be a Board Member, but excluding (a) any period during which the individual was a salaried officer of the Company or any Participating Company, and (b) any period during which the individual was a salaried officer of any other institution whose board of directors or board of trustees is considered a Predecessor Board. The Years of Service of an individual with two or more non-consecutive periods of service as a Board Member shall be equal to the sum of such non-consecutive periods. For purposes of determining an individual's Years of Service, service as a member of a Predecessor Board shall be deemed service as a Board Member. The maximum number of Years of Service of any Board

Member for purposes of the Plan shall be 10.

Article II

ELIGIBILITY

Section 2.1 ***Participation.***

A person who is a Board Member on the Reorganization Date shall become a Participant in the Plan on the Reorganization Date. A person who becomes a Board Member after the Reorganization Date shall become a Participant in the Plan immediately upon becoming a Board Member. Any person who was a Board Member prior to the Reorganization Date, but who ceased to be a Board Member prior to the Reorganization Date, shall not be eligible for benefits under this Plan unless he again becomes a Board Member after the Reorganization Date.

Section 2.2 ***Termination of Participation.***

Participation in the Plan shall cease on the date a Participant ceases to be a Board Member for whatever reason.

deferred under all such plans are distributed at the same time. For purposes of this section 3.4, present values shall be determined using the interest rate and mortality assumptions then in use under section 415 of the Code for purposes of valuing lump sum payments under tax-qualified defined benefit plans, assuming payment would begin at the later of age 65 or the date of termination of service.

Section 3.5 **Automatic Death Benefit for Spouse.**

If (a) a Participant or Retired Participant who is entitled to a retirement allowance under section 3.1 should die prior to the commencement of such retirement allowance and prior to electing an optional form of retirement allowance under section 3.3 or (b) a Participant who is not entitled to a retirement allowance under section 3.1 should die while a Board Member, and if such Participant or Retired Participant is survived by a Spouse, there shall be paid to such surviving Spouse, until such Spouse dies, a monthly survivor's allowance in an amount equal to that amount which would have been provided to such Spouse had the Participant or Retired Participant retired immediately prior to his death (whether or not he would have been eligible for retirement) and had he effectively elected to take Option 2 under section 3.3 with his Spouse as his Beneficiary and with payments commencing on the first day of the month following his death.

Section 3.6 **Beneficiaries.**

(b) A Participant or Retired Participant may designate a Beneficiary or Beneficiaries to receive any survivor benefits payable upon his death under an optional form of benefit elected pursuant to section 3.3.

(c) If the Participant or Retired Participant elects Option 1 or Option 2 under section 3.3, he may only designate one Beneficiary and such Beneficiary must be a natural person. Any designation shall be made in writing in the form and manner prescribed by the Committee, shall be revocable until the retirement allowance commences to be paid, and shall thereafter be irrevocable.

(d) If the Participant or Retired Participant elects Option 3 under section 3.3, he may designate one or more Beneficiaries who may be, but need not be, natural persons. Any such election shall be made in writing in the form and manner prescribed by the Committee, shall be revocable until the retirement allowance commences to be paid, and shall thereafter be irrevocable; provided, however, that the Participant or Retired Participant may change or revoke the Beneficiary or Beneficiaries designated at any time or from time to time, but such changes or revocations shall be effective only if received by the Committee prior to the Participant's or Retired Participant's death.

(e) A Beneficiary designated by a Participant or Retired Participant to receive a survivor benefit, other than a benefit payable for such Beneficiary's life, may designate a Beneficiary of his own to receive such survivor benefit in the event the Beneficiary designated by the Participant or Retired Participant dies prior to receiving complete payment of such survivor benefit. If a Participant or Retired Participant who has elected Option 3 dies without a Beneficiary, then the present value of any unpaid installments shall be paid to the estate of such Participant or Retired Participant in lieu of all other payments. If a Beneficiary of a deceased Retired Participant entitled to payments under Option 3 dies without a Beneficiary, then the present value of any unpaid installments shall be paid to the estate of such Beneficiary in lieu of all other payments. In determining such present values, the interest rate and life expectancy tables prescribed under section 415 of the Code for purposes of valuing lump sum payments under tax-qualified defined benefit plans shall be used.

Section 3.7 **Payment upon Change in Control.**

Upon a Change of Control of the Bank, each Board Member shall be entitled to an immediate lump sum payment of the present value of a single life annuity, commencing upon a Change of Control of the Bank and continuing for life in an annual amount equal to his Annual Compensation multiplied by a fraction (not greater than one) the numerator of which is his Years of Service and the denominator of which is 10. In determining such present values, the interest rate and life expectancy tables prescribed under section 415 of the Code for purposes of valuing lump sum payments under tax-qualified defined benefit plans shall be used.

Section 3.8 **One-Time Election in 2008.**

Notwithstanding anything in the Plan to the contrary, subject to the consent of the Committee in its sole and absolute discretion, a Participant may, at any time prior to January 1, 2009, elect a new time and form of payment for the present value of the retirement allowance payable to the Participant as of December 31, 2008; *provided, however*, that the payment (or the first payment in a series of payments) (a) shall be made no earlier than January 1, 2009, (b) any such election regarding the time of payment shall be subject to the limits of section 3.1(b) of the Plan other than limits on when elections may be made and limits on which amounts deferred shall be affected by such elections, and (c) any such election regarding the form of payments may select only between the form of payment described in section 3.2 of the Plan and the forms of payment described in Options 1, 2, and 3 as set forth in section 3.3 of the Plan. Such an election shall be made in the form and manner to be determined by the Committee.

Section 3.9 **Other Changes of Time or Form of Payment after 2004.**

Any election to change the time of payment pursuant to section 3.1(b) of the Plan or change the form of payment pursuant to section 3.3 of the Plan that (x) is made on or after January 1, 2005 by a Participant or a Retired Participant whose termination of service as a Board Member is on or after January 1, 2005, (y) is not provided for under section 3.7 of the Plan and (z) is not a change between actuarially equivalent life annuities as provided for in section 3.3(a), shall be subject to the following limits:

- (i) any such election shall not take effect until twelve (12) months after it is received by the Committee;
- (ii) the first payment made under such election shall not occur until at least five (5) years later than such payment would otherwise have been made (or begin to be made); and
- (iii) any such election related to a payment to be made according to a fixed schedule beginning on a fixed date may not be made less than twelve (12) months prior to such fixed date.

Article IV

ADMINISTRATION

Section 4.1 **Duties of the Committee.**

The Committee shall have full responsibility for the management, operation, interpretation and administration of the Plan in accordance with its terms, and shall have such authority as is necessary or appropriate in carrying out its responsibilities. Actions taken by the Committee pursuant to this

section 4.1 shall be conclusive and binding upon the Bank, the Company, the Participating Companies, Participants, Retired Participants and other interested parties.

Section 4.2 **Liabilities of the Committee.**

Neither the Committee nor its individual members shall be deemed to be a fiduciary with respect to this Plan; nor shall any of the foregoing individuals or entities be liable to any Participant or Retired Participant in connection with the management, operation, interpretation or administration of the Plan, any such liability being solely that of the Company.

Section 4.3 **Expenses.**

Any expenses incurred in the management, operation, interpretation or administration of the Plan shall be paid by the Company. In no event shall the benefits otherwise payable under this Plan be reduced to offset the expenses incurred in managing, operating, interpreting or administering the Plan.

Article V

AMENDMENT AND TERMINATION

Section 5.1 **Amendment and Termination.**

The Board shall have the right to amend the Plan, from time to time and at any time, in whole or in part, and to terminate the Plan; provided, however, that no such amendment or termination shall reduce the accrued benefits of, or impose more stringent vesting requirements on any benefits accrued by, any Participant, Retired Participant or Beneficiary through the date of the amendment or termination of the Plan.

Article VI

MISCELLANEOUS PROVISIONS

Section 6.1 **Plan Documents.**

The Secretary of the Board shall provide a copy of this Plan to each Board Member who becomes a Participant in the Plan.

Section 6.2 **Construction of Language.**

Wherever appropriate in the Plan, words used in the singular may be read in the plural, words in the plural may be read in the singular, and words importing the masculine gender shall be deemed equally to refer to the feminine or the neuter. Any reference to an article or section shall be to an article or section of the Plan, unless otherwise indicated.

Section 6.3 **Non-Alienation of Benefits.**

The right to receive a benefit under the Plan shall not be subject in any manner to anticipation, alienation or assignment, nor shall such rights be liable for or subject to debts, contracts, liabilities or torts.

Section 6.4 **Indemnification.**

The Company shall indemnify, hold harmless and defend each Board Member, Participant, Retired Participant and the Beneficiaries of each, against their reasonable costs, including legal fees, incurred by them, or arising out of any action, suit or proceeding in which they may be involved, as a result of their efforts, in good faith, to defend or enforce the terms of the Plan.

Section 6.5 **Severability.**

A determination that any provision of the Plan is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

Section 6.6 **Waiver.**

Failure to insist upon strict compliance with any of the terms, covenants or conditions of the Plan shall not be deemed a waiver of such term, covenant or condition. A waiver of any provision of the Plan must be made in writing, designated as a waiver, and signed by the party against whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder 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.

Section 6.7 **Notice.**

Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, 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 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:

- (a) if to the Company:

Dime Community Bancorp, Inc.
209 Havemeyer Street
Brooklyn, New York 11211

Attention: Corporate Secretary

- (b) if to any party other than the Company, to such party at the address last furnished by such party by written notice to the Company.

Section 6.8 **Operation as an Unfunded Plan.**

The Plan is intended to be (a) a contractual obligation of the Company to pay the benefits as and when due in accordance with its terms, (b) an unfunded and non-qualified plan such that the benefits payable shall not be taxable to the recipients until such benefits are paid and (c) a plan covering persons who are independent contractors of the Company. The Plan is not intended to be subject to or comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended, or of section 401(a) of the Code. The Company may establish a trust to which assets may be transferred by the Company in order to provide a portion or all of the benefits otherwise payable by the Company under the Plan; provided, however, that the assets of such trust shall be subject to the claims of the creditors of the Company in the event that it is determined that the Company is insolvent or that grounds exist for the appointment of a conservator or receiver. The Plan shall be administered and construed so as to effectuate these intentions.

Section 6.9 **Required Regulatory Provisions.**

Notwithstanding anything herein contained to the contrary, any benefits paid by the Company, whether pursuant to this Plan or otherwise, are subject to and conditioned upon their compliance with section 18(k) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. Section 1828(k), and any regulations promulgated thereunder.

Section 6.10 **Governing Law.**

The Plan shall be construed, administered and enforced according to the laws of the State of New York applicable to contracts between citizens and residents of the State of New York entered into and to be performed entirely within such jurisdiction, except to the extent that such laws are preempted by federal law.

Section 6.11 **Compliance with Section 409A of the Code.**

The Plan is intended to be a non-qualified deferred compensation plan described in section 409A of the Code. The Plan shall be operated, administered and construed to give effect to such intent. In addition, notwithstanding Article V, the Plan shall be subject to amendment, with or without advance notice to Participants and other interested parties, and on a prospective or retroactive basis, including but not limited to amendment in a manner that adversely affects the rights of participants and other interested parties, to the extent necessary to effect such compliance.

Appendix A

Early Commencement Factors

Number of Years Payments Commence Prior to Age 65	Factor
0	1.0000
1 ..	9205
2 ..	8496
3 ..	7860
4 ..	7289
5 ..	6774
6 ..	6308
7 ..	5885
8 ..	5500
9 ..	5149
10 ..	4829

Appendix B

Factors for Determining Optional Benefit Forms under Section 3.3

Age	Option 1	Option 2	5 Year Certain	Option 3 10 Year Certain	15 Year Certain
50	90.0%	94.7%	99.6%	98.4%	97.1%
51	89.4	94.4	99.6	98.3	96.6
52	88.8	94.1	99.6	98.2	96.2
53	88.2	93.7	99.5	98.1	95.8
54	87.6	93.4	99.5	98.0	95.4
55	87.0	93.0	99.4	97.9	95.0
56	86.4	92.7	99.3	97.5	94.2
57	85.8	92.4	99.2	97.1	93.4
58	85.2	92.0	99.1	96.7	92.6
59	84.6	91.7	98.9	96.3	91.8
60	84.0	91.3	98.8	95.9	91.0
61	83.2	90.8	98.6	95.2	90.0
62	82.4	90.4	98.4	94.5	89.0
63	81.6	89.9	98.2	93.8	88.0
64	80.8	89.4	98.0	93.1	87.0
65	80.0	88.9	97.8	92.4	86.0
66	79.3	88.5	97.4	91.4	84.4
67	78.6	88.0	97.1	90.4	82.8
68	77.9	87.6	96.7	89.4	81.2
69	77.2	87.1	96.4	88.4	79.6
70	76.5	86.7	96.0	87.4	78.0
71	75.9	86.3	95.4	85.8	76.0
72	75.3	85.9	94.8	84.2	74.0
73	74.7	85.5	94.2	82.6	72.0
74	74.1	85.1	93.6	81.0	70.0
75	73.5	84.7	93.0	79.4	68.0

For Options 1 and 2, the survivorship factors shown above assume that the Participant (or Retired Participant) and the Beneficiary are the same age. For each whole year that the Beneficiary is older than the Participant (or Retired Participant), add Factor B in the case of Option 2, to the percentage shown above (but never go above 99.0%). For each whole year that the Beneficiary is younger than the Participant (or Retired Participant), subtract Factor B in the case of Option 2, from the percentages shown above. Factor B for all members for Option 1 is .7% for the first 10 years, .5% for the next 10 years and .3% for over 20 years, and Factor B for Option 2 is .4% for the first 10 years, .3% for the next 10 years and .2% for over 20 years.

**AMENDED AND RESTATED
EMPLOYEE RETENTION AGREEMENT**

by and among

THE DIME SAVINGS BANK OF WILLIAMSBURGH,

DIME COMMUNITY BANCSHARES, INC.

and

CHRISTOPHER D. MAHER

made and entered into as of
_____, 2008

**AMENDED AND RESTATED
EMPLOYEE RETENTION AGREEMENT**

This **AMENDED AND RESTATED EMPLOYEE RETENTION AGREEMENT ("Agreement")** is made and entered into as of _____, 2008 by and among **THE DIME SAVINGS BANK of WILLIAMSBURGH**, a savings bank organized and operating under the federal laws of the United States and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank"); **DIME COMMUNITY BANCSHARES, INC.**, a business corporation organized and existing under the laws of the State of Delaware and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Holding Company"); and Christopher D. Maher, an individual residing at _____ ("Officer")

W I T N E S S E T H:

WHEREAS, the Officer and the Bank are parties to an Employee Retention Agreement ("Prior Agreement") made and entered into as of June 26, 1999 ("Initial Effective Date"), pursuant to which the Bank has agreed to provide certain payments to the Officer in the event that his employment is terminated under certain circumstances as a result of a Change of Control; and

WHEREAS, the parties desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of section 409A of the Internal Revenue Code of 1986 ("the Code"); and

WHEREAS, the Bank desires to assure for itself the continued availability of the Officer's services and the ability of the Officer to perform such services with a minimum of personal distraction in the event of a pending or threatened Change of Control, and

WHEREAS, the Officer is willing to continue to serve the Bank on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Bank, the Holding Company and the Officer hereby agree as follows:

Section 1. Effective Date

(a) This Agreement shall be effective as of the Initial Effective Date and shall remain in effect during the term of this Agreement which shall be for a period of three (3) years commencing on the Initial Effective Date, plus such extensions as are provided pursuant to section 1(b); *provided, however*, that if the term of this Agreement has not otherwise terminated, the term of this Agreement will terminate on the date of the Officer's termination of employment with the Bank; and *provided, further*, that the obligations under section 8 of this Agreement shall survive the term of this Agreement if payments become due hereunder.

(b) Prior to each anniversary date of this Agreement, the Board shall consider the advisability of an extension of the term in light of the circumstances then prevailing and may, in its discretion, approve an extension to take effect as of the upcoming anniversary date. If an extension is approved, the term of this Agreement shall be extended so that it will expire three (3) years after such anniversary date.

(c) Notwithstanding anything herein contained to the contrary: (i) the Officer's employment with the Bank may be terminated at any time, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Officer's employment following the expiration of the Assurance Period upon such terms and conditions as the Bank and the Officer may mutually agree upon.

Section 2. Assurance Period.

(a) The assurance period ("Assurance Period") shall be for a period commencing on the date of a Change of Control, as defined in section 10 of this Agreement, and ending on the third anniversary of the date on which the Assurance Period commences, plus such extensions as are provided pursuant to the following sentence. The Assurance Period shall be automatically extended for one (1) additional day each day, unless either the Bank or the Officer elects not to extend the Assurance Period further by giving written notice to the other party, in which case the Assurance Period shall become fixed and shall end on the third anniversary of the date on which such written notice is given; *provided, however*, that if following a Change of Control, the Office of Thrift Supervision (or its successor) is the Bank's primary federal regulator, the Agreement shall be subject to extension not more frequently than annually and only upon review and approval of the Board.

(b) Upon termination of the Officer's employment with the Bank, any daily extensions provided pursuant to the preceding sentence, if not theretofore discontinued, shall cease and the remaining unexpired Assurance Period under this Agreement shall be a fixed period ending on the later of the third anniversary of the date of the Change of Control, as defined in section 10 of this Agreement, or the third anniversary of the date on which the daily extensions were discontinued.

Section 3. Duties.

During the period of the Officer's employment that falls within the Assurance Period, the Officer shall: (a) except to the extent allowed under section 6 of this Agreement, devote his full business time and attention (other than during weekends, holidays, vacation periods, and periods of illness, disability or approved leave of absence) to the business and affairs of the Bank and use his best efforts to advance the Bank's interests; (b) serve in the position to which the Officer is appointed by the Bank, which, during the Assurance Period, shall be the position that the Officer held on the day before the Assurance Period commenced or any higher office at the Bank to which he may subsequently be appointed; and (c) subject to the direction of the Board and the By-laws of the Bank, have such functions, duties, responsibilities and authority commonly associated with such position.

Section 4. Compensation.

In consideration for the services rendered by the Officer during the Assurance Period, the Bank shall pay to the Officer during the Assurance Period a salary at an annual rate equal to the greater of:

- (a) the annual rate of salary in effect for the Officer on the day before the Assurance Period commenced; or
- (b) such higher annual rate as may be prescribed by or under the authority of the Board;

provided, however, that in no event shall the Officer's annual rate of salary under this Agreement in effect at a particular time during the Assurance Period be reduced without the Officer's prior written consent. The annual salary payable under this section 4 shall be subject to review at least once annually and shall be paid in approximately equal installments in accordance with the Bank's customary payroll practices. Nothing in this section 4 shall be deemed to prevent the Officer from receiving additional compensation other than salary for his services to the Bank, or additional compensation for his services to the Holding Company, upon such terms and conditions as may be prescribed by or under the authority of the Board or the Board of Directors of the Holding Company.

Section 5. Employee Benefit Plans and Programs

Except as otherwise provided in this Agreement, the Officer shall, during the Assurance Period, be treated as an employee of the Bank and be eligible to participate in and receive benefits under any qualified or non-qualified defined benefit or defined contribution retirement plan, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans, and such other employee benefit plans and programs, including, but not limited to, any incentive compensation plans or programs (whether or not employee benefit plans or programs), any stock option and appreciation rights plan, employee stock ownership plan and restricted stock plan, as may from time to time be maintained by, or cover employees of, the Bank, in accordance with the terms and conditions of such employee benefit plans and programs and compensation plans and programs and with the Bank's customary practices.

Section 6. Board Memberships.

The Officer may serve as a member of the boards of directors of such business, community and charitable organizations as he may disclose to and as may be approved by the Board (which approval shall not be unreasonably withheld), 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.

Section 7. Working Facilities and Expenses.

During the Assurance Period, the Officer's principal place of employment shall be at the Bank's executive offices at the address first above written, or at such other location within the City of New York at which the Bank shall maintain its principal executive offices, or at such other location as the Bank and the Officer may mutually agree upon. The Bank shall provide the Officer, at his principal place of employment, with a private office and support services and facilities suitable to his position with the Bank and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Bank shall reimburse the Officer for his ordinary and necessary business expenses, including, without limitation, the Officer's travel and entertainment expenses, incurred in connection with the performance of the Officer's duties under this Agreement, upon presentation to the Bank of an itemized account of such expenses in such form as the Bank may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last year in which the expense was incurred.

Section 8. Termination of Employment with Severance Benefits.

(a) In the event that the Officer's employment with the Bank shall terminate during the Assurance Period, or prior to the commencement of the Assurance Period but within three (3) months of and in connection with a Change of Control as defined in section 10 of this Agreement on account of:

(i) The Officer's voluntary resignation from employment with the Bank within ninety (90) days following:

(A) the failure of the Bank's Board to appoint or re-appoint or elect or re-elect the Officer to serve in the same position in which the Officer was serving, on the day before the Assurance Period commenced or a more senior office;

(B) the failure of the stockholders of the Holding Company to elect or re-elect the Officer as a member of the Board, if he was a member of the Board on the day before the Assurance Period commenced;

(C) the expiration of a thirty (30) day period following the date on which the Officer gives written notice to the Bank of its material failure, whether by amendment of the Bank's Organization Certificate or By-laws, action of the Board or the Holding Company's stockholders or otherwise, to vest in the Officer the functions, duties, or responsibilities vested in the Officer on the day before the Assurance Period commenced (or the functions, duties and responsibilities of a more senior office to which the Officer may be appointed), unless during such thirty (30) day period, the Bank cures such failure;

(D) the failure of the Bank to cure a material breach of this Agreement by the Bank, within thirty (30) days following written notice from the Officer of such material breach;

(E) a reduction in the compensation provided to the Officer, or a material reduction in the benefits provided to the Officer under the Bank's program of employee benefits, compared with the compensation and benefits that were provided to the Officer on the day before the Assurance Period commenced;

(F) a change in the Officer's principal place of employment that would result in a one-way commuting time in excess of the greater of (I) 30 minutes or (II) the Officer's commuting time immediately prior to such change; or

(ii) the discharge of the Officer by the Bank for any reason other than for "cause" as provided in section 9(a);

then, subject to section 21, the Bank shall provide the benefits and pay to the Officer the amounts provided for under section 8(b) of this Agreement; *provided, however*, that if benefits or payments become due hereunder as a result of the Officer's termination of employment prior to the commencement of the Assurance Period, the benefits and payments provided for under section 8(b) of this Agreement shall be determined as though the Officer had remained in the service of the Bank (upon the terms and conditions in effect at the time of his actual termination of service) and had not terminated employment with the Bank until the date on which the Officer's Assurance Period would have commenced.

(b) Upon the termination of the Officer's employment with the Bank under circumstances described in section 8(a) of this Agreement, the Bank shall pay and provide to the Officer (or, in the event of the Officer's death, to the Officer's estate) on his termination of employment, subject to section 24 :

(i) the Officer's earned but unpaid compensation (including, without limitation, all items which constitute wages under section 190.1 of the New York Labor Law and the payment of which is not otherwise provided for under this section 8(b)) as of the date of the termination of the Officer's employment with the Bank, such payment to be made at the time and in the manner prescribed by law applicable to the payment of wages but in no event later than thirty (30) days after termination of employment;

(ii) the benefits, if any, to which the Officer is entitled as a former employee under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the Bank's officers and employees;

(iii) continued group life, health (including hospitalization, medical and major medical), accident and long term disability insurance benefits, in addition to that provided pursuant to section 8(b)(i) and after taking into account the coverage provided by any subsequent employer, if and to the extent necessary to provide for the Officer, for the remaining unexpired Assurance Period, coverage equivalent to the coverage to which the Officer 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 of Control, on the date of such Change of Control, whichever benefits are greater) if the Officer had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of compensation achieved during the Officer's period of actual employment with the Bank;

(iv) a lump sum payment, in an amount equal to the present value of the salary that the Officer would have earned if the Officer had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of salary achieved during the Officer's period of actual employment with the Bank, where such present value is to be determined using a discount rate equal to the applicable short-term federal rate prescribed under section 1274(d) of the Internal Revenue Code of 1986 ("Code") ("Applicable Short-Term Rate"), compounded using the compounding periods corresponding to the Bank's regular payroll periods for its officers, such lump sum to be paid in lieu of all other payments of salary provided for under this Agreement in respect of the period following any such termination;

(v) a lump sum payment in an amount equal to the excess, if any, of:

(A) the present value of the aggregate benefits to which the Officer would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by, or covering employees of, the Bank if the Officer were 100% vested thereunder and had continued working for the Bank during the remaining unexpired Assurance 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 Assurance 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 8(b)(I), (iv) and (vii);

(B) the present value of the benefits to which the Officer is actually entitled under such defined benefit pension plans as of the date of his termination;

where such present values are to be determined using the mortality tables prescribed under section 415(b)(2)(E)(v) of the Code and a discount rate, compounded monthly, equal to the applicable long-term federal rate prescribed under section 1274(d) of the Code for the month in which his employment terminates; provided, however, that if payments are made under this section 8(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) a lump sum payment in an amount equal to the present value of the additional employer contributions (or if greater in the case of a leveraged employee stock ownership plan or similar arrangement, the additional assets allocable to him through debt service, based on the fair market value of such assets at termination of employment) to which he would have been entitled under any and all qualified and non-qualified defined contribution plans maintained by, or covering employees of, the Bank, if he were 100% vested thereunder and had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of compensation achieved during the Officer's period of actual employment with the Bank, and making the maximum amount of employee contributions, if any, required under such plan or plans, such present value to be determined on the basis of the discount rate, compounded using the compounding period that corresponds to the frequency with which employer contributions are made to the relevant plan, equal to the Applicable Short-Term Rate; *provided, however*, that if payments are made under this section 8(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vii) the payments that would have been made to the Officer under any cash bonus or long-term or short-term cash incentive compensation plan maintained by, or covering employees of, the Bank, if he had continued working for the Bank during the remaining unexpired Assurance Period and had earned the maximum bonus or incentive award in each calendar year that ends during the remaining unexpired Assurance Period, such payments to be equal to the product of:

(A) the maximum percentage rate at which an award was ever available to the Officer under such incentive compensation plan; multiplied by

(B) the salary that would have been paid to the Officer during each such calendar year at the highest annual rate of salary achieved during the remaining unexpired Assurance Period, such payments to be made without discounting for early payment ..

The Bank and the Officer hereby stipulate that the damages which may be incurred by the Officer following any such termination of employment are not capable of accurate measurement as of the date first above written and that the payments and benefits contemplated by this section 8(b) 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. Such damages shall be payable without any requirement of proof of actual damage and without regard to the Officer's efforts, if any, to mitigate damages. The Bank and the Officer further agree that the Bank may condition the payments and benefits (if any) due under sections 8(b)(iii), (iv), (v), (vi) and (vii) on the receipt of the Officer's resignation from any and all positions which he holds as an officer, director or committee member with respect to the Bank, the Company or any subsidiary or affiliate of either of them.

Section 9. Termination without Severance Benefits.

In the event that the Officer's employment with the Bank shall terminate during the Assurance Period on account of:

(a) the discharge of the Officer for "cause," which, for purposes of this Agreement shall mean personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order, or any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; *provided, however*, that the Officer shall not be deemed to have been discharged for cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to the Officer and a reasonable opportunity for the Officer to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging the Officer for cause; or

(b) the Officer's voluntary resignation from employment with the Bank for reasons other than those specified in section 8(a)(I); or

(c) the Officer's death; or

(d) a determination that the Officer is eligible for long-term disability benefits under the Bank's long-term disability insurance program or, if there is no such program, under the federal Social Security Act; then the Bank shall have no further obligations under this Agreement, other than the payment to the Officer (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 the Officer is entitled as a former employee under the employee benefit plans and programs and compensation plans and programs maintained by, or covering employees of, the Bank.

Section 10. Change of Control.

(a) A Change of Control of the Bank ("Change of Control") shall be deemed to have occurred upon the happening of any of the following events:

(i) the reorganization, merger or consolidation of the Bank, respectively, with one or more other persons, other than a transaction following which:

(A) at least 51% of the equity ownership interests of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the outstanding equity ownership interests in the Bank; and

(B) at least 51% of the securities entitled to vote generally in the election of directors of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the securities entitled to vote generally in the election of directors of the Bank;

(ii) the acquisition of substantially all of the assets of the Bank or beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the outstanding securities of the Bank entitled to vote generally in the election of directors by any person or by any persons acting in concert;

(iii) a complete liquidation or dissolution of the Bank, or approval by the stockholders of the Bank of a plan for such liquidation or dissolution;

(iv) the occurrence of any event if, immediately following such event, at least fifty percent (50%) of the members of the Board do not belong to any of the following groups:

(A) individuals who were members of the Board on the date of this Agreement; or

(B) individuals who first became members of the Board after the date of this Agreement either:

(1) upon election to serve as a member of the Board by affirmative vote of three-quarters (3/4) of the members of such Board, or a nominating committee thereof, in office at the time of such first election; or

(2) upon election by the stockholders of the Board to serve as a member of the Board, but only if nominated for election by affirmative vote of three quarters(3/4) of the members of the Board, or of a nominating committee thereof, in office at the time of such first nomination;

provided, however, that such individual's election or nomination did not result from an actual or threatened election contest (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) other than by or on behalf of the Board of the Bank; or

(v) any event which would be described in section 10(a)(i), (ii), (iii) or (iv) if the term "Holding Company" were substituted for the term "Bank" therein.

(b) In no event, however, shall a Change of Control be deemed to have occurred as a result of any acquisition of securities or assets of the Holding Company, the Bank or any subsidiary of either of them, by the Holding Company, the Bank or any subsidiary of either of them, or by any employee benefit plan maintained by any of them.

Section 11. Excise Tax Indemnification.

(a) This section 11 shall apply if the Officer's employment is terminated in circumstances giving rise to liability for excise taxes under section 4999 of the Code. If this Section 11 applies, then, if for any taxable year, the Officer shall be liable for the payment of an excise tax under section 4999 of the Code with respect to any payment in the nature of compensation made by the Company or any direct or indirect subsidiary or affiliate of the Holding Company to (or for the benefit of) the Officer, the Holding Company shall pay to the Officer an amount equal to X determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

E = the rate at which the 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 11;

FI = the highest marginal rate of income tax applicable to the Officer under the Code for the taxable year in question;

SLI = the sum of the highest marginal rates of income tax applicable to the Officer under all applicable state and local laws for the taxable year in question; and

M = the highest marginal rate of Medicare tax applicable to the Officer under the Code for the taxable year in question.

With respect to any payment in the nature of compensation that is made to (or for the benefit of) the Officer under the terms of this Agreement, or otherwise, and on which an excise tax under section 4999 of the Code will be assessed, the payment determined under this section 11(a) shall be made to the Officer on the earlier of (i) the date the Holding Company or any direct or indirect subsidiary or affiliate of the Holding Company is required to withhold such tax, or (ii) the date the tax is required to be paid by the Officer.

(b) Notwithstanding anything in this section 11 to the contrary, in the event that the Officer'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 determined by the formula $(X + P) \times E$, where X, P and E have the meanings provided in section 11(a), the Officer or the Holding 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 11(a), when increased by the amount of the payment made to the Officer under this section 11(b) by the Holding Company, or when reduced by the amount of the payment made to the Company under this section 11(b) by the Officer, equals the amount that should have properly been paid to the Officer under section 11(a). The interest paid under this section 11(b) shall be determined at the rate provided under section 1274(b)(2)(B) of the Code. To confirm that the proper amount, if any, was paid to the Officer under this section 11, the Officer shall furnish to the Holding Company a copy of each tax return which reflects a liability for an excise tax payment made by the Holding Company, at least 20 days before the date on which such return is required to be filed with the Internal Revenue Service. Any payment pursuant to this Section 11(b) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the payment is to be made are remitted to the Internal Revenue Service.

(c) The provisions of this section 11 are designed to reflect the provisions of applicable federal, state and local tax laws in effect on the date of this Agreement. If, after the date hereof, there shall be any change in any such laws, this section 11 shall be modified in such manner as the Officer and the Holding Company may mutually agree upon if and to the extent necessary to assure that the Officer is fully indemnified against the economic effects of the tax imposed under section 4999 of the Code or any similar federal, state or local tax.

Section 12. No Effect on Employee Benefit Plans or Programs.

The termination of the Officer's employment during the Assurance Period or thereafter, whether by the Bank or by the Officer, shall have no effect on the rights and obligations of the parties hereto under the Bank's qualified and non-qualified defined benefit or defined contribution retirement plans, 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 any defined contribution plan, employee stock ownership plan, stock option and appreciation rights plan, and restricted stock plan, as may be maintained by, or cover employees of, the Bank from time to time; *provided, however*, that nothing in this Agreement shall be deemed to duplicate any compensation or benefits provided under any agreement, plan or program covering the Officer to which the Bank or the Holding Company is a party and any duplicative amount payable under any such agreement, plan or program shall be applied as an offset to reduce the amounts otherwise payable hereunder.

Section 13. Successors and Assigns.

This Agreement will inure to the benefit of and be binding upon the Officer, his legal representatives and testate or intestate distributes, and the Bank and the Holding 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 Bank or the Holding Company may be sold or otherwise transferred.

Section 14. 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 the Officer:

Mr. Christopher D. Maher

If to the Bank:

The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

If to the Holding Company:

Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

Section 15. Indemnification and Attorneys' Fees.

The Bank shall indemnify, hold harmless and defend the Officer against reasonable costs, including legal fees, incurred by the Officer in connection with or arising out of any action, suit or proceeding in which the Officer may be involved, as a result of the Officer's efforts, in good faith, to defend or enforce the terms of this Agreement; provided, however, that the Officer shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement; *provided, further*, that this section 15 shall not obligate the Bank to pay costs and legal fees on behalf of the Officer under this Agreement in excess of \$20,000. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of the Officer's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which the Officer incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to the Officer's right to reimbursement; provided, however, that the Officer shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require.

Section 16. 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.

Section 17. 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 whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder 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.

Section 18. 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.

Section 19. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the federal laws of the United States, and in the absence of controlling federal law, the laws of the State of New York, without reference to conflicts of law principles.

Section 20. 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.

Section 21. 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 Employee Retention Agreement made and entered into as of June 26, 1996. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; *provided, however*, that this Agreement shall be subject to amendment in the future in such manner as the Bank and the Holding Company shall reasonably deem necessary or appropriate to effect compliance with section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to the Officer on a present value basis.

Section 22. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Bank:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to the Officer by the Bank under section 8(b) hereof (exclusive of amounts described in section 8(b) (i)) exceed the three times the Officer's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Bank (or for his entire period of employment with the Bank if less than five calendar years). This section 22(a) shall not affect or limit payments made by the Holding Company hereunder pursuant to sections 8(b), 11 or otherwise. The Holding Company agrees that, if this section 22(a) would limit payments by the Bank to the Officer pursuant to section 8(b) or otherwise, the Holding Company shall make such payments to the Officer.

(b) Notwithstanding anything herein contained to the contrary, any payments to the Officer by the Bank, 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 ("FDI Act"), 12 U.S.C. Sec. 1828(k), and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Officer is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Bank pursuant to a notice served under section 8(e)(3) or 8(g) (1) of the FDI Act, 12 U.S.C. Sec. 1818(e)(3) or 1818(g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of Service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Bank, in its discretion, may (i) pay to the Officer all or part of the compensation withheld while the Bank's obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Officer is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. sec. 1818(e)(4) or (g)(1), all prospective obligations of the order, but vested rights and obligations of the Bank and the Officer shall not be effected.

(e) Notwithstanding anything herein contained to the contrary, if the Bank is in default (within the meaning of section 3(x)(1) of the FDI Act, 12 U.S.C. Sec. 1813(x)(1), all prospective obligations of the Bank under this Agreement shall terminate as of the date of default, but vested rights and obligations of the Bank and the Officer shall not be effected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Bank hereunder shall be terminated, except to the extent that a continuation of this Agreement is necessary for the continued operation of the Bank: (i) by the Director of the Office of Thrift Supervision ("OTS") or his designee or the Federal Deposit Insurance Corporation ("FDIC"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in section 13(c) of the FDI Act, 12 U.S.C. sec. 1823(c); (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Bank or when the Bank is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent any of the foregoing provisions shall cease to be required by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

Section 23. Guaranty.

The Holding Company hereby irrevocably and unconditionally guarantees to the Officer the payment of all amounts, and the performance of all other obligations, due from the Bank in accordance with the terms of this Agreement as and when due without any requirement of presentment, demand of payment, protest or notice of dishonor or nonpayment. For purposes of this section 23, the application of sections 21(a), (c), (d), (e) or (f) to the Bank shall have no effect on the Holding Company's obligations hereunder.

Section 24. Compliance with Section 409A of the Code.

The Officer, the Bank and the Holding Company acknowledge that each of the payments and benefits promised to the Officer under this Agreement must either comply with the requirements of section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, the Officer, the Bank and the Holding Company agree that:

- (a) the expense reimbursements described in section 7 and legal fee reimbursements described in section 15 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;
- (b) the payment described in section 8(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;
- (c) the benefits and payments described in section 8(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;
- (d) the welfare benefits provided in kind under section 8(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and
- (e) the tax indemnity payment provided under section 11 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of the Officer's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after the Officer's earliest separation from service (within the meaning of Treasury Regulation section 1.409A-1(h)) and, if the Officer is a specified employee (within the meaning of Treasury Regulation section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following the Officer's separation from service. Each amount payable under this plan that is required to be deferred beyond the Officer's separation from service, shall be deposited on the date on which, but for such deferral, the Holding Company would have paid such amount to the Officer, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Holding Company with the approval of the Officer (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by the Officer (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

Section 25. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Holding Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which the Officer participates:

(a) The Officer shall repay to the Holding Company any bonus or incentive compensation paid to the Officer while (i) the Officer is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Holding Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Holding Company and approved by the Officer (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Holding Company may supply to the Officer a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If the Officer's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) the Officer is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Holding Company issued under the CPP, then payments to the Officer that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Holding Company and approved by the Officer (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 25(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 25 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Holding Company, under which the UST acquires equity or debt securities of the Holding Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 25(a) shall not be required by the Relevant Implementation of

section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 25(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 25(b)(ii) shall be paid on the earliest date on which the Holding Company reasonably anticipates that such amount may be paid without violating such limitation.

IN WITNESS WHEREOF, the Bank and the Holding Company have caused this Agreement to be executed and the Officer has hereunto set his hand, all as of the day and year first above written.

Christopher D. Maher

ATTEST:

THE DIME SAVINGS BANK of WILLIAMSBURGH

By: _____
Secretary
[Seal]
Name : Vincent F. Palagiano
Title : Chairman of the Board & CEO

By: _____

ATTEST:

DIME COMMUNITY BANCSHARES, INC.

By: _____
Secretary
[Seal]
Title : Chairman of the Board & CEO

By: _____
Name : Vincent F. Palagiano

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STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Christopher D. Maher, to me known, and known to me to be the individual described in the foregoing instrument, who, being by me duly sworn, did depose and say that he resides at the address set forth in said instrument, and that he signed his name to the foregoing instrument.

Notary Public

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Vincent F. Palagiano to me known, who, being by me duly sworn, did depose and say that he resides at 44 Direnzo Court, Staten Island, N.Y., that he is a member of the Board of Directors of THE DIME SAVINGS BANK OF WILLIAMSBURGH, the savings bank described in and which executed the foregoing instrument; that he knows the seal of said mutual savings bank; that the seal affixed to said instrument is such seal; that it was so affixed by authority of the Board of Directors of said savings bank; and that he signed his name thereto by like authority.

Notary Public

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Vincent F. Palagiano, to me known, who, being by me duly sworn, did depose and say that he resides at 44 Direnzo Court, Staten Island, N. Y., that he is a member of the Board of Directors of DIME COMMUNITY BANCSHARES, INC., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such seal; that it was so affixed by order of the Board of Directors of said corporation; and that he signed his name thereto by like order.

Notary Public

**AMENDED AND RESTATED
EMPLOYEE RETENTION AGREEMENT**

by and among

THE DIME SAVINGS BANK OF WILLIAMSBURGH,

DIME COMMUNITY BANCSHARES, INC.

and

DANIEL J. HARRIS

made and entered into as of
_____, 2008

AMENDED AND RESTATED
EMPLOYEE RETENTION AGREEMENT

This AMENDED AND RESTATED **EMPLOYEE RETENTION AGREEMENT ("Agreement")** is made and entered into as of _____, 2008 by and among **THE DIME SAVINGS BANK of WILLIAMSBURGH**, a savings bank organized and operating under the federal laws of the United States and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Bank"); **DIME COMMUNITY BANCSHARES, INC.**, a business corporation organized and existing under the laws of the State of Delaware and having its executive offices at 209 Havemeyer Street, Brooklyn, New York 11211 ("Holding Company"); and Daniel J. Harris, an individual residing at _____ ("Officer")

W I T N E S S E T H:

WHEREAS, the Officer and the Bank are parties to an Employee Retention Agreement ("Prior Agreement") made and entered into as of June 26, 1999 ("Initial Effective Date"), pursuant to which the Bank has agreed to provide certain payments to the Officer in the event that his employment is terminated under certain circumstances as a result of a Change of Control; and

WHEREAS, the parties desire to amend and restate the Prior Agreement for the purpose, among others, of compliance with the applicable requirements of section 409A of the Internal Revenue Code of 1986 ("the Code"); and

WHEREAS, the Bank desires to assure for itself the continued availability of the Officer's services and the ability of the Officer to perform such services with a minimum of personal distraction in the event of a pending or threatened Change of Control, and

WHEREAS, the Officer is willing to continue to serve the Bank on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and obligations hereinafter set forth, the Bank, the Holding Company and the Officer hereby agree as follows:

Section 1. Effective Date

(a) This Agreement shall be effective as of the Initial Effective Date and shall remain in effect during the term of this Agreement which shall be for a period of three (3) years commencing on the Initial Effective Date, plus such extensions as are provided pursuant to section 1(b); *provided, however*, that if the term of this Agreement has not otherwise terminated, the term of this Agreement will terminate on the date of the Officer's termination of employment with the Bank; and *provided, further*, that the obligations under section 8 of this Agreement shall survive the term of this Agreement if payments become due hereunder.

(b) Prior to each anniversary date of this Agreement, the Board shall consider the advisability of an extension of the term in light of the circumstances then prevailing and may, in its discretion, approve an extension to take effect as of the upcoming anniversary date. If an extension is approved, the term of this Agreement shall be extended so that it will expire three (3) years after such anniversary date.

(c) Notwithstanding anything herein contained to the contrary: (i) the Officer's employment with the Bank may be terminated at any time, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Officer's employment following the expiration of the Assurance Period upon such terms and conditions as the Bank and the Officer may mutually agree upon.

Section 2. Assurance Period.

(a) The assurance period ("Assurance Period") shall be for a period commencing on the date of a Change of Control, as defined in section 10 of this Agreement, and ending on the third anniversary of the date on which the Assurance Period commences, plus such extensions as are provided pursuant to the following sentence. The Assurance Period shall be automatically extended for one (1) additional day each day, unless either the Bank or the Officer elects not to extend the Assurance Period further by giving written notice to the other party, in which case the Assurance Period shall become fixed and shall end on the third anniversary of the date on which such written notice is given; *provided, however*, that if following a Change of Control, the Office of Thrift Supervision (or its successor) is the Bank's primary federal regulator, the Agreement shall be subject to extension not more frequently than annually and only upon review and approval of the Board.

(b) Upon termination of the Officer's employment with the Bank, any daily extensions provided pursuant to the preceding sentence, if not theretofore discontinued, shall cease and the remaining unexpired Assurance Period under this Agreement shall be a fixed period ending on the later of the third anniversary of the date of the Change of Control, as defined in section 10 of this Agreement, or the third anniversary of the date on which the daily extensions were discontinued.

Section 3. Duties.

During the period of the Officer's employment that falls within the Assurance Period, the Officer shall: (a) except to the extent allowed under section 6 of this Agreement, devote his full business time and attention (other than during weekends, holidays, vacation periods, and periods of illness, disability or approved leave of absence) to the business and affairs of the Bank and use his best efforts to advance the Bank's interests; (b) serve in the position to which the Officer is appointed by the Bank, which, during the Assurance Period, shall be the position that the Officer held on the day before the Assurance Period commenced or any higher office at the Bank to which he may subsequently be appointed; and (c) subject to the direction of the Board and the By-laws of the Bank, have such functions, duties, responsibilities and authority commonly associated with such position.

Section 4. Compensation.

In consideration for the services rendered by the Officer during the Assurance Period, the Bank shall pay to the Officer during the Assurance Period a salary at an annual rate equal to the greater of:

- (a) the annual rate of salary in effect for the Officer on the day before the Assurance Period commenced; or
- (b) such higher annual rate as may be prescribed by or under the authority of the Board;

provided, however, that in no event shall the Officer's annual rate of salary under this Agreement in effect at a particular time during the Assurance Period be reduced without the Officer's prior written consent. The annual salary payable under this section 4 shall be subject to review at least once annually and shall be paid in approximately equal installments in accordance with the Bank's customary payroll practices. Nothing in this section 4 shall be deemed to prevent the Officer from receiving additional compensation other than salary for his services to the Bank, or additional compensation for his services to the Holding Company, upon such terms and conditions as may be prescribed by or under the authority of the Board or the Board of Directors of the Holding Company.

Section 5. Employee Benefit Plans and Programs

Except as otherwise provided in this Agreement, the Officer shall, during the Assurance Period, be treated as an employee of the Bank and be eligible to participate in and receive benefits under any qualified or non-qualified defined benefit or defined contribution retirement plan, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans, and such other employee benefit plans and programs, including, but not limited to, any incentive compensation plans or programs (whether or not employee benefit plans or programs), any stock option and appreciation rights plan, employee stock ownership plan and restricted stock plan, as may from time to time be maintained by, or cover employees of, the Bank, in accordance with the terms and conditions of such employee benefit plans and programs and compensation plans and programs and with the Bank's customary practices.

Section 6. Board Memberships.

The Officer may serve as a member of the boards of directors of such business, community and charitable organizations as he may disclose to and as may be approved by the Board (which approval shall not be unreasonably withheld), 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.

Section 7. Working Facilities and Expenses.

During the Assurance Period, the Officer's principal place of employment shall be at the Bank's executive offices at the address first above written, or at such other location within the City of New York at which the Bank shall maintain its principal executive offices, or at such other location as the Bank and the Officer may mutually agree upon. The Bank shall provide the Officer, at his principal place of employment, with a private office and support services and facilities suitable to his position with the Bank and necessary or appropriate in connection with the performance of his assigned duties under this Agreement. The Bank shall reimburse the Officer for his ordinary and necessary business expenses, including, without limitation, the Officer's travel and entertainment expenses, incurred in connection with the performance of the Officer's duties under this Agreement, upon presentation to the Bank of an itemized account of such expenses in such form as the Bank may reasonably require, each such reimbursement payment to be made promptly following receipt of the itemized account and in any event not later than the last year in which the expense was incurred.

Section 8. Termination of Employment with Severance Benefits.

(a) In the event that the Officer's employment with the Bank shall terminate during the Assurance Period, or prior to the commencement of the Assurance Period but within three (3) months of and in connection with a Change of Control as defined in section 10 of this Agreement on account of:

(i) The Officer's voluntary resignation from employment with the Bank within ninety (90) days following:

(A) the failure of the Bank's Board to appoint or re-appoint or elect or re-elect the Officer to serve in the same position in which the Officer was serving, on the day before the Assurance Period commenced or a more senior office;

(B) the failure of the stockholders of the Holding Company to elect or re-elect the Officer as a member of the Board, if he was a member of the Board on the day before the Assurance Period commenced;

(C) the expiration of a thirty (30) day period following the date on which the Officer gives written notice to the Bank of its material failure, whether by amendment of the Bank's Organization Certificate or By-laws, action of the Board or the Holding Company's stockholders or otherwise, to vest in the Officer the functions, duties, or responsibilities vested in the Officer on the day before the Assurance Period commenced (or the functions, duties and responsibilities of a more senior office to which the Officer may be appointed), unless during such thirty (30) day period, the Bank cures such failure;

(D) the failure of the Bank to cure a material breach of this Agreement by the Bank, within thirty (30) days following written notice from the Officer of such material breach;

(E) a reduction in the compensation provided to the Officer, or a material reduction in the benefits provided to the Officer under the Bank's program of employee benefits, compared with the compensation and benefits that were provided to the Officer on the day before the Assurance Period commenced;

(F) a change in the Officer's principal place of employment that would result in a one-way commuting time in excess of the greater of (I) 30 minutes or (II) the Officer's commuting time immediately prior to such change; or

(ii) the discharge of the Officer by the Bank for any reason other than for "cause" as provided in section 9(a);

then, subject to section 21, the Bank shall provide the benefits and pay to the Officer the amounts provided for under section 8(b) of this Agreement; *provided, however*, that if benefits or payments become due hereunder as a result of the Officer's termination of employment prior to the commencement of the Assurance Period, the benefits and payments provided for under section 8(b) of this Agreement shall be determined as though the Officer had remained in the service of the Bank (upon the terms and conditions in effect at the time of his actual termination of service) and had not terminated employment with the Bank until the date on which the Officer's Assurance Period would have commenced.

(b) Upon the termination of the Officer's employment with the Bank under circumstances described in section 8(a) of this Agreement, the Bank shall pay and provide to the Officer (or, in the event of the Officer's death, to the Officer's estate) on his termination of employment, subject to section 24 :

(i) the Officer's earned but unpaid compensation (including, without limitation, all items which constitute wages under section 190.1 of the New York Labor Law and the payment of which is not otherwise provided for under this section 8(b)) as of the date of the termination of the Officer's employment with the Bank, such payment to be made at the time and in the manner prescribed by law applicable to the payment of wages but in no event later than thirty (30) days after termination of employment;

(ii) the benefits, if any, to which the Officer is entitled as a former employee under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the Bank's officers and employees;

(iii) continued group life, health (including hospitalization, medical and major medical), accident and long term disability insurance benefits, in addition to that provided pursuant to section 8(b)(i) and after taking into account the coverage provided by any subsequent employer, if and to the extent necessary to provide for the Officer, for the remaining unexpired Assurance Period, coverage equivalent to the coverage to which the Officer 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 of Control, on the date of such Change of Control, whichever benefits are greater) if the Officer had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of compensation achieved during the Officer's period of actual employment with the Bank;

(iv) a lump sum payment, in an amount equal to the present value of the salary that the Officer would have earned if the Officer had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of salary achieved during the Officer's period of actual employment with the Bank, where such present value is to be determined using a discount rate equal to the applicable short-term federal rate prescribed under section 1274(d) of the Internal Revenue Code of 1986 ("Code") ("Applicable Short-Term Rate"), compounded using the compounding periods corresponding to the Bank's regular payroll periods for its officers, such lump sum to be paid in lieu of all other payments of salary provided for under this Agreement in respect of the period following any such termination;

(v) a lump sum payment in an amount equal to the excess, if any, of:

(A) the present value of the aggregate benefits to which the Officer would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by, or covering employees of, the Bank if the Officer were 100% vested thereunder and had continued working for the Bank during the remaining unexpired Assurance 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 Assurance 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 8(b)(I), (iv) and (vii);

(B) the present value of the benefits to which the Officer is actually entitled under such defined benefit pension plans as of the date of his termination;

where such present values are to be determined using the mortality tables prescribed under section 415(b)(2)(E)(v) of the Code and a discount rate, compounded monthly, equal to the applicable long-term federal rate prescribed under section 1274(d) of the Code for the month in which his employment terminates; provided, however, that if payments are made under this section 8(b)(v) as a result of this section deeming otherwise unvested amounts under such defined benefit plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vi) a lump sum payment in an amount equal to the present value of the additional employer contributions (or if greater in the case of a leveraged employee stock ownership plan or similar arrangement, the additional assets allocable to him through debt service, based on the fair market value of such assets at termination of employment) to which he would have been entitled under any and all qualified and non-qualified defined contribution plans maintained by, or covering employees of, the Bank, if he were 100% vested thereunder and had continued working for the Bank during the remaining unexpired Assurance Period at the highest annual rate of compensation achieved during the Officer's period of actual employment with the Bank, and making the maximum amount of employee contributions, if any, required under such plan or plans, such present value to be determined on the basis of the discount rate, compounded using the compounding period that corresponds to the frequency with which employer contributions are made to the relevant plan, equal to the Applicable Short-Term Rate; *provided, however*, that if payments are made under this section 8(b)(vi) as a result of this section deeming otherwise unvested amounts under such defined contribution plans to be vested, the payments, if any, attributable to such deemed vesting shall be paid in the same form, and paid at the same time, and in the same manner, as benefits under the corresponding non-qualified plan;

(vii) the payments that would have been made to the Officer under any cash bonus or long-term or short-term cash incentive compensation plan maintained by, or covering employees of, the Bank, if he had continued working for the Bank during the remaining unexpired Assurance Period and had earned the maximum bonus or incentive award in each calendar year that ends during the remaining unexpired Assurance Period, such payments to be equal to the product of:

(A) the maximum percentage rate at which an award was ever available to the Officer under such incentive compensation plan; multiplied by

(B) the salary that would have been paid to the Officer during each such calendar year at the highest annual rate of salary achieved during the remaining unexpired Assurance Period, such payments to be made without discounting for early payment ..

The Bank and the Officer hereby stipulate that the damages which may be incurred by the Officer following any such termination of employment are not capable of accurate measurement as of the date first above written and that the payments and benefits contemplated by this section 8(b) 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. Such damages shall be payable without any requirement of proof of actual damage and without regard to the Officer's efforts, if any, to mitigate damages. The Bank and the Officer further agree that the Bank may condition the payments and benefits (if any) due under sections 8(b)(iii), (iv), (v), (vi) and (vii) on the receipt of the Officer's resignation from any and all positions which he holds as an officer, director or committee member with respect to the Bank, the Company or any subsidiary or affiliate of either of them.

Section 9. Termination without Severance Benefits.

In the event that the Officer's employment with the Bank shall terminate during the Assurance Period on account of:

(a) the discharge of the Officer for "cause," which, for purposes of this Agreement shall mean personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist order, or any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; *provided, however*, that the Officer shall not be deemed to have been discharged for cause unless and until he shall have received a written notice of termination from the Board, accompanied by a resolution duly adopted by affirmative vote of a majority of the entire Board at a meeting called and held for such purpose (after reasonable notice to the Officer and a reasonable opportunity for the Officer to make oral and written presentations to the members of the Board, on his own behalf, or through a representative, who may be his legal counsel, to refute the grounds for the proposed determination) finding that in the good faith opinion of the Board grounds exist for discharging the Officer for cause; or

(b) the Officer's voluntary resignation from employment with the Bank for reasons other than those specified in section 8(a)(I); or

(c) the Officer's death; or

(d) a determination that the Officer is eligible for long-term disability benefits under the Bank's long-term disability insurance program or, if there is no such program, under the federal Social Security Act; then the Bank shall have no further obligations under this Agreement, other than the payment to the Officer (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 the Officer is entitled as a former employee under the employee benefit plans and programs and compensation plans and programs maintained by, or covering employees of, the Bank.

Section 10. Change of Control.

(a) A Change of Control of the Bank ("Change of Control") shall be deemed to have occurred upon the happening of any of the following events:

(i) the reorganization, merger or consolidation of the Bank, respectively, with one or more other persons, other than a transaction following which:

(A) at least 51% of the equity ownership interests of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the outstanding equity ownership interests in the Bank; and

(B) at least 51% of the securities entitled to vote generally in the election of directors of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the securities entitled to vote generally in the election of directors of the Bank;

(ii) the acquisition of substantially all of the assets of the Bank or beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the outstanding securities of the Bank entitled to vote generally in the election of directors by any person or by any persons acting in concert;

(iii) a complete liquidation or dissolution of the Bank, or approval by the stockholders of the Bank of a plan for such liquidation or dissolution;

(iv) the occurrence of any event if, immediately following such event, at least fifty percent (50%) of the members of the Board do not belong to any of the following groups:

(A) individuals who were members of the Board on the date of this Agreement; or

(B) individuals who first became members of the Board after the date of this Agreement either:

(1) upon election to serve as a member of the Board by affirmative vote of three-quarters (3/4) of the members of such Board, or a nominating committee thereof, in office at the time of such first election; or

(2) upon election by the stockholders of the Board to serve as a member of the Board, but only if nominated for election by affirmative vote of three quarters(3/4) of the members of the Board, or of a nominating committee thereof, in office at the time of such first nomination;

provided, however, that such individual's election or nomination did not result from an actual or threatened election contest (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) other than by or on behalf of the Board of the Bank; or

(v) any event which would be described in section 10(a)(i), (ii), (iii) or (iv) if the term "Holding Company" were substituted for the term "Bank" therein.

(b) In no event, however, shall a Change of Control be deemed to have occurred as a result of any acquisition of securities or assets of the Holding Company, the Bank or any subsidiary of either of them, by the Holding Company, the Bank or any subsidiary of either of them, or by any employee benefit plan maintained by any of them.

Section 11. Excise Tax Indemnification.

(a) This section 11 shall apply if the Officer's employment is terminated in circumstances giving rise to liability for excise taxes under section 4999 of the Code. If this Section 11 applies, then, if for any taxable year, the Officer shall be liable for the payment of an excise tax under section 4999 of the Code with respect to any payment in the nature of compensation made by the Company or any direct or indirect subsidiary or affiliate of the Holding Company to (or for the benefit of) the Officer, the Holding Company shall pay to the Officer an amount equal to X determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

E = the rate at which the 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 11;

FI = the highest marginal rate of income tax applicable to the Officer under the Code for the taxable year in question;

SLI = the sum of the highest marginal rates of income tax applicable to the Officer under all applicable state and local laws for the taxable year in question; and

M = the highest marginal rate of Medicare tax applicable to the Officer under the Code for the taxable year in question.

With respect to any payment in the nature of compensation that is made to (or for the benefit of) the Officer under the terms of this Agreement, or otherwise, and on which an excise tax under section 4999 of the Code will be assessed, the payment determined under this section 11(a) shall be made to the Officer on the earlier of (i) the date the Holding Company or any direct or indirect subsidiary or affiliate of the Holding Company is required to withhold such tax, or (ii) the date the tax is required to be paid by the Officer.

(b) Notwithstanding anything in this section 11 to the contrary, in the event that the Officer'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 determined by the formula $(X + P) \times E$, where X, P and E have the meanings provided in section 11(a), the Officer or the Holding 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 11(a), when increased by the amount of the payment made to the Officer under this section 11(b) by the Holding Company, or when reduced by the amount of the payment made to the Company under this section 11(b) by the Officer, equals the amount that should have properly been paid to the Officer under section 11(a). The interest paid under this section 11(b) shall be determined at the rate provided under section 1274(b)(2)(B) of the Code. To confirm that the proper amount, if any, was paid to the Officer under this section 11, the Officer shall furnish to the Holding Company a copy of each tax return which reflects a liability for an excise tax payment made by the Holding Company, at least 20 days before the date on which such return is required to be filed with the Internal Revenue Service. Any payment pursuant to this Section 11(b) shall in any case be made no later than the last day of the calendar year following the calendar year in which any additional taxes for which the payment is to be made are remitted to the Internal Revenue Service.

(c) The provisions of this section 11 are designed to reflect the provisions of applicable federal, state and local tax laws in effect on the date of this Agreement. If, after the date hereof, there shall be any change in any such laws, this section 11 shall be modified in such manner as the Officer and the Holding Company may mutually agree upon if and to the extent necessary to assure that the Officer is fully indemnified against the economic effects of the tax imposed under section 4999 of the Code or any similar federal, state or local tax.

Section 12. No Effect on Employee Benefit Plans or Programs.

The termination of the Officer's employment during the Assurance Period or thereafter, whether by the Bank or by the Officer, shall have no effect on the rights and obligations of the parties hereto under the Bank's qualified and non-qualified defined benefit or defined contribution retirement plans, 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 any defined contribution plan, employee stock ownership plan, stock option and appreciation rights plan, and restricted stock plan, as may be maintained by, or cover employees of, the Bank from time to time; *provided, however*, that nothing in this Agreement shall be deemed to duplicate any compensation or benefits provided under any agreement, plan or program covering the Officer to which the Bank or the Holding Company is a party and any duplicative amount payable under any such agreement, plan or program shall be applied as an offset to reduce the amounts otherwise payable hereunder.

Section 13. Successors and Assigns.

This Agreement will inure to the benefit of and be binding upon the Officer, his legal representatives and testate or intestate distributes, and the Bank and the Holding 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 Bank or the Holding Company may be sold or otherwise transferred.

Section 14. 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 the Officer:

Mr. Daniel J. Harris

If to the Bank:

The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

If to the Holding Company:

Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, New York 11211
Attention: Corporate Secretary

Section 15. Indemnification and Attorneys' Fees.

The Bank shall indemnify, hold harmless and defend the Officer against reasonable costs, including legal fees, incurred by the Officer in connection with or arising out of any action, suit or proceeding in which the Officer may be involved, as a result of the Officer's efforts, in good faith, to defend or enforce the terms of this Agreement; provided, however, that the Officer shall have substantially prevailed on the merits pursuant to a judgment, decree or order of a court of competent jurisdiction or of an arbitrator in an arbitration proceeding, or in a settlement; *provided, further*, that this section 15 shall not obligate the Bank to pay costs and legal fees on behalf of the Officer under this Agreement in excess of \$20,000. For purposes of this Agreement, any settlement agreement which provides for payment of any amounts in settlement of the Bank's obligations hereunder shall be conclusive evidence of the Officer's entitlement to indemnification hereunder, and any such indemnification payments shall be in addition to amounts payable pursuant to such settlement agreement, unless such settlement agreement expressly provides otherwise. Any payment or reimbursement to effect such indemnification shall be made no later than the last day of the calendar year following the calendar year in which the Officer incurs the expense or, if later, within sixty (60) days after the settlement or resolution that gives rise to the Officer's right to reimbursement; provided, however, that the Officer shall have submitted to the Bank documentation supporting such expenses at such time and in such manner as the Bank may reasonably require.

Section 16. 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.

Section 17. 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 whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder 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.

Section 18. 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.

Section 19. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the federal laws of the United States, and in the absence of controlling federal law, the laws of the State of New York, without reference to conflicts of law principles.

Section 20. 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.

Section 21. 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 Employee Retention Agreement made and entered into as of June 26, 1996. No modifications of this Agreement shall be valid unless made in writing and signed by the parties hereto; *provided, however*, that this Agreement shall be subject to amendment in the future in such manner as the Bank and the Holding Company shall reasonably deem necessary or appropriate to effect compliance with section 409A of the Code and the regulations thereunder, and to avoid the imposition of penalties and additional taxes under section 409A of the Code, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to the Officer on a present value basis.

Section 22. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Bank:

(a) Notwithstanding anything herein contained to the contrary, in no event shall the aggregate amount of compensation payable to the Officer by the Bank under section 8(b) hereof (exclusive of amounts described in section 8(b) (i)) exceed the three times the Officer's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the Bank (or for his entire period of employment with the Bank if less than five calendar years). This section 22(a) shall not affect or limit payments made by the Holding Company hereunder pursuant to sections 8(b), 11 or otherwise. The Holding Company agrees that, if this section 22(a) would limit payments by the Bank to the Officer pursuant to section 8(b) or otherwise, the Holding Company shall make such payments to the Officer.

(b) Notwithstanding anything herein contained to the contrary, any payments to the Officer by the Bank, 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 ("FDI Act"), 12 U.S.C. Sec. 1828(k), and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if the Officer is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Bank pursuant to a notice served under section 8(e)(3) or 8(g) (1) of the FDI Act, 12 U.S.C. Sec. 1818(e)(3) or 1818(g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of Service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Bank, in its discretion, may (i) pay to the Officer all or part of the compensation withheld while the Bank's obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Officer is removed and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. sec. 1818(e)(4) or (g)(1), all prospective obligations of the order, but vested rights and obligations of the Bank and the Officer shall not be effected.

(e) Notwithstanding anything herein contained to the contrary, if the Bank is in default (within the meaning of section 3(x)(1) of the FDI Act, 12 U.S.C. Sec. 1813(x)(1), all prospective obligations of the Bank under this Agreement shall terminate as of the date of default, but vested rights and obligations of the Bank and the Officer shall not be effected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Bank hereunder shall be terminated, except to the extent that a continuation of this Agreement is necessary for the continued operation of the Bank: (i) by the Director of the Office of Thrift Supervision ("OTS") or his designee or the Federal Deposit Insurance Corporation ("FDIC"), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in section 13(c) of the FDI Act, 12 U.S.C. sec. 1823(c); (ii) by the Director of the OTS or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Bank or when the Bank is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent any of the foregoing provisions shall cease to be required by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

Section 23. Guaranty.

The Holding Company hereby irrevocably and unconditionally guarantees to the Officer the payment of all amounts, and the performance of all other obligations, due from the Bank in accordance with the terms of this Agreement as and when due without any requirement of presentment, demand of payment, protest or notice of dishonor or nonpayment. For purposes of this section 23, the application of sections 21(a), (c), (d), (e) or (f) to the Bank shall have no effect on the Holding Company's obligations hereunder.

Section 24. Compliance with Section 409A of the Code.

The Officer, the Bank and the Holding Company acknowledge that each of the payments and benefits promised to the Officer under this Agreement must either comply with the requirements of section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, the Officer, the Bank and the Holding Company agree that:

(a) the expense reimbursements described in section 7 and legal fee reimbursements described in section 15 are intended to satisfy the requirements for a "reimbursement plan" described in Treasury Regulation section 1.409A-3(i)(1)(iv)(A) and shall be administered to satisfy such requirements;

(b) the payment described in section 8(b)(i) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation section 1.409A-1(b)(3) as payment made pursuant to the Bank's customary payment timing arrangement;

(c) the benefits and payments described in section 8(b)(ii) are expected to comply with or be excepted from compliance with Section 409A on their own terms;

(d) the welfare benefits provided in kind under section 8(b)(iii) are intended to be excepted from compliance with Section 409A as welfare benefits pursuant to Treasury Regulation section 1.409A-1(a)(5) and/or as benefits not includible in gross income; and

(e) the tax indemnity payment provided under section 11 is intended to satisfy the requirements for a "tax gross-up payment" described in Treasury Regulation section 1.409A-3(i)(1)(v).

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation section 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of the Officer's termination of employment to the date of actual payment) to and paid on the later of the date sixty (60) days after the Officer's earliest separation from service (within the meaning of Treasury Regulation section 1.409A-1(h)) and, if the Officer is a specified employee (within the meaning of Treasury Regulation section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following the Officer's separation from service. Each amount payable under this plan that is required to be deferred beyond the Officer's separation from service, shall be deposited on the date on which, but for such deferral, the Holding Company would have paid such amount to the Officer, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by the Holding Company with the approval of the Officer (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by the Officer (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

Section 25. Compliance with the Emergency Economic Stabilization Act of 2008.

In the event the Holding Company issues any debt or equity to the United States Treasury ("UST") pursuant to the Capital Purchase Program (the "CPP") implemented under the Emergency Economic Stabilization Act of 2008 ("EESA"), the following provisions shall take precedence over any contrary provisions of this Agreement or any other compensation or benefit plan, program, agreement or arrangement in which the Officer participates:

(a) The Officer shall repay to the Holding Company any bonus or incentive compensation paid to the Officer while (i) the Officer is a senior executive officer (within the meaning of 31 C.F.R. Part 30) ("Senior Executive Officer") and (ii) the UST holds any debt or equity interest in the Holding Company acquired under the CPP (such period, the "CPP Compliance Period"), if and to the extent that such bonus or incentive compensation was paid on the basis of a statement of earnings, gains, or other criteria (each, a "Performance Criterion," and in the aggregate, "Performance Criteria") that are later proven to be materially inaccurate. A Performance Criterion shall be proven to be materially inaccurate if so determined by a court of competent jurisdiction or in the written opinion of an independent attorney or firm of certified public accountants selected by the Holding Company and approved by the Officer (which approval shall not be unreasonably withheld or delayed), which determination shall both state the accurate Performance Criterion and that the difference between the accurate Performance Criterion and the Performance Criterion on which the payment was based is material (a "Determination"). Upon receipt of a Determination, the Holding Company may supply to the Officer a copy of the Determination, a computation of the bonus or other incentive compensation that would have been payable on the basis of the accurate Performance Criterion set forth in the Determination (the "Determination Amount") and a written demand for repayment of the amount (if any) by which the bonus or incentive compensation actually paid exceeded the Determination Amount.

(b) (i) If the Officer's employment terminates in an "applicable severance from employment" (within the meaning of 31 C.F.R. Part 30) while (A) the Officer is a Senior Executive Officer, and (B) the UST holds a debt or equity interest in the Holding Company issued under the CPP, then payments to the Officer that are contingent on such applicable severance from employment and designated to be paid during the CPP Compliance Period shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an "excess parachute payment" within the meaning of section 280G(b)(1) of the Code, as modified by section 280G(e) of the Code, referred to as a "golden parachute payment" under 31 C.F.R. Part 30 (the "Maximum Payment Amount"). Any reduction in payments required to achieve such limit shall be applied to all payments otherwise due hereunder in the reverse chronological order of their payment dates, and where multiple payments are due on the same date, the reduction shall be apportioned ratably among the affected payments. The required reduction (if any) shall be determined in writing by an independent attorney or firm of certified public accountants selected by the Holding Company and approved by the Officer (which approval shall not be unreasonably withheld or delayed).

(ii) To the extent not prohibited by law, the aggregate amount by which payments designated to be paid during the CPP Compliance Period are reduced pursuant to section 25(b)(i) (the "Unpaid Amount") shall be delayed to and shall be paid on the first business day following the last day of the CPP Compliance Period. Pending payment, the Unpaid Amount shall be deposited in a Rabbi Trust. Payment of the Unpaid Amount shall include any investment earnings on the assets of the Rabbi Trust attributable to the Unpaid Amount.

This section 25 shall be operated, administered and construed to comply with section 111(b) of EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the closing date of the agreement, if any, by and between the UST and the Holding Company, under which the UST acquires equity or debt securities of the Holding Company under the CPP (such date, if any, the "Closing Date," and such implementation, the "Relevant Implementation"). If after the Closing Date the clawback requirement of section 25(a) shall not be required by the Relevant Implementation of

section 111(b) of EESA, such requirement shall have no further effect. If after the Closing Date the limitation on golden parachute payments under section 25(b)(i) shall not be required by the Relevant Implementation of section 111(b) of EESA, such limitation shall have no further effect and any Unpaid Amount delayed under section 25(b)(ii) shall be paid on the earliest date on which the Holding Company reasonably anticipates that such amount may be paid without violating such limitation.

IN WITNESS WHEREOF, the Bank and the Holding Company have caused this Agreement to be executed and the Officer has hereunto set his hand, all as of the day and year first above written.

Daniel J. Harris

ATTEST:

THE DIME SAVINGS BANK of WILLIAMSBURGH

By: _____
Secretary
[Seal]
Name : Vincent F. Palagiano
Title : Chairman of the Board & CEO

By: _____

ATTEST:

DIME COMMUNITY BANCSHARES, INC.

By: _____
Secretary
[Seal]
Title : Chairman of the Board & CEO

By: _____
Name : Vincent F. Palagiano

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STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Daniel J. Harris, to me known, and known to me to be the individual described in the foregoing instrument, who, being by me duly sworn, did depose and say that he resides at the address set forth in said instrument, and that he signed his name to the foregoing instrument.

Notary Public

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Vincent F. Palagiano to me known, who, being by me duly sworn, did depose and say that he resides at 44 Dorenzo Court, Staten Island, N.Y., that he is a member of the Board of Directors of THE DIME SAVINGS BANK OF WILLIAMSBURGH, the savings bank described in and which executed the foregoing instrument; that he knows the seal of said mutual savings bank; that the seal affixed to said instrument is such seal; that it was so affixed by authority of the Board of Directors of said savings bank; and that he signed his name thereto by like authority.

Notary Public

STATE OF NEW YORK)
:ss.:
COUNTY OF KINGS)

On this ____ day of _____, 2008 before me personally came Vincent F. Palagiano, to me known, who, being by me duly sworn, did depose and say that he resides at 44 Dorenzo Court, Staten Island, N. Y., that he is a member of the Board of Directors of DIME COMMUNITY BANCSHARES, INC., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such seal; that it was so affixed by order of the Board of Directors of said corporation; and that he signed his name thereto by like order.

Notary Public

DIME COMMUNITY BANCSHARES, INC.
ANNUAL INCENTIVE PLAN
Amended and Restated as of December 31, 2008

SECTION 1. Purpose.

The purpose of the Dime Community Bancshares, Inc. ("Dime") Annual Incentive Plan (the "Plan") is to provide incentives for senior executives and other key employees whose performance in fulfilling the responsibilities of their positions can have a major impact on the profitability and future growth of Dime (the "Company"). The Plan is part of an overall compensation program which ties the achievement of annual strategic and operating goals with compensation. Effective as of December 31, 2008, this Plan is amended and restated in order to comply with the applicable requirements of section 409A of the Internal Revenue Code of 1986, as amended ("Code").

SECTION 2. Definitions.

For the purposes of the Plan, the following terms shall have the meanings indicated:

"Award" shall mean the payment of an award by the Committee to a Participant pursuant to Section 4.

"Applicable Period" shall mean, with respect to any Award Year, a period commencing on or before the first day of such Award Year and ending no later than the earlier of (i) the 90th day of such Award Year or (ii) the date on which 25% of such Award Year has been completed. Any action required under the Plan to be taken within the period specified in the previous sentence may be taken at a later date with respect to Participants who are not Covered Officers and with respect to Covered Officers if Section 162(m) is amended to permit such later date.

"Award Year" shall mean any fiscal year, or other performance period designated by the Committee, with respect to the Company's performance in which an Award is granted.

"Board" shall mean the Board of Directors of the Company.

"Committee" shall mean the Committee designated pursuant to Section 3. Unless otherwise determined by the Board, the Compensation Committee designated by the Board shall be the Committee under the Plan.

"Covered Officer" shall mean at any date (i) any individual who, with respect to the previous taxable year of the Company, was a "covered employee" of the Company within the meaning of Section 162(m), as hereinafter defined; provided, however, that the term "Covered Officer" shall not include any such individual who is designated by the Committee, in its discretion, at the time of any Award or at any subsequent time, as reasonably expected not to be such a "covered employee" with respect to the current taxable year of the Company and (ii) any individual who is designated by the Committee, in its discretion, at the time of any Award or at any subsequent time, as reasonably expected to be such a "covered employee" with respect to the current taxable year of the Company or with respect to the taxable year of the Company in which any applicable Award will be paid.

"Individual Award Opportunity" shall mean the performance-based award opportunity for a Participant for a given Award Year as specified by the Committee within the Applicable Period, which may be expressed in dollars or on a formula basis that is consistent with the provisions of this Plan.

"Participant" shall mean a senior executive or other key employee of the Company selected by the Committee in accordance with Section 4(a) who receives an Individual Award Opportunity.

"Section 162(m)" shall mean Section 162(m) of the Internal Revenue Code of 1986 and the rules promulgated thereunder or any successor provision thereto as in effect from time to time.

SECTION 3. Administration.

(a) Committee. Subject to the authority and powers of the Board in relation to the Plan as hereinafter provided, the Plan shall be administered by a Committee designated by the Board consisting of two or more members of the Board each of whom is an "outside director" within the meaning of Section 162(m). The Committee shall have full authority to interpret the Plan and from time to time to adopt such rules and regulations for carrying out the Plan as it may deem best, including without limitation:

- (i) to designate Participants and Individual Award Opportunities and/or bonus pool award opportunities;
- (ii) to designate and thereafter administer the performance goals and other Award terms and conditions;
- (iii) to determine and certify the bonus amounts earned for any Award Year;
- (iv) to determine the effect on an Award of a termination of employment; and

(v) to decide whether, under what circumstances, and subject to what terms, bonus payouts are to be paid on a deferred basis, including automatic deferrals at the Committee's election as well as elective deferrals at the election of Participants.

(b) Committee Determinations. All determinations by the Committee shall be made by the affirmative vote of a majority of its members, but any determination reduced to writing and signed by a majority of the members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held. All decisions by the Committee pursuant to the provisions of the Plan and all orders or resolutions of the Board pursuant thereto shall be final, conclusive and binding on all persons, including the Participants, the Company and its subsidiaries, and stockholders.

SECTION 4. Eligibility for and Payment of Awards.

(a) Eligible Employees. Subject to the provisions of the Plan, within the Applicable Period, the Committee may select officers or employees of the Company or any of its subsidiaries who will be eligible to earn Awards under the Plan with respect to such year and determine the amount of the Individual Award Opportunities and the conditions under which they may be earned.

(b) Payment of Awards. Awards under the Plan shall be paid in cash or shares of Company stock, subject to applicable withholding taxes, on May 15th of the calendar year following the end of the Plan Year.

The Committee may require that a Participant must still be employed as of the end of the Award Year and/or the date on which the bonus is calculated, in

order to be eligible for an award for such Award Year and the Committee may adopt such forfeiture, proration or other rules as it deems appropriate, in its sole discretion, regarding the impact on an Award of a Participant's termination of employment. In such event, the shares of Company stock delivered in payment of an award that has been earned shall have an aggregate fair market value (determined as of the date the award is earned) equal to the dollar amount of the earned award, and fair market value for this purpose shall be determined on the basis of the closing sales price for a share of Company common stock on the relevant date (or if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) as reported in the principal consolidated reporting system with respect to securities listed or admitted to trading on the principal United States securities exchange on which the Shares are listed or admitted to trading (including the Nasdaq Stock Market as a national securities exchange for this purpose), as of the close of the market in New York City and without regard to after-hours trading activity.

(c) During the Applicable Period, the Committee shall establish the Individual Award Opportunities for such Award Year, which shall be based on achievement of stated target performance goals, and may be stated in dollars or on a formula basis.

(d) Awards to Covered Officers.

(i) Notwithstanding the provisions of Sections 4(a), 4(b), and 4(c) hereof, any Award to any Covered Officer shall be granted in accordance with the provisions of this Section 4(d). Subject to the discretion of the Committee as set forth in Section 6(b) hereof, the maximum amount of the Award that may be granted with respect to any Award Year to any Covered Officer at the time of such grant shall be \$1,500,000.

(ii) Any provision of the Plan to the contrary notwithstanding, no Covered Officer shall be entitled to any payment of an Award with respect to an Award Year unless the members of the Committee shall have certified in accordance with Section 162(m) the extent to which the applicable performance goals have been satisfied.

SECTION 5. Performance Goals

For any given Award Year, the Committee shall, within the Applicable Period, set one or more objective performance goals for each Participant and/or each group of Participants and/or each bonus pool (if applicable). The performance goals shall be limited to one or more of the following Company, subsidiary, operating unit or division financial performance measures:

- (i) earnings per share *
- (ii) net income *
- (iii) return on average equity *
- (iv) return on average assets *
- (v) core earnings *
- (vi) stock price
- (vii) operating income
- (viii) operating efficiency ratio;
- (ix) net interest rate spread;
- (x) loan production volumes;
- (xi) non-performing loans;
- (xii) cash flow;
- (xiii) strategic business objectives, consisting of one or more objectives based on meeting specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures
- (xiv) except in the case of a Covered Officer, any other performance criteria established by the Committee
- (xv) any combination of (i) through (xiv) above.

* Performance goals indicated may be established on the basis of reported earnings or cash earnings.

Each goal may be expressed on an absolute and/or relative basis, may be based on or otherwise employ comparisons based on internal targets, the past performance of the Company and/or the past or current performance of other companies.

SECTION 6. General Provisions.

(a) Adjustments. If the performance criteria for any Award Year shall have been affected by special factors (including material changes in accounting policies or practices, material acquisitions or dispositions of property, or other unusual items) that in the Committee's judgment should or should not be taken into account, in whole or in part, in the equitable administration of the Plan, the Committee may, for any purpose of the Plan, adjust such criteria and make payments accordingly under the Plan.

(b) No Adjustments for Covered Officers. Notwithstanding the provisions of subparagraph (a) above, any adjustments made in accordance with or for the purposes of subparagraph (a) shall be disregarded for purposes of calculating the performance criteria if and to the extent that such adjustments would have the effect of increasing the amount of an Award to a Covered Officer. In addition, the Committee may, in the exercise of its discretion, reduce or eliminate the amount of an Award to a Covered Officer otherwise calculated in accordance with the provisions of Section 4(d) prior to payment thereof.

(c) No Assignment. No portion of any Award under the Plan may be assigned or transferred otherwise than by will or by the laws of descent and distribution prior to the payment thereof.

(d) Tax Requirements. All payments made pursuant to the Plan shall be subject to withholding in respect of income and other taxes required by law to

be withheld, in accordance with procedures to be established by the Committee.

(e) **No Additional Participant Rights.** The selection of an individual for participation in the Plan shall not give such Participant any right to be retained in the employ of the Company or any of its subsidiaries, and the right of the Company or any such subsidiary to dismiss or discharge any such Participant, or to terminate any arrangement pursuant to which any such Participant provides services to the Company is specifically reserved. The benefits provided for Participants under the Plan shall be in addition to, and shall in no way preclude, other forms of compensation to or in respect of such Participants.

(f) **Liability.** The Board and the Committee shall be entitled to rely on the advice of counsel and other experts, including the independent accountants for the Company. No member of the Board or of the Committee or any officers of the Company or its subsidiaries shall be liable for any act or failure to act under the Plan, except in circumstances involving bad faith on the part of such member or officer.

(g) **Other Compensation Arrangements.** Nothing contained in the Plan shall prevent the Company or any subsidiary or affiliate of the Company from adopting or continuing in effect other compensation arrangements, which arrangements may be either generally applicable or applicable only in specific cases.

(h) **Governing Law.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware.

SECTION 7. Amendment and Termination of the Plan.

The Board may at any time terminate, in whole or in part, or from time to time amend the Plan, provided that, except as otherwise provided in the Plan, no such amendment or termination shall adversely affect the rights of any Participant under any Awards deferred by such Participant pursuant to Section 4(b). In the event of such termination, in whole or in part, of the Plan, the Committee may in its sole discretion direct the payment to Participants of any Awards not theretofore paid out prior to the respective dates upon which payments would otherwise be made hereunder to such Participants, in a lump sum or installments as the Committee shall prescribe with respect to each such Participant. The Board may at any time and from time to time delegate to the Committee any or all of its authority under this Section 6. Any amendment to the Plan that would affect any Covered Officer shall be approved by the Company's stockholders if required by and in accordance with Section 162(m).

SECTION 8. Re-approval by Shareholders.

Any material terms of the performance goals described in Section 5 shall be disclosed to and re-approved by shareholders no later than the first shareholder meeting that occurs in the fifth year following the year in which shareholders previously approved the performance goals.

SECTION 9. Section 409A Compliance.

Dime acknowledges that the payments promised to the Participants under this Plan must either comply with the requirements of section 409A of the Code ("Section 409A") and the regulations thereunder or qualify for an exception from compliance. To that end, Dime asserts that the payment described in section 4(b) of this Plan is intended to be a payment upon a specified time or fixed schedule pursuant to Section 409A(a)(2)(A)(iv). In the case of a payment promised under this Plan that is not exempt from Section 409A, and that is to be paid upon a separation from service (within the meaning of Treasury Regulation 1.409A-1(h)) to a Participant who is a specified employee within the meaning of section 409A of the Code at the time of such separation from service, such payment shall not be made prior to, and shall, if necessary, be deferred (with interest at the annual rate of 6%, compounded monthly from the date of separation from service to the date of actual payment) to and paid on the first day of the seventh month to begin after the separation from service and, if the Participant is a specified employee (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of his separation from service, the first day of the seventh month following the Participant's separation from service. Each amount payable under this plan that is required to be deferred beyond the Participant's separation from service, shall be deposited on the date on which, but for such deferral, Dime would have paid such amount to the Participant, in a grantor trust which meets the requirements of Revenue Procedure 92-65 (as amended or superseded from time to time), the trustee of which shall be a financial institution selected by Dime with the approval of the Participant (which approval shall not be unreasonably withheld or delayed), pursuant to a trust agreement the terms of which are approved by the Participant (which approval shall not be unreasonably withheld or delayed) (the "Rabbi Trust"), and payments made shall include earnings on the investments made with the assets of the Rabbi Trust, which investments shall consist of short-term investment grade fixed income securities or units of interest in mutual funds or other pooled investment vehicles designed to invest primarily in such securities. Furthermore, this Plan shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

AMENDMENT NUMBER FIVE
TO
THE DIME SAVINGS BANK OF WILLIAMSBURGH
401(k) SAVINGS PLAN

Pursuant to Section 11.1 of The Dime Savings Bank of Williamsburgh 401(k) Savings Plan, As Amended and Restated Effective April 1, 2001, Including Provisions Effective Retroactive to January 1, 1997 ("Plan"), the Plan is amended, effective as of January 1, 2009:

1. INTRODUCTION – The last sentence of the sixteenth paragraph of the Introduction shall be amended in its entirety to read as follows:

In addition, the Plan complies with final regulations under Code Section 401(a)(9), IRS procedural guidance (Notice 2005-5) addressing required "automatic rollovers" under Section 401(a)(31)(B) of the Code, 2006 final regulations under Code Section 401(k) and Code Section 401(m) and Code Section 402A addressing the optional treatment of elective deferrals as Roth Contributions.

- 2 . INTRODUCTION – The Introduction shall be further amended by adding the following new paragraph as the seventeenth paragraph to read as follows and all subsequent paragraphs of the Introduction shall follow accordingly:

Effective January 1, 2009, Roth Contributions shall be available to Participants for deferral.

3. ARTICLE I – Section 1.1, the definition of "Accounts," shall be amended by adding the following new sentence to the end thereof to read as follows:

Effective January 1, 2009, Accounts shall also include the Roth Contribution Account.

- 4 . ARTICLE I – Section 1.3, the definition of "Actual Deferral Percentage," shall be amended by adding the words "Roth Contributions" immediately following the words Before-Tax Contributions.

- 5 . ARTICLE I – Section 1.7, the definition of Allocation Compensation, shall be amended by adding the following new paragraph as the second paragraph and the former second paragraph shall follow accordingly:

Allocation Compensation shall exclude any amount included in reported compensation as a result of the grant or vesting of restricted stock, the exercise of stock options or disqualifying dispositions of incentive stock options.

- 6 . ARTICLE I – The first paragraph of Section 1.18, the definition of Compensation, shall be amended by adding the words "and effective January 1, 2009, Elective Contributions" immediately following the words "Before-Tax Contributions."

- 7 . ARTICLE I – Article I shall be amended by adding the following new definition as Section 1.24 to read as follows and the former Section 1.24, all subsequent sections of Article I and any cross references thereto shall follow accordingly:

1.24 Elective Contributions means, with respect to any taxable year, the sum of Before-Tax Contributions and Roth Contributions, as set forth under Section 3.1.

8. ARTICLE I – Article I shall be amended by adding the following as the new Sections 1.64 and 1.65 to read as follows and the former Sections 1.64 and 1.65, all subsequent sections of Article I and any cross references thereto shall follow accordingly:

- 1.64 Roth Contribution Account means the separate, individual account established on behalf of a Participant to which Roth Contributions and Catch-Up Contributions, if any, made by the Participant are credited, together with all earnings and appreciation thereon, and against which are charged any withdrawals, loans and other distributions made from such account and any losses, depreciation or expenses allocable to amounts credited to such account. Earnings and appreciation credited on Roth Contributions are before-tax amounts.
- 1.65 Roth Contributions means, effective January 1, 2009, the after-tax contributions made in accordance with the Compensation Reduction Agreements of Participants pursuant to Section 3.1. Roth Contributions shall be treated as elective deferrals for all purposes under the Plan. A Roth Contribution is an elective deferral that is:

- (a) designated irrevocably by the Participant at the time of the cash or deferral election as a Roth elective deferral that is being made instead of all or a portion of the Before-Tax Contributions the Participant is otherwise eligible to make under the Plan; and
- (b) treated by the Employer as includible in the Participant's income at the time the Participant would have received that amount in cash if the Participant had not made a cash or deferred election.

9. ARTICLE II – Section 2.3 shall be amended by adding the following new paragraphs to the end thereof to read as follows:

Effective January 1, 2009 and except as hereafter provided with respect to Plan Years in which a Safe Harbor Nonelective Contribution is made in accordance with Section 3.12, an Eligible Employee may elect to participate as of the first day of any payroll period of any calendar month following satisfaction of the eligibility requirements set forth in Section 2.1, and either: (a) an election for Before-Tax Contributions and/or Roth Contributions in accordance with Section 3.1, or (b) eligibility for Special Contributions in accordance with Section 3.5.

An election for Before-Tax Contributions and/or Roth Contributions shall be evidenced by completing and filing the form or forms (including electronic forms) prescribed by the Committee not less than ten (10) days prior to the date participation is to commence. Such form or forms shall include, but not be limited to, a Compensation Reduction Agreement, a designation of Beneficiary, and an investment direction as described in Section 6.1. By completing and filing such form or forms, the Eligible Employee authorizes the Employer to make the applicable payroll deductions from Compensation, commencing on the first applicable payday coincident with or next following the effective date of the Eligible Employee's election to participate. In the case of Special Contributions and/or Safe Harbor Nonelective Contributions, a Participant shall complete a form or forms prescribed by the Committee, designating a Beneficiary and an investment direction as described in Section 6.1. Employees of an Acquired Company who are eligible to participate on the date of the transaction by which such company became an Acquired Company, may also elect to participate as of the first day of the payroll period in which such transaction occurs.

For any Plan Year in which a Safe Harbor Nonelective Contribution is made in accordance with Section 3.12, all Employees who meet the requirements of an Eligible Employee during such Plan Year shall participate in the Plan.

10. ARTICLE III – The heading of Section 3.1 shall be amended by adding “and Effective January 1, 2009, Elective Contributions” immediately following the words “Before-Tax Contributions” and the Table of Contents shall be revised accordingly.

11. ARTICLE III – Section 3.1 shall be amended by adding the following new paragraph to the end thereof to read as follows:

Effective January 1, 2009, the Employer shall make Before-Tax Contributions and/or after-tax Roth Contributions for each payroll period in an amount equal to the amount by which a Participant's Compensation has been reduced with respect to such period under his Compensation Reduction Agreement. Subject to the limitations set forth in Sections 3.2 and 3.11, the amount of reduction authorized by the Eligible Employee shall be whole percentages and/or fractions thereof of Compensation and shall not be less than one percent (1%) nor greater than twenty-five percent (25%). The Before-Tax Contributions, if any, made on behalf of a Participant shall be credited to such Participant's Before-Tax Contribution Account and shall be invested in accordance with Article VI of the Plan. The Roth Contributions, if any, made by a Participant shall be credited to such Participant's Roth Contribution Account, and shall be invested in accordance with Article VI of the Plan.

12. ARTICLE III – The heading of Section 3.2 shall be amended by adding “and Effective January 1, 2009, Limitation on Elective Contributions” immediately following the words “Before-Tax Contributions” and the Table of Contents shall be revised accordingly.

13. ARTICLE III – The portion of Section 3.2(a) that precedes the first colon shall be amended in its entirety to read as follows:

Except as provided in Section 3.2(e), commencing January 1, 1997 and prior to January 1, 2009, the percentage of Before-Tax Contributions made on behalf of a Participant who is a Highly Compensated Employee shall be limited so that the Average Actual Deferral Percentage for the group of such Highly Compensated Employees for the Plan Year does not exceed the greater of:

14. ARTICLE III – The penultimate sentence of Section 3.2(b) shall be amended by adding the words “and effective January 1, 2009, Elective Contributions” immediately following the words “Before-Tax Contributions.”

15. ARTICLE III – Section 3.2(c) shall be amended by adding the following new paragraph to the end thereof to read as follows:

Effective January 1, 2009, if Elective Contributions made on behalf of a Participant during any Plan Year exceed the dollar limitation set forth in subsection (b), such contributions, including any earnings thereon as determined under Section 3.8, shall be characterized as Compensation payable to the Participant and shall be paid to the Participant from his Before-Tax Contribution Account and/or Roth Contribution Account no later than April 15th of the calendar year following the close of such Plan Year. Distribution of excess Elective Contributions for a year shall be made to the Participant first from his Before-Tax Contribution Account, then from his Roth Contribution Account or a combination of both his Before-Tax Contribution Account and Roth Contribution Account, unless the Participant specifies otherwise.

16. ARTICLE III – Section 3.2 shall be further amended by adding the following new subsection (e) to the end thereof to read as follows:

- (e) Effective January 1, 2009, the percentage of Elective Contributions made on behalf of a Participant who is a Highly Compensated Employee shall be limited so that the Average Actual Deferral Percentage for the group of such Highly Compensated Employees for the Plan Year does not exceed the greater of:
- (i) the Average Actual Deferral Percentage for the group of Eligible Employees who were Non-Highly Compensated Employees for the preceding Plan Year multiplied by 1.25; or
 - (ii) the Average Actual Deferral Percentage for the group of Eligible Employees who were Non-Highly Compensated Employees for the preceding Plan Year multiplied by two (2), provided, that the difference in the Average Actual Deferral Percentage for eligible Highly Compensated Employees and eligible Non-Highly Compensated Employees does not exceed two percent (2%).

The preceding Plan Year testing method can only be modified if the Plan meets the requirements for changing to current Plan Year testing as set forth in Code Section 401(k) and final Regulations under Section 1.401(k)-2, or any successor future guidance issued by the Internal Revenue Service.

The above subsections (i) and (ii) shall be subject to the distribution provisions of the last paragraph of Section 3.11(f).

The amount of excess Elective Contributions attributable to a given Highly Compensated Employee for a Plan Year is the amount, if any, by which the Highly Compensated Employee's Elective Contributions taken into account under this Section 3.2(e) must be reduced for the Highly Compensated Employee's Actual Deferral Ratio to equal the highest permitted Actual Deferral Ratio under the Plan. To calculate the highest permitted Actual Deferral Ratio, the Actual Deferral Ratio of the Highly Compensated Employee with the highest Actual Deferral Ratio is reduced by the amount required to cause the Highly Compensated Employee's Actual Deferral Ratio to equal the Actual Deferral Ratio of the Highly Compensated Employee with the next highest Actual Deferral Ratio. If a lesser reduction would satisfy the Actual Deferral Percentage test, only this lesser reduction is used in determining the highest permitted Actual Deferral Ratio.

The process described in the preceding paragraph must be repeated until the Actual Deferral Percentage test is satisfied. The sum of all reductions for all Highly Compensated Employees determined under the preceding paragraph is the total amount of excess Elective Contributions for the Plan Year.

For purposes of this Section 3.2(e), the Actual Deferral Ratio of an eligible Employee for a Plan Year is the sum of the Employee's Elective Contributions taken into account for such year, and the Special Contributions taken into account for such year, divided by the Employee's Compensation taken into account for such year. For purposes of this Section 3.2(e), Compensation means compensation as defined under Regulations Section 1.414(s)-1(c)(2) and (4), including the Employee's wages, salary, fees for professional services and other amounts received for personal services actually rendered in the course of employment with the Employer to the extent that such amounts are includible in gross income, (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan, but excluding contributions made by the Employer to any other pension, deferred compensation, welfare or other employee benefit plan, amounts realized from the exercise of a nonqualified stock option or the sale of a qualified stock option, and other amounts which receive special tax benefits. If no Elective Contributions or Special Contributions are taken into account for the eligible Employee for the Plan Year, the eligible Employee's Actual Deferral Ratio is equal to zero (0).

If Elective Contributions made on behalf of a Participant during any Plan Year exceed the maximum amount applicable to a Participant as set forth above, any such contributions, including any earnings thereon as determined under Section 3.8, shall be characterized as Compensation payable to the Participant and shall be paid to the Participant from his Before-Tax Contribution Account and/or Roth contribution Account, as applicable, no later than two and one-half (2-1/2) months after the close of such Plan Year. Distribution of excess Elective Contributions for a year shall be made to the Participant first from his Before-Tax Contribution Account, then from his Roth Contribution Account, or a combination of both his Before-Tax Contribution Account and Roth Contribution Account, unless the Participant specifies otherwise.

Excess Elective Contributions shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to excess Elective Contributions is the sum of: (i) income or loss allocable to the Participant's Before-Tax Contribution Account and/or Roth Contribution Account, if implemented, for the taxable year multiplied by a fraction, the numerator of which is such Participant's excess Elective Contributions for the year and the denominator is the Participant's Account balance attributable to Elective Contributions without regard to any income or loss occurring during such taxable year; and (ii) ten percent (10%) of the amount determined under subsection (i)

multiplied by the number of whole calendar months between the end of the Participant's taxable year and the date of distribution, counting the month of distribution if distribution occurs after the fifteenth (15th) of such month.

The amount of excess Elective Contributions to be distributed or recharacterized shall be reduced by excess Elective Contributions previously distributed for the taxable year ending in the same Plan Year and excess Elective Contributions to be distributed for a taxable year shall be reduced by excess Elective Contributions previously distributed or recharacterized for the Plan Year beginning in such taxable year.

In the event that the Plan satisfies the requirements of Section 401(k), 401(a)(4) or 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of Section 401(k), 401(a)(4) or 410(b) of the Code only if aggregated with the Plan, then this Section 3.2(e) shall be applied by determining the Actual Deferral Percentages of Eligible Employees as if all such plans were a single plan.

If any Highly Compensated Employee is a Participant in two (2) or more cash or deferred arrangements of the Employer, for purposes of determining the Actual Deferral Percentage with respect to such Highly Compensated Employee, all cash or deferred arrangements shall be treated as one (1) cash or deferred arrangement.

If applicable, in the event the Plan is disaggregated into separate plans under the rules of Section 410(b) of the Code, then each separate plan can apply a different testing method.

If applicable, additional Elective Contributions that are made by reason of a Participant's qualified military service pursuant to Section 414(u) of the Code, shall not be taken into account under the Actual Deferral Percentage test.

If applicable, Special Contributions may be taken into account in determining the Actual Deferral Ratio for an Eligible Employee for a Plan Year, but only to the extent such Special Contributions satisfy the requirements set forth in Sections 1.401(k)-2(a)(6)(i), (ii), (iii) and (iv) of the Treasury regulations.

17. ARTICLE III – The heading of Section 3.3 shall be amended by adding “and Effective January 1, 2009, Changes in Elective Contributions” immediately following the words “Before-Tax Contributions” and the Table of Contents shall be revised accordingly.

18. ARTICLE III – Section 3.3 shall be amended by adding the following new paragraphs to the end thereof to read as follows:

Effective January 1, 2009, unless (a) an election is made to the contrary, or (b) a Participant receives a Hardship distribution pursuant to Section 7.3(c)(iii), the percentage of Elective Contributions made under the third paragraph of Section 3.1 shall continue in effect as long as the Participant has a Compensation Reduction Agreement in force. A Participant who has a Compensation Reduction Agreement in force may, by completing the applicable form (including an electronic version), prospectively increase or decrease the rate of Elective Contributions to any of the percentages authorized under the third paragraph of Section 3.1 or suspend Elective Contributions without withdrawing from participation in the Plan. Such election must be filed at least ten (10) days prior to the first day of the payroll period with respect to which such change is to become effective. A Participant who has Elective Contributions suspended may resume such contributions by completing and filing the applicable form (including an electronic version). An election may be made at any time which would prospectively increase, decrease, suspend or resume Elective Contributions of a Participant. A Participant may terminate his Elective Contributions at any time.

Elective Contributions based on Compensation for the period during which such contributions had been suspended or decreased may not be made up at a later date.

19. ARTICLE III – The first two paragraphs of Section 3.8 and Section 3.8(a) shall be amended by adding the words “and effective January 1, 2009, and/or Roth Contributions,” immediately following the words “Before-Tax Contributions,” wherever such words appear therein.

20. ARTICLE III – Sections 3.8(a) shall be amended by adding the words “and effective January 1, 2009, and/or Roth Contribution Account,” immediately following the words “Before-Tax Contribution Account,” wherever such words appear therein.

21. ARTICLE III – Section 3.8(b) shall be amended by adding the words “Prior to January 1, 2009,” immediately preceding the beginning of such subsection and by adding the following new paragraph to the end thereof to read as follows:

Effective January 1, 2009, the amount of earnings attributable to the Participant's Before-Tax Contribution Account and/or Roth Contribution Account for the period commencing with the first day of the Plan Year in which payment is made to the Participant and ending with the date of payment to the Participant multiplied by a fraction, the numerator of which is the excess Before-Tax Contributions and Special Contributions made to the Before-Tax Contribution Account and/or Roth Contributions made to the Roth Contribution Account on the Participant's behalf during the Plan Year immediately preceding the Plan Year in which the payment is made to the Participant, and the denominator of which is the Net Value of the Participant's Before-Tax Contribution Account and/or Roth Contribution Account on the first day of the Plan Year in which the payment is made

to the Participant.

2 2 . ARTICLE III – The first paragraph of Section 3.9 shall be amended by adding the words “and effective January 1, 2009, and/or Roth Contributions,” immediately following the words “Before-Tax Contributions.”

23. ARTICLE III – Section 3.11(a)(i)(B) shall be amended in its entirety to read as follows:

(B) Roth Contributions and any other Employee contributions;

24. ARTICLE III – Sections 3.11(a)(i)(I) and (II), Section 3.11(e)(i) shall be amended by adding the words “and effective January 1, 2009, and/or Roth Contributions,” immediately following the words “Before-Tax Contributions.”

25. ARTICLE III – Section 3.11(f) shall be amended by adding the words “and effective January 1, 2009, Elective Contributions” immediately following the words “Before-Tax Contributions” wherever such words appear therein.

2 6 . ARTICLE III – The first paragraph of Section 3.12 shall be amended by adding the following new sentence immediately preceding the last sentence thereof to read as follows:

Effective January 1, 2009, Safe Harbor Nonelective Contributions, if any, shall no longer be made to The Employees Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates.

27. ARTICLE IV – Section 4.1(a) shall be amended by adding the words “effective January 1, 2009, the Net Value of his Roth Contribution Account” immediately following the words “the Net Value of his Before-Tax Contribution Account.”

28. ARTICLE IV – The first paragraph of Section 4.2 shall be amended by adding the following new sentence to the end thereof to read as follows:

In no event shall Forfeitures be allocated to a Participant’s Roth Contribution Account.

2 9 . ARTICLE V – The second paragraph of Section 5.3 shall be amended by adding the words “, Roth Contributions,” immediately following the words “Before-Tax Contributions.”

30. ARTICLE VI – The first paragraph of Section 6.1 shall be amended by adding the words “, Roth Contributions,” immediately following the words “Before-Tax Contributions.”

31. ARTICLE VI – Section 6.2, 6.3 and 6.4(b) shall be amended by adding the words “and effective January 1, 2009,” immediately following the words “June 30, 2001,” wherever such words appear therein.

32. ARTICLE VII – Section 7.1 shall be amended by adding the following new subsection (e) to read as follows:

(e) A distribution from a Participant's designated Roth Contribution Account, that meets the requirements of a qualified distribution, shall not be includible in the Participant's gross income. For purposes of this Article VII, a qualified distribution is a distribution that is both:

- (i) made after the 5-taxable year period of participation, as defined in A-4 of Treasury Regulations Section 1.402A-1, has been completed; and
- (ii) made on or after the date the Participant attains age fifty-nine and one-half (59-1/2), made to a Beneficiary or the estate of the Participant on or after the Participant's death, or attributable to the Participant's being disabled within the meaning of Internal Revenue Code Section 72(m)(7).

3 3 . ARTICLE VII – Section 7.2(a) shall be amended by adding the following as the new subsections (iii) and (iv) and the former subsections (iii) and (iv) and all subsequent subsections of Section 7.2(a) shall follow accordingly:

(iii) the lesser of: (A) his Roth Contributions and (B) the Net Value of his Roth Contribution Account, if any;

(iv) the Net Value of his Roth Contribution Account not withdrawn under subsection (iii) above;

3 4 . ARTICLE VII – Section 7.2(c), Section 7.3(c)(ii)(C), Section 7.3(g) and Section 7.3(h) shall be amended by adding the words “and effective January 1, 2009, Elective Contributions” immediately following the words “Before-Tax Contributions.”

3 5 . ARTICLE VII – Section 7.3(d) shall be amended by adding the following as the new subsection (ii) and the former subsection (ii) and all subsequent subsections of Section 7.3(d) shall follow accordingly:

(ii) Roth Contribution Account,

3 6 . ARTICLE VII – Section 7.3(e) shall be amended by adding the following as the new subsection (ii) and the former subsection (ii) and all subsequent subsections of Section 7.3(e) shall follow accordingly:

(ii) the Participant's Roth Contribution Account;

37. ARTICLE VII – Section 7.8(a), shall be amended in its entirety to read as follows:

- (a) "Direct Rollover" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee. The Plan will not provide for a Direct Rollover for distributions from a Participant's Roth Contribution Account if the amount of the distributions that are Eligible Rollover Distributions are reasonably expected to total less than \$200 during a year. In addition, any distribution from a Participant's Roth Contribution Account is not taken into account in determining whether distributions from the Participant's other Accounts are reasonably expected to total less than \$200 during a year.

38. ARTICLE VII – Section 7.8(c) shall be amended by adding the following new paragraph as the second paragraph to read as follows:

Notwithstanding the foregoing, if any portion of an Eligible Rollover Distribution is attributable to payments or distributions from an Employee's Roth Contribution Account, Eligible Retirement Plan, with respect to such portion, means only (i) another designated Roth contribution account under an applicable retirement plan described in Code Section 402A(e)(1) or (ii) a Roth IRA described in Code Section 408A, and only to the extent the Eligible Rollover Distribution is permitted under Code Section 402(c).

39. ARTICLE VII – Section 7.8(d) shall be amended by adding the following new paragraph as the second paragraph to read as follows:

Eligible Rollover Distributions from a Participant's Roth Contribution Account are taken into account in determining whether the vested interest in the Net Value of the Employee's Accounts is less than or equal to one thousand dollars (\$1,000) for purposes of determining distributions pursuant to Sections 7.5 and 7.6.

4 0 . ARTICLE VIII – Section 8.2 and Section 8.6(c) shall be amended by adding the words “, Roth Contribution Account,” immediately following the words “Before-Tax Contribution Account.”

4 1 . ARTICLE VIII – Section 8.4(b) shall be amended by adding the following as the new subsection (iii) and the former subsection (iii) and all subsequent subsections of Section 8.4(b) shall follow accordingly:

(iii) Roth Contribution Account;

4 2 . ARTICLE VIII – Section 8.6(c) shall be amended by adding the words “and effective January 1, 2009, Elective Contributions” immediately following the words “Before-Tax Contributions.”

4 3 . ARTICLE XII – Section 12.3(a) shall be amended by adding the words “, Roth Contributions” immediately following the last two references to “Special Contributions” therein.

4 4 . ARTICLE XII – Section 12.3(c)(iii) shall be amended by adding the words “and effective January 1, 2009, Elective Contributions” immediately following the words “Before-Tax Contributions.”

4 5 . ARTICLE XII – Section 12.3(d) shall be amended by adding the words “and/or Roth Contributions” immediately following the words “Before-Tax Contributions.”

46. ADDENDUM A – Item 4 of Addendum A, the definition of “Rollover Contribution Account” shall be amended in its entirety to read as follows:

Effective January 1, 2002, the Plan will additionally accept Eligible Rollover Contributions and/or direct rollovers of distributions from the following types of plans: (i) an annuity contract described in Section 403(b) of the Code (excluding after-tax Employee contributions); (ii) an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state; (iii) the portion of a distribution from an individual retirement account or annuity described in Section 408(a) or Section 408(b) of the Code that is eligible to be rolled over and would otherwise be included in gross income; and (iv) effective January 1, 2009, a designated Roth contribution account under another qualified plan described in Code Section 402A(e)(1) to a Participant's Roth Contribution Account, provided the eligible rollover distribution is permitted under Code Section 402(c).

EMPLOYEE STOCK OWNERSHIP PLAN

OF

DIME COMMUNITY BANCSHARES, INC.

AND CERTAIN AFFILIATES

Amended and restated as of January 1, 2008

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EMPLOYEE STOCK OWNERSHIP PLAN

OF

DIME COMMUNITY BANCSHARES, INC.

ARTICLE I

DEFINITIONS

The following definitions shall apply for the purposes of the Plan, unless a different meaning is clearly indicated by the context:

Section 1.1 **Account**

means an account established for each Participant to which is allocated such Participant's share, if any, of all Financed Shares and other property that are released from the Loan Repayment Account in accordance with section 6.4, together with his share, if any, of any ESOP Contributions and 401(k) Safe Harbor Contributions that may be made by the Employer.

Section 1.2 **Affiliated Employer**

means any corporation which is a member of a controlled group of corporations (as defined in section 414(b) of the Code) that includes the Employer; any trade or business (whether or not incorporated) that is under common control (as defined in section 414(c) of the Code) with the Employer; any organization (whether or not incorporated) that is a member of an affiliated service group (as defined in section 414(m) of the Code) that includes the Employer; any leasing organization (as defined in section 414(n) of the Code) to the extent that any of its employees are required pursuant to section 414(n) of the Code to be treated as employees of the Employer; and any other entity that is required to be aggregated with the Employer pursuant to regulations under section 414(o) of the Code.

Section 1.3 **Allocation Compensation**

during any period means the compensation taken into account in determining the allocation of benefits and contributions among Participants and consists of the aggregate compensation received by an Employee from the Employer as reported to the Internal Revenue Service as wages for such period pursuant to section 6041 (a) of the Code, plus the amount by which such Employee's compensation with respect to such period has been reduced pursuant to a compensation reduction agreement under the terms of any of the following plans which may be maintained by the Employer:

- (a) a qualified cash or deferred arrangement described in section 401(k) of the Code;
- (b) a salary reduction simplified employee pension plan described in section 408(k) of the Code;
- (c) a tax deferred annuity plan described in section 403(b) of the Code;
- (d) a cafeteria plan described in section 125 of the Code; or

(e) a qualified transportation fringe benefit program described in section 132(f) of the Code.

Notwithstanding anything in this section 1.3 to the contrary, beginning March 1, 2004, an Employee's Allocation Compensation shall not include any amounts required to be reported to the Internal Revenue Service as wages pursuant to section 6041(a) that are attributable to the exercise of options by the Employee. In no event, however, shall an Employee's Allocation Compensation for any calendar year include any compensation in excess of \$150,000 for calendar years prior to 2002 and \$200,000 for calendar years after 2001. The dollar limitation set forth in the preceding sentence shall be indexed in accordance with regulations prescribed under section 401(a)(17) of the Code. If there are less than twelve (12) months in the Plan Year, the dollar limitation (as adjusted) shall be prorated by multiplying such limitation by a fraction, the numerator of which is the number of months in the Plan Year and the denominator of which is twelve (12). For purposes of applying the foregoing limitations in Plan Years beginning before January 1, 1997 to any person who is a Five Percent Owner or who is one of the ten Highly Compensated Employees with the highest Total Compensation (determined prior to the application of this sentence), any Allocation Compensation paid to the spouse of such person or to any lineal descendant of such person who has not attained age 19 on or before the last day of such calendar year shall be deemed to have been paid to such person and, in such case, the dollar limitation on compensation in section 401(a)(17) of the Code shall be allocated among such persons in proportion to the Allocation Compensation actually paid to each person.

Section 1.4 **Acquired Company**

means any of the following which have been acquired by or merged into an Employer: (a) Conestoga Bancorp, Inc.; and (b) Pioneer Savings Bank, F.S.B.

Section 1.5 **Bank**

means The Dime Savings Bank of Williamsburgh.

Section 1.6 **Board**

means the Board of Directors of Dime Community Bancshares, Inc.

Section 1.7 **Beneficiary**

means the person or persons designated by a Participant or Former Participant or other person entitled to a benefit under the Plan, or otherwise determined to be entitled to a benefit under the Plan. If more than one person is designated, each shall have an equal share unless the person making the designation directed otherwise. The word "person" includes an individual, a trust, an estate or any other person that is permitted to be named as a Beneficiary.

Section 1.8 **Break in Service**

means a Period of Severance of at least 365 consecutive days.

Section 1.9 **Change in Control**

means an event described in section 14.1.

Section 1.10 **Code**

means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

Section 1.11 **Committee**

means the Compensation Committee described in section 15.3.

Section 1.12

Designated Beneficiary

means a natural person designated by a Participant or Former Participant as a Beneficiary and shall not include any Beneficiary designated by a person other than a Participant or Former Participant or any Beneficiary other than a natural person. If a natural person is the beneficiary of a trust which a Participant or Former Participant has named as his Beneficiary, such natural person shall be treated as a Designated Beneficiary if: (a) the trust is a valid trust under applicable state law (or would be a valid trust except for the fact that it does not have a corpus); (b) the trust is irrevocable or will, by its terms, become irrevocable upon the death of the Participant or Former Participant; (c) the beneficiaries of the trust who are beneficiaries with respect to the trust's interest as a Beneficiary are identifiable from the terms of the trust instrument; and (d) the following information is furnished to the Committee:

(i) by the Participant or Former Participant, if any distributions are required to be made pursuant to section 13.5 prior to the death of the Participant or Former Participant, and (in the case of distribution after December 31, 2002) only the Participant's or Former Participant's spouse is primary Beneficiary, either: (A) a copy of the trust instrument, together with a written undertaking by the Participant or Former Participant to furnish to the Committee a copy of any subsequent amendment within a reasonable time after such amendment is made; or (B)(I) a list of all of the beneficiaries of the trust (including contingent and remainderman beneficiaries with a description of the conditions on their entitlement); (II) a certification of the Participant or Former Participant to the effect that, to the best of his knowledge, such list is correct and complete and that the conditions of section 1.12(a), (b) and (c) are satisfied; (III) a written undertaking to provide a new certification to the extent that an amendment changes any information previously certified; and (IV) a written undertaking to furnish a copy of the trust instrument to the Committee on demand; and

(ii) by the trustee of the trust within nine months after the death of the Participant or Former Participant (prior to January 1, 2003) or by October 31st of this calendar year that includes the first anniversary of the Participant's or Former Participant's death (after December 31, 2002), if any distributions are required to be made pursuant to section 13.5 after the death of the Participant or Former Participant, either: (A) a copy of the actual trust instrument for the trust; or (B)(I) a final list of all of the beneficiaries of the trust (including contingent and remainderman beneficiaries with a description of the conditions on their entitlement) as of the date of death; (II) a certification of the trustee to the effect that, to the best of his knowledge, such list is correct and complete and that the conditions of section 1.12(a), (b) and (c) are satisfied; and (III) a written undertaking to furnish a copy of the trust instrument to the Committee on demand.

Section 1.13

Disability

means a condition of total incapacity, mental or physical, for further performance of duty with the Employer, which the Plan Administrator shall have determined, on the basis of competent medical evidence, is likely to be permanent.

Section 1.14

Domestic Relations Order

means a judgment, decree or order (including the approval of a property settlement) that is made pursuant to a state domestic relations or community property law and relates to the provision of child support, alimony payments, or marital property rights to a spouse, child or other dependent of a Participant or Former Participant.

Section 1.15 **Dividend Maintenance Contribution**

means an ESOP Contribution that is made pursuant to section 19.2.

Section 1.16 **Effective Date**

means July 1, 1995.

Section 1.17 **Eligible Employee**

means an Employee who is eligible for participation in the Plan in accordance with Article II.

Section 1.18 **Eligible Participant**

means, for any Plan Year, an Employee who is a Participant during all or any part of such Plan Year and either remains a Participant on the last day of such Plan Year or terminated employment during such Plan Year for death, Disability or Retirement; *provided however*, that no Employee shall be an Eligible Participant for the Plan Year that includes the effective date of the transaction pursuant to which the Bank becomes a wholly owned subsidiary of Dime Community Bancshares, Inc. if he terminates employment with the Employer prior to such effective date.

Section 1.19 **Employee**

means any person, including an officer, who is employed by the Employer.

Section 1.20 **Employer**

means Dime Community Bancshares, Inc., and any successor thereto and any Affiliated Employer which, with the prior written approval of the Board of Directors of Dime Community Bancshares, Inc. and subject to such terms and conditions as may be imposed by the Board of Directors of Dime Community Bancshares, Inc., shall adopt this Plan.

Section 1.21 **Employment Commencement Date**

means the date on which a person first performs an Hour of Service, except that if an Employee separates from service with the Employer, incurs a Break in Service and subsequently returns to service with the Employer, his Employment Commencement Date shall be the date on which he first performs an Hour of Service following the Break in Service.

Section 1.22 **ERISA**

means the Employee Retirement Income Security Act of 1974, as amended from time to time (including the corresponding provisions of any succeeding law).

Section 1.23 **ESOP Contribution**

means Shares or amounts of money contributed to the Plan by the Employer in accordance with section 5.3 or Dividend Maintenance Contributions made in accordance with section 19.2.

Section 1.24 **Fair Market Value**

on any date means:

(a) with respect to a Share:

(i) the final quoted sale price on the date in question (or, if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) as reported in the principal consolidated reporting system with respect to securities listed or admitted to trading on the principal United States securities exchange on which like Shares are listed or admitted to trading; or

(ii) if like Shares are not listed or admitted to trading on any such exchange, the closing bid quotation with respect to a Share on such date on the National Association of Securities Dealers Automated Quotation System, or, if no such quotation is provided, on another similar system, selected by the Committee, then in use; or

(iii) if sections 1.24(a)(i) and (ii) are not applicable, the fair market value of a Share as determined by an appraiser independent of the Employer and experienced and expert in the field of corporate appraisal.

(b) with respect to property other than Shares, the fair market value determined in the manner determined by the Trustee.

Section 1.25 **Family Member**

means, with respect to any person, such person's spouse and lineal ascendants or descendants and the spouses of such lineal ascendants or descendants.

Section 1.26 **Financed Share**

means: (a) a Share that has been purchased with the proceeds of a Share Acquisition Loan, that has been allocated to the Loan Repayment Account in accordance with section 6.3 and that has not been released in accordance with section 6.4; or (b) a Share that constitutes a dividend paid with respect to a Share described in section 1.26(a), that has been allocated to the Loan Repayment Account in accordance with section 6.3 and that has not been released in accordance with section 6.4.

Section 1.27 **Five Percent Owner**

means, for any Plan Year, a person who, during such Plan Year, owned (or was considered as owning for purposes of section 318 of the Code): (a) more than 5% of the value of all classes of outstanding stock of the Employer; or (b) stock possessing more than 5% of the combined voting power of all classes of outstanding stock of the Employer.

Section 1.28 **Forfeitures**

means the amounts forfeited by Participants and Former Participants on termination of employment prior to full vesting, pursuant to section 9.3, less amounts credited because of re-employment, pursuant to section 9.4.

Section 1.29 **Former Participant**

means a Participant whose participation in the Plan has terminated pursuant to section 2.3.

Section 1.30 **401(k) Safe Harbor Contribution**

means contributions to the Plan by the Employer pursuant to section 19.1.

Section 1.31 **401(k) Safe Harbor Contribution Account**

means a sub-account established for each Participant within the Participant's Account to which are credited all 401(k) Safe Harbor Contributions made for such Participant, together with any earnings or appreciation thereon or other additions thereto, and against which are charged any losses or other depreciation thereon, benefit payments expenses and other deductions properly chargeable thereto.

Section 1.32

General Investment Account

means an Investment Account established and maintained in accordance with Article XI.

Section 1.33

Highly Compensated Employee

means, for any Plan Year, an Employee who:

- (a) for Plan Years beginning before January 1, 1997, any Employee or person employed by an Affiliated Employer who:
 - (i) at any time during such Plan Year or the immediately preceding Plan Year was a Five Percent Owner; or
 - (ii) is a member of the group consisting of the 100 Employees and persons employed by any Affiliated Employer who received the greatest Total Compensation for such Plan Year and during such Plan Year:
 - (A) received Total Compensation for such Plan Year in excess of \$75,000 (or such higher amount as may be permitted under section 414(q) of the Code); or
 - (B) received Total Compensation for such Plan Year that was in excess of both (I) \$50,000 (or such higher amount as may be permitted under section 414(q) of the Code) and (II) the Total Compensation for such Plan Year of at least 80% of the Employees and persons employed by any Affiliated Employer for such Plan Year; or
 - (C) was an Officer of the Employer or any Affiliated Employer and received Total Compensation for such Plan Year in excess of 50% of the amount in effect under section 415(b)(1)(A) of the Code for such Plan Year; or
 - (iii) during the immediately preceding Plan Year:
 - (A) received Total Compensation for such Plan Year in excess of \$75,000 (or such higher amount as may be permitted under section 414(q) of the Code); or
 - (B) received Total Compensation, for such Plan Year that was in excess of both (I) \$50,000 (or such higher amount as may be permitted under section 414(q) of the Code) and (II) the Total Compensation for such Plan Year of at least 80% of the Employees and persons employed by an Affiliated Employer for such Plan Year; or
 - (C) was an Officer of the Employer or any Affiliated Employer and received Total Compensation for such Plan Year in excess of 50% of the amount in effect under section 415(b)(1)(A) of the Code for such Plan Year; or

(b) for Plan Years beginning after December 31, 1996, any Employee or person employed by an Affiliated Employer who:

(i) was a Five Percent Owner at any time during such Plan Year or any prior Plan Year; or

(ii) received Total Compensation during the immediately preceding Plan Year (A) in excess of \$80,000 (or such other amount as may be prescribed by the Secretary of the Treasury pursuant to section 401(a)(17) of the Code); and (B) if elected by the Committee in such form and manner as the Secretary of the Treasury may prescribe, in excess of the Total Compensation received for such preceding Plan Year by at least 80% of the Employees and persons employed by Affiliated Employers.

The determination of who is a Highly Compensated Employee will be made in accordance with section 414(q) of the Code and the regulations thereunder. In Plan Years beginning before January 1, 1997 for purposes of applying any provisions of the Plan applicable to Highly Compensated Employees, any person who is a Family Member of a Five Percent Owner or one of the ten Highly Compensated Employees with the highest Total Compensation for a Plan Year shall not be treated as a separate person for such Plan Year, and any Total Compensation or Allocation Compensation paid to such person for such Plan Year, as well as his share of allocations of contributions or Shares under this Plan, shall be attributed to the Five Percent Owner or Highly Compensated Employee and, in such case, the provisions of the Plan shall apply to each person based on the ratio of his Total Compensation or Allocation Compensation to the sum of the Total Compensation or Allocation Compensation of all persons treated as one person with him.

Section 1.34 **Hour of Service**

means each hour for which a person is paid, or entitled to payment, for the performance of duties for the Employer or any Affiliated Employer. In all respects, an Employee's Hours of Service shall be counted as required by Section 2530.200b-2 of the Department of Labor's regulations under Title I of ERISA.

Section 1.35 **Investment Account**

means either a General Investment Account or a Share Investment Account.

Section 1.36 **Investment Fund**

means anyone of the three or more funds as may be established from time to time by the Committee which, together with any and all Shares and other investments held under the Plan, constitute the Trust Fund.

Section 1.37 **Loan Repayment Account**

means an account established and maintained in accordance with section 6.3.

Section 1.38 **Loan Repayment Contribution**

means amounts of money contributed to the Plan by the Employer in accordance with section 5.2.

Section 1.39 **Maternity or Paternity Leave**

means a person's absence from work for the Employer and all Affiliated Employers: (a) by reason of the pregnancy of such person; (b) by reason of the birth of a child of such person; (c) by reason of the placement of a child with the person in connection with the adoption of such child by such person; or (d) for purposes of caring for a child of such person immediately following the birth of the child or the placement of the child with such person.

Section 1.40 **Military Service**

means service in the armed forces of the United States, including but not limited to Qualified Military Service. It may also include, if and to the extent that the Board so provides and if all Participants and Former Participants in like circumstances are similarly treated, special service for the government of the United States and other public service.

Section 1.41 **Named Fiduciary**

means any person, committee, corporation or organization as described in section 15.1.

Section 1.42 **Officer**

means an employee who is an administrative executive in regular and continued service with the Employer or any Affiliated Employer; *provided however*, that at no time shall more than the lesser of (a) 50 employees or (b) the greater of (i) 3 employees or (ii) 10% of all employees be treated as Officers. The determination of whether an employee is to be considered an Officer shall be made in accordance with section 416(i) of the Code.

Section 1.43 **Participant**

means any person who has satisfied the eligibility requirements set forth in section 2.1, who has become a Participant in accordance with section 2.2, and whose participation has not terminated under section 2.3.

Section 1.44 **Period of Service**

means a period of consecutive days commencing on a person's Employment Commencement Date and ending on the date a Period of Severance begins, with any adjustments required under section 2.4. Except as otherwise provided in the Plan, a Period of Service "of year(s)" means the quotient of the Period of Service divided by 365, and any fractional part of a year shall for such purposes be disregarded.

Section 1.45 **Period of Severance**

means a period of consecutive days commencing with the earlier of:

- (a) the date on which a person terminates service with the Employer and all Affiliated Employers by reason of resignation, retirement, discharge or death; or
- (b) the first anniversary of the date on which a person terminates service with the Employer and all Affiliated Employers for any other reason, including layoff, disability, leave of absence or any other cessation of service not otherwise included as service under the Plan;

and ending on the first date following such separation from service on which such person performs an Hour of Service.

Section 1.46 **Plan**

means the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates, as amended from time to time. The Plan may be referred to as the "Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates."

Section 1.47 **Plan Administrator**

means any person, committee, corporation or organization designated in section 15.2, or appointed pursuant to section 15.2, to perform the responsibilities of that office.

Section 1.48 **Plan Year**

means (a) the period commencing on the Effective Date and ending on June 30, 1996; (b) each of the fiscal years beginning ending June 30 1997, 1998, 1999 and 2000; (c) the period beginning July 1, 2000 and ending December 31, 2000; and (d) each calendar year thereafter.

Section 1.49 **Qualified Domestic Relations Order**

means a Domestic Relations Order that: (a) clearly specifies (i) the name and last known mailing address of the Participant or Former Participant and of each person given rights under such Domestic Relations Order, (ii) the amount or percentages of the Participant's or Former Participant's benefits under this Plan to be paid to each person covered by such Domestic Relations Order, (iii) the number of payments or the period to which such Domestic Relations Order applies, and (iv) the name of this Plan; and (b) does not require the payment of a benefit in a form or amount that is (i) not otherwise provided for under the Plan, or (ii) inconsistent with a previous Qualified Domestic Relations Order.

Section 1.50 **Qualified Military Service**

means with respect to any person on any date, any service in the uniformed services of the United States (as defined in chapter 43 of Title 38 of the United States Code) completed prior to such date, but only if, on such date, such person is entitled to re-employment rights with respect to the Employer or any Affiliated Employer on account of such service.

Section 1.51 **Qualified Participant**

means a Participant who has attained age 55 and who has been a Participant in the Plan for at least 10 years.

Section 1.52 **Retirement**

means: (a) any termination of participation in the Plan at or after attainment of age 65; and (b) any retirement under an applicable qualified defined benefit plan of the Employer as in effect from time to time with entitlement to a normal or early retirement allowance.

Section 1.53 **Retroactive Contribution**

means a contribution made on a retroactive basis in respect of a period of Qualified Military Service in accordance with sections 5.3.

Section 1.54 **Share**

means a share of any class of stock issued by the Employer or any Affiliated Employer; provided that such share is a "qualifying employer security" within the meaning of section 409(1) of the Code and section 407(d)(5) of ERISA.

Section 1.55 **Share Acquisition Loan**

means a loan obtained by the Trustee in accordance with Article VI.

Section 1.56 **Share Investment Account**

means an Investment Account established and maintained in accordance with Article XI.

Section 1.57 **Tender Offer**

means a tender offer made to holders of any one or more classes of Shares generally, or any other offer made to holders of any one or more classes of Shares generally to purchase, exchange, redeem or otherwise transfer Shares, whether for cash or other consideration.

Section 1.58**Total Compensation**

during any period means the total compensation paid to such person during such period by the Employer and all Affiliated Employers which is required to be reported to such person on a written statement under section 6041(d), 6051(a)(3) and 6052 of the Code. In addition, for purposes of applying the provisions of section 8.2 to Limitation Years beginning on or after December 31, 1997 and for purposes of identifying those persons who are Highly Compensated Employees, each person's Total Compensation shall include any elective deferrals (within the meaning of section 402(g) of the Code) under any qualified cash or deferred arrangement described in section 401(k) of the Code and maintained by the Employer or any Affiliated Employer, any tax-deferred annuity described in section 403(b) of the Code and maintained by the Employer or any Affiliated Employer, any salary reduction simplified employee pension plan described in section 408(k) of the Code and maintained by the Employer or any Affiliated Employer, any salary reduction contributions under any cafeteria plan described in section 125 of the Code and maintained by the Employer or any Affiliated Employer, and any salary reduction contributions under any qualified transportation fringe benefits plan described in section 132(f) of the Code and maintained by the Employer or any Affiliated Employer. In no event shall a person's Total Compensation for any Plan Year include any compensation in excess of the amount permitted under section 401(a)(17) of the Code. For purposes of applying the foregoing limitation in any Plan Year beginning prior to January 1, 1997 to any person who is a Five Percent Owner or who is one of the 10 Highly Compensated Employees with the highest Total Compensation (determined prior to the application of this sentence), any Total Compensation paid to the spouse of such person or to any lineal descendant of such person who has not attained age 19 on or before the last day of such calendar year shall be deemed to have been paid to such person.

Section 1.59**Trust**

means the legal relationship created by the Trust Agreement pursuant to which the Trustee holds the Trust Fund in trust. The Trust may be referred to as the "Employee Stock Ownership Plan Trust of Dime Community Bancshares, Inc. and Certain Affiliates."

Section 1.60**Trust Agreement**

means the agreement between Dime Community Bancshares, Inc. and the Trustee therein named or its successors pursuant to which the Trust Fund shall be held in trust.

Section 1.61**Trust Fund**

means the corpus (consisting of contributions paid over to the Trustee and investments thereof), and all earnings, appreciation or additions thereof and thereto, held by the Trustee under the Trust Agreement in accordance with the Plan, less any depreciation thereof and any payments made therefrom pursuant to the Plan.

Section 1.62**Trustee**

means the Trustee of the Trust Fund from time to time in office. The Trustee shall serve as Trustee until it is removed or resigns from office and is replaced by a successor Trustee appointed in accordance with the terms of the Trust Agreement.

Section 1.63**Valuation Date**

means the last business day of March, June, September and December.

ARTICLE II

PARTICIPATION

Section 2.1 **Eligibility for Participation.**

(a) Only Eligible Employees may be or become Participants in the Plan. An Employee shall be an Eligible Employee if he is a salaried, common-law employee of an Employer who has completed a Period of Service of at least one year and is not excluded under section 2.1(b). For purposes of this section 2.1(a), beginning July 1, 1997, a Period of Service of one year shall mean a Period of Service of twelve months, and any fractional part of a month consisting of at least fifteen days shall be deemed a full month.

(b) An Employee is not an Eligible Employee if he:

(i) is an Employee who has waived any claim to participation in the Plan;

or

(ii) is an Employee or in a unit of Employees covered by a collective bargaining agreement with the Employer where retirement benefits were the subject of good faith bargaining, unless such agreement expressly provides that Employees such as he be covered under the Plan;

(iii) is a "leased employee" as defined in section 18.8(a);

(iv) is compensated on an hourly, daily, commission, fee or retainer basis;

or

(v) is classified as an "independent contractor" by the Employer, even if considered a common-law employee under applicable law.

Section 2.2 **Commencement of Participation.**

Every Employee who is an Eligible Employee on the Effective Date shall automatically become a Participant on the Effective Date. An Employee who becomes an Eligible Employee after the Effective Date shall automatically become a Participant on the first day on which he becomes an Eligible Employee.

Section 2.3 **Termination of Participation.**

Participation in the Plan shall cease, and a Participant shall become a Former Participant, upon termination of employment with the Employer, death, Disability or Retirement, failure to return to work upon the expiration of a leave of absence granted by the Employer pursuant to section 3.3, becoming an Employee who is excluded under section 2.1(b) or distribution of the entire vested interest in his Account.

Section 2.4

Adjustments to Period of Service.

(a) The Period of Service of an Employee shall include any period during which the Employee is separated from the service of the Employer and all Affiliated Employers if such period is less than 365 consecutive days measured from the date on which such Employee terminates service and ending with the first date following such termination for which the Employer is credited with an Hour of Service.

(b) The Period of Service of an Employee who returns to the service of the Employer and all Affiliated Employers following a separation from service shall commence with the first date following such separation from service for which the Employer is credited with an Hour of Service, and he shall be given credit for any Period of Service prior to such separation, except that if such separation includes a Break in Service, such credit shall not be given until he completes a Period of Service of one year following such Break in Service. If an Employee returns to the service of the Employer or any Affiliated Employer following a separation from service from the Employer and any Affiliated Employer of greater than five consecutive years, then such Employee shall forfeit any Period of Service prior to such separation.

(c) The Period of Service of an Employee who is absent on Maternity or Paternity Leave shall exclude any period of such absence that occurs after the first anniversary of the commencement of such absence.

(d) An Employee's Period of Service shall also be adjusted to the extent required by the Family and Medical Leave Act or any regulations promulgated thereunder.

(e) Solely for purposes of vesting and eligibility to participate, in the case of an individual who (i) was an employee of an Acquired Company immediately prior to the effective date of the transaction pursuant to which such Company became an Acquired Company and (ii) becomes an Employee as of such effective date, such individual's service with the Acquired Company shall be treated as service for an Employer.

ARTICLE III

SPECIAL PROVISIONS

Section 3.1

Military Service.

In the case of a termination of employment of any Employee to enter directly into Military Service, the entire period of his absence shall be treated, for purposes of vesting and eligibility for participation (but not, except as required by law, for purposes of eligibility to share in allocations of contributions in accordance with Article VII), as if he had worked for the Employer during the period of his absence. In the event of the re-employment of such person by the Employer within a period of not more than six months:

- (a) after he becomes entitled to release or discharge, if he has entered into the uniformed services of the United States;
- (b) release from hospitalization continuing after discharge from the uniformed services of the United States for a period of not more than two years; or
- (c) after such service terminates, if he has entered into other service defined as Military Service;

such period, also, shall be deemed to be Military Service.

Section 3.2 **Maternity or Paternity Leave.**

- (a) Subject to section 3.2(b), in the event of an Employee's absence from work in the service of the Employer and all Affiliated Employers for a period:
- (i) that commences on or after October 1, 1985;
 - (ii) for which the person is not paid or entitled to payment by the Employer or any Affiliated Employer;
 - (iii) that constitutes Maternity or Paternity Leave; and
 - (iv) that exceeds one year;

then solely for purposes of determining when a Break in Service has occurred or when a Period of Severance of five years has occurred for purposes of section 9.4, the period of such an absence commencing on the first anniversary of such absence and ending on the second anniversary of the commencement of such absence (or, if earlier, on the last day of such absence) shall not be treated as a Period of Severance.

- (b) Notwithstanding anything in the Plan to the contrary, this section 3.2 shall not apply unless the person furnishes to the Plan Administrator such information as the Plan Administrator may reasonably require in order to establish: (i) that the person's absence is one described in section 3.2(a); and (ii) the number of working days during such absence.

Section 3.3 **Leave of Absence.**

In the event of temporary absence from work in the service of the Employer and all Affiliated Employers for any period of two years or less for which a Participant shall have been granted a leave of absence by the Employer, the entire period of his absence shall be treated for purposes of vesting and eligibility for participation (but not for purposes of eligibility to share in the allocation of contributions in accordance with Article VII), as if he had worked for the Employer during the period of his absence. Absence from work for a period greater than, or failure to return to work upon the expiration of, the period of leave of absence granted by the Employer shall terminate participation in the Plan as of the date on which such period ended. In granting leaves of absence for purposes of the Plan, all Employees in like circumstances shall be similarly treated.

Section 3.4 **Family and Medical Leave.**

Effective January 1, 2005, in the event of absence for a period recognized as a family and medical leave under the federal Family and Medical Leave Act of 1992, the period of such absence shall be recognized for purposes of vesting and eligibility to participate to the full extent required by law.

ARTICLE IV

CONTRIBUTIONS BY PARTICIPANTS NOT PERMITTED

Section 4.1 **Contributions by Participants Not Permitted.**

Participants shall not be required, nor shall they be permitted, to make contributions to the Plan.

ARTICLE V

CONTRIBUTIONS BY THE EMPLOYER

Section 5.1 **In General.**

Subject to the limitations of Article VIII and the provisions of Article XIX, for each Plan Year, the Employer shall contribute to the Plan the amount, if any, determined by the Board, but in no event less than the amount described in section 5.2(a). The amount contributed for any Plan Year shall be treated as a Loan Repayment Contribution, an ESOP Contribution, or a combination thereof, in accordance with the provisions of this Article V.

Section 5.2 **Loan Repayment Contributions.**

Subject to the provisions of Article XIX, for each Plan Year, a portion of the Employer's contributions, if any, to the Plan for such Plan Year equal to the sum of:

- (a) the minimum amount required to be added to the Loan Repayment Account in order to provide adequate funds for the payment of the principal and interest then required to be repaid under the terms of any outstanding Share Acquisition Loan obtained by the Trustee; plus
- (b) the additional amount, if any, designated by the Committee to be applied to the prepayment of principal or interest under the terms of any outstanding Share Acquisition Loan obtained by the Trustee;

shall be treated as a Loan Repayment Contribution for such Plan Year. A Loan Repayment Contribution for a Plan Year shall be allocated to the Loan Repayment Account and shall be applied by the Trustee, in the manner directed by the Committee, to the payment of accrued interest and to the reduction of the principal balance of any Share Acquisition Loan obtained by the Trustee that is outstanding on the date on which the Loan Repayment Contribution is made. To the extent that a Loan Repayment Contribution for a Plan Year results in a release of Financed Shares in accordance with section 6.4, such Shares shall be allocated among the Accounts of Eligible Participants for such Plan Year in accordance with section 7.2.

Section 5.3

ESOP Contributions.

Subject to the provisions of Article XIX, in the event that the amount of the Employer's contributions to the Plan for a Plan Year exceeds the amount of the Loan Repayment Contributions for such Plan Year, such excess shall be treated as an ESOP Contribution and shall be allocated among the Accounts of the Eligible Participants for such Plan Year in accordance with section 7.3.

Section 5.4

Retroactive Contributions.

The Employer shall make a Retroactive Contribution in respect of any individual who is re-employed by the Employer after December 12, 1994 following the completion of a period of Qualified Military Service. Such Retroactive Contribution shall be made in the following manner for each Plan Year that includes the period of Qualified Military Service:

(a) An allocation percentage shall be computed by dividing (i) the sum of the Fair Market Value of all Financed Shares allocated to Eligible Participants for such Plan Year plus the dollar amount of all ESOP Contributions and 401(k) Safe Harbor Contributions made in cash for such Plan Year plus the Fair Market Value of all ESOP Contributions made in Shares for such Plan Year, divided by (ii) the aggregate amount of Allocation Compensation used in the allocation for such Plan Year. Fair Market Value for such purposes shall be determined as of the last day of the Plan Year.

(b) A notional allocation shall be determined by multiplying (A) the percentage determined under section 5.4(a) by (B) the Allocation Compensation which the individual would have had for the calendar year ending during such Plan Year if he had remained in the service of the Employer in the same capacity and earning Allocation Compensation and Total Compensation at the annual rates in effect immediately prior to the commencement of the Qualified Military Leave (or, if such rates are not reasonably certain, at an annual rate equal to the actual Allocation Compensation and Total Compensation, respectively, paid to him for the 12-month period immediately preceding the Qualified Military Service).

(c) An actual Retroactive Contribution for the Plan Year shall be determined by computing the excess of (A) the notional allocation determined under section 5.4(b) over (B) the sum of the dollar amount of any ESOP Contribution and 401(k) Safe Harbor Contributions made in cash, the Fair Market Value of any ESOP Contribution in Shares and the Fair Market Value of any Financed Shares actually allocated to such individual for such Plan Year.

If and to the extent that the Allocation Compensation used in determining a Participant's share of contributions is not uniform for all types of contributions, separate calculations shall be performed.

Section 5.5

Time and Manner of Payment.

- (a) Payment of contributions made pursuant to this Article V shall be made:
 - (i) in cash, in the case of a Loan Repayment Contribution; and
 - (ii) in cash, in Shares or in a combination of cash and Shares, in the case of an ESOP Contribution or a Retroactive Contribution; *provided however*, that any Retroactive Contribution in respect of a 401 (k) Safe Harbor Contribution shall be made only in cash.
- (b) Contributions made pursuant to this Article V for a Plan Year shall be paid to the Trust Fund on or before the due date (including any extensions thereof) of the Employer's federal income tax return for its taxable year during which such Plan Year ends. All such contributions shall be allocated to the Accounts of the Eligible Participants, in the case of an ESOP Contribution, to the Account of the Participant for whom it is made in the case of a Retroactive Contribution, and to the Loan Repayment Account, in the case of a Loan Repayment Contribution, as soon as is practicable following the payment thereof to the Trust Fund.

ARTICLE VI

SHARE ACQUISITION LOANS

Section 6.1

In General.

The Committee may, with the prior approval of the Board, direct the Trustee to obtain a Share Acquisition Loan on behalf of the Plan, the proceeds of which shall be applied on the earliest practicable date:

- (a) to purchase Shares; or
 - (b) to make payments of principal or interest, or a combination of principal and interest, with respect to such Share Acquisition Loan;
- or
- (c) to make payments of principal and interest, or a combination of principal and interest, with respect to a previously obtained Share Acquisition Loan that is then outstanding.

Any such Share Acquisition Loan shall be obtained on such terms and conditions as the Committee may approve; *provided, however*, that such terms and conditions shall provide for the payment of interest at no more than a reasonable rate and shall permit such Share Acquisition Loan to satisfy the requirements of section 4975(d)(3) of the Code and section 408(b)(3) of ERISA.

Section 6.2

Collateral: Liability for Repayment.

(a) The Committee may direct the Trustee to pledge, at the time a Share Acquisition Loan is obtained, the following assets of the Plan as collateral for such Share Acquisition Loan:

- (i) any Shares purchased with the proceeds of such Share Acquisition Loan and any earnings attributable thereto;
- (ii) any Financed Shares then pledged as collateral for a prior Share Acquisition Loan which is repaid with the proceeds of such Share Acquisition Loan and any earnings attributable thereto; and
- (iii) pending the application thereof to purchase Shares or repay a prior Share Acquisition Loan, the proceeds of such Share Acquisition Loan and any earnings attributable thereto.

Except as specifically provided in this section 6.2(a), no assets of the Plan shall be pledged as collateral for the repayment of any Share Acquisition Loan.

(b) No person entitled to payment under a Share Acquisition Loan shall have any right to the assets of the Plan except for:

- (i) Financed Shares that have been pledged as collateral for such Share Acquisition Loan pursuant to section 6.2(a);
- (ii) Loan Repayment Contributions made pursuant to section 5.2; and
- (iii) earnings attributable to Financed Shares described in section 6.2(b)(i) and to Loan Repayment Contributions described in section 6.2(b)(ii).

Except in the event of a default or a refinancing pursuant to which an existing Share Acquisition Loan is repaid or as provided in section 14.3, the aggregate amount of all payments of principal and interest made by the Trustee with respect to all Share Acquisition Loans obtained on behalf of the Plan shall at no time exceed the aggregate amount of all Loan Repayment Contributions theretofore made plus the aggregate amount of all earnings (other than dividends paid in the form of Shares) attributable to Financed Shares and to such Loan Repayment Contributions.

(c) Any Share Acquisition Loan shall be without recourse against the Plan and Trust.

Section 6.3

Loan Repayment Account.

In the event that one or more Share Acquisition Loans shall be obtained, a Loan Repayment Account shall be established under the Plan. The Loan Repayment Account shall be credited with all Shares acquired with the proceeds of a Share Acquisition Loan, all Loan Repayment Contributions and all earnings (including dividends paid in the form of Shares) or appreciation attributable to such Shares and Loan Repayment Contributions. The Loan Repayment Account shall be charged with all payments of principal and interest made by the Trustee with respect to any Share Acquisition Loan, all Shares released in accordance with section 6.4 and all losses, depreciation or expenses attributable to Shares or to other property credited thereto. The Financed Shares, as well as any earnings thereon, shall be allocated to such Loan Repayment Account and shall be accounted for separately from all other amounts contributed under the Plan.

Section 6.4

Release of Financed Shares.

As of the last day of each Plan Year during which a Share Acquisition Loan is outstanding, a portion of the Financed Shares purchased with the proceeds of such Share Acquisition Loan and allocated to the Loan Repayment Account shall be released. The number of Financed Shares released in any such Plan Year shall be equal to the amount determined according to one of the following methods:

(a) by computing the product of: (i) the number of Financed Shares purchased with the proceeds of such Share Acquisition Loan and allocated to the Loan Repayment Account immediately before the release is effected; multiplied by (ii) a fraction, the numerator of which is the aggregate amount of the principal and interest payments (other than payments made upon the refinancing of a Share Acquisition Loan as contemplated by section 6.1(c)) made with respect to such Share Acquisition Loan during such Plan Year, and the denominator of which is the aggregate amount of all principal and interest remaining to be paid with respect to such Share Acquisition Loan as of the first day of such Plan Year; or

(b) by computing the product of: (i) the number of Financed Shares purchased with the proceeds of such Share Acquisition Loan and allocated to the Loan Repayment Account immediately before the release is effected; multiplied by (ii) a fraction, the numerator of which is the aggregate amount of the principal payments (other than payments made upon the refinancing of a Share Acquisition Loan as contemplated by section 6.1(c)) made with respect to such Share Acquisition Loan during such Plan Year, and the denominator of which is the aggregate amount of all of principal remaining to be paid with respect to such Share Acquisition Loan as of the first day of such Plan Year; *provided, however*, that the method described in this section 6.4(b) may be used only if the Share Acquisition Loan does not extend for a period in excess of 10 years after the date of origination and only to the extent that principal payments on such Share Acquisition Loan are made at least as rapidly as under a loan of like principal amount with a like interest rate and term requiring level amortization of principal and interest.

The method to be used shall be specified in the documents governing the Share Acquisition Loan or, if not specified therein, prescribed by the Committee, in its discretion. In the event that property other than, or in addition to, Financed Shares shall be held in the Loan Repayment Account and pledged as collateral for a Share Acquisition Loan, then the property to be released pursuant to this section 6.4 shall be property having a Fair Market Value determined by applying the method to be used to the Fair Market Value of all property pledged as collateral for such Share Acquisition Loan; *provided, however*, that no property other than Financed Shares shall be released pursuant to this section 6.4 unless all Financed Shares have previously been released.

Section 6.5

Restrictions on Financed Shares.

Except to the extent required under any applicable law, rule or regulation, no Shares purchased with the proceeds of a Share Acquisition Loan shall be subject to a put, call or other option, or to any buy-sell or similar arrangement, while held by the Trustee or when distributed from the Plan. The provisions of this section 6.5 shall continue to apply in the event that this Plan shall cease to be an employee stock ownership plan, within the meaning of section 4975(e)(7) of the Code.

ARTICLE VII

ALLOCATION OF CONTRIBUTIONS

Section 7.1

Allocation Among Eligible Participants.

Subject to the limitations of Article VIII, ESOP Contributions for a Plan Year made in accordance with section 5.3 and Financed Shares and other property that are released from the Loan Repayment Account for a Plan Year in accordance with section 6.4 shall be allocated among the Eligible Participants for such Plan Year, in the manner provided in this Article VII.

Section 7.2

Allocation of Released Shares or Other Property.

Subject to the limitations of Article VIII, in the event that Financed Shares or other property are released from the Loan Repayment Account for a Plan Year in accordance with section 6.4, such released Shares or other property shall be allocated among the Accounts of the Eligible Participants for the Plan Year (a) for Plan Years beginning before July 1, 1997, in the proportion that each such Eligible Participant's Allocation Compensation for the portion of the immediately preceding calendar year during which he was a Participant bears to the aggregate Allocation Compensation of all Eligible Participants for the portion of the immediately preceding calendar year during which they were Participants and (b) for Plan Years beginning after June 30, 1997, in the proportion that each such Eligible Participant's Allocation Compensation for the immediately preceding calendar year bears to the aggregate Allocation Compensation of all Eligible Participants for the immediately preceding calendar year.

Section 7.3

Allocation of ESOP Contributions.

Subject to the provisions of Article XIX and the limitations of Article VIII, in the event that the Employer makes an ESOP Contribution for a Plan Year, such ESOP Contribution shall be allocated among the Accounts of the Eligible Participants for such Plan Year (a) for Plan Years beginning before July 1, 1997, in the proportion that each such Eligible Participant's Allocation Compensation for the portion of the immediately preceding calendar year during which he was a Participant bears to the aggregate Allocation Compensation of all Eligible Participants for the portion of such Plan Year during which they were Eligible Participants; (b) for Plan Years beginning after June 30, 1997, in the proportion that each such Eligible Participant's Allocation Compensation for the immediately preceding calendar year bears to the aggregate Allocation Compensation of all Eligible Participants for the immediately preceding calendar year; and (c) for Plan Years beginning after June 30, 2000, in the proportion that each such Eligible Participant's Allocation Compensation for the portion of the Plan Year during which he was a Participant bears to the aggregate Allocation Compensation of all Eligible Participants for the portion of the Plan Year during which they were Eligible Participants.

(c) For purposes of this section 8.2, the following special definitions shall apply:

(i) Annual Addition means the sum of the following amounts allocated on behalf of a Participant for a Limitation Year:

(A) all contributions by the Employer (including contributions made under a salary reduction agreement pursuant to sections 401(k), 408(k) or 403(b) of the Code but not including catch-up election deferred described in section 414(v) of the Code) under any qualified defined contribution plan (other than this Plan) maintained by the Employer, as well as the Participant's allocable share, if any, of any forfeitures under such plans; plus

(B) (I) for Limitation Years that began prior to January 1, 1987, the lesser of (1) 50% of the Participant's voluntary nondeductible contributions to all qualified defined contribution plans maintained by the Employer, or (2) the amount by which the Participant's nondeductible voluntary contributions to such plans exceeds 6% of his Total Compensation; and (II) for Limitation Years that begin after December 31, 1986, all of the Participant's voluntary nondeductible contributions to such plans; plus

(C) all ESOP Contributions and 401(k) Safe Harbor Contributions under this Plan; plus

(D) except as hereinafter provided in this section 8.2(c)(i), a portion of the Employer's Loan Repayment Contributions to the Plan for such Limitation Year which bears the same proportion to the total amount of the Employer's Loan Repayment Contributions for the Limitation Year that the number of Shares (or the Fair Market Value of property other than Shares) allocated to the Participant's Account pursuant to section 7.2 or 8.1, whichever is applicable, bears to the aggregate number of Shares (or Fair Market Value of property other than Shares) so allocated to all Participants for such Limitation Year.

(E) amounts allocated after March 31, 1984 to an individual medical account (within the meaning of section 415(1) of the Code) which is part of a pension or annuity plan maintained by the Employer and amounts derived from contributions paid or accrued after, and in a taxable year ending after, December 31, 1985 which are attributable to post-retirement medical benefits and allocated to a separate account of a key employee (within the meaning of section 419A(d)(3) of the Code) under a welfare benefit fund (within the meaning of section 419(e) of the Code).

Notwithstanding section 8.2(c)(i)(D), if, for any Limitation Year, the aggregate amount of ESOP Contributions allocated to the Accounts of the individuals who are Highly Compensated Employees for such Limitation Year, when added to such Highly Compensated Employees' allocable share of any Loan Repayment Contributions for such Limitation Year, does not exceed one-third of the total of all ESOP Contributions and Loan Repayment Contributions for such Limitation Year, then that portion, if any, of the Loan Repayment Contributions for such Limitation Year that is applied to the payment of interest on a Share Acquisition Loan shall not be included as an Annual Addition. In determining whether more than one-third of the number of Shares or of the amount of money or property to be allocated under the Plan for a Plan Year beginning before January 1, 1997 would be allocated to the Highly Compensated Employees, any allocation to be made to the Account of a Family Member of a Highly Compensated Employee who is either a Five Percent Owner or one of the ten Highly Compensated Employees with the highest Total Compensation, shall be treated as an allocation to such Highly Compensated Employee. In no event shall any Financed Shares, any dividends or other earnings thereon, any proceeds of the sale thereof or any portion of the value of the foregoing be included as an Annual Addition.

(ii) Employer means Dime Community Bancshares, Inc., and all members of a controlled group of corporations, as defined in section 414(b) of the Code, as modified by section 415(h) of the Code, all commonly controlled trades or businesses, as defined in section 414(c) of the Code, as modified by section 415(h) of the Code, all affiliated service groups, as defined in section 414(m) of the Code, of which Dime Community Bancshares, Inc. is a member, as well as any leasing organization, as defined in section 18.8, that employs any person who is considered an employee under section 18.8 and any other entity that is required to be aggregated with the Employer pursuant to regulations under section 414(o) of the Code.

(iii) Defined Benefit Plan Fraction means, for any Participant for any Limitation Year, a fraction, the numerator of which is the Projected Annual Benefit (determined as of the end of such Limitation Year) of the Participant under any qualified defined benefit plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years, and the denominator of which is as follows: (A) for Limitation Years ending prior to January 1, 1983, the lesser of (I) the dollar limitation in effect under section 415(b)(1) (A) of the Code for such Limitation Year, or (II) the amount which may be taken into account under section 415(b)(1)(B) of the Code with respect to such Participant for such Limitation Year; and (B) in all other cases, the lesser of (I) (except as provided in section 17.8(b) for a Top Heavy Plan Year) the product of 1.25 multiplied by the dollar limitation in effect under section 415(b)(1)(A) of the Code for such Limitation Year, or (II) the product of 1.4 multiplied by the amount which may be taken into account under section 415(b)(1)(B) of the Code with respect to such Participant for such Limitation Year.

(iv) Defined Contribution Plan Fraction means, for any Participant for any Limitation Year, a fraction (A) the numerator of which is the sum of such Participant's Annual Additions (determined as of the end of such Limitation Year) under this Plan and any other qualified defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years, and (B) the denominator of which is as follows: (I) for Limitation Years ending prior to January 1, 1983, the sum of the lesser of the following amounts for such Limitation Year and for each prior Limitation Year during which such Participant was employed by the Employer: (1) the Maximum Permissible Amount for such Limitation Year (without regard to section 415(c)(6) of the Code), or (2) the amount which may be taken into account under section 415(c)(1)(B) of the Code with respect to such Participant for such Limitation Year; and (II) in all other cases, the sum of the lesser of the following amounts for such Limitation Year and for each prior Limitation during which such Participant was employed by the Employer: (1) (except as provided in section 17.8(b) for a Top Heavy Plan Year) the product of 1.25 multiplied by the Maximum Permissible Amount for such Limitation Year (determined without regard to section 415(c)(6) of the Code), or (2) the product of 1.4 multiplied by the amount which may be taken into account under section 415(c)(1)(B) of the Code (or section 415(c)(7) of the Code, if applicable) with respect to such Participant for such Limitation Year; *provided, however*, that the Plan Administrator may, at his election, adopt the transition rule set forth in section 415(e)(6) of the Code in making the computation set forth in this section 8.2(c)(iv). If the sum of a Participant's Defined Benefit Plan Fraction and Defined Contribution Plan Fraction exceeded 1.0 as of September 30, 1983, then such Participant's Defined Contribution Plan Fraction shall be determined under regulations to be prescribed by the Secretary of the Treasury so that the sum of the fractions does not exceed 1.0.

(v) Limitation Year means the calendar year.

(vi) Maximum Permissible Amount means (A) \$25,000 (or such higher amount as may be permitted under section 415(d) of the Code because of cost of living increases) for Limitation Years beginning prior to January 1, 1983, and (B) the greater of (I) \$30,000, or (II) 25% of the dollar limitation in effect under section 415(b)(1)(A) of the Code for Limitation Years beginning on or after January 1, 1983 and prior to January 1, 1994, and (C) the lesser of (I) \$30,000 (or such higher amount as may be permitted under section 415(d) of the Code because of cost of living increases) or (II) the percentage limitation in effect under section 415(c)(1)(B) of the Code for Limitation Years beginning on or after January 1, 1995.

(vii) Projected Annual Benefit means a Participant's annual retirement benefit (adjusted to the actuarial equivalent of a straight life annuity if expressed in a form other than a straight life or qualified joint and survivor annuity) under any qualified defined benefit plan maintained by the Employer, whether or not terminated, assuming that the Participant will continue employment until the later of such Participant's current age or normal retirement age under such plan, and that the Participant's Total Compensation for the Limitation Year and all other relevant factors used to determine benefits under such plan will remain constant for all future Limitation Years.

(d) When a Participant's Annual Addition to this Plan must be reduced to satisfy the limitations of section 8.2(a) or (b), such reduction shall be applied to ESOP Contributions and to Shares allocated as a result of a Loan Repayment Contribution which are included as an Annual Addition in such order as shall result in the smallest reduction in the number of Shares allocable to the Participant's Account. No reduction shall be applied to 401(k) Safe Harbor Contributions unless and until all other amounts included in the Participant's Annual Addition have been reduced to zero. The amount by which any Participant's Annual Addition to this Plan is reduced shall be allocated in accordance with Articles V and VII as a contribution by the Employer in the next succeeding Limitation Year.

(e) Prior to determining a Participant's actual Total Compensation for a Limitation Year, the Employer may determine the limitations under this section 8.2 for a Participant on the basis of a reasonable estimation of the Participant's Total Compensation for the Limitation Year that is uniformly determined for all Participants who are similarly situated. As soon as it is administratively feasible after the end of the Limitation Year, the limitations of this section 8.2 shall be determined on the basis of the Participant's actual Total Compensation for the Limitation Year.

ARTICLE IX

VESTING

Section 9.1 **Vesting.**

Subject to the provisions of sections 9.2, 9.3 and 14.1(a), the balance credited to each Employee's Account shall become vested in accordance with the following schedule:

Period of Service In Years	Vested Percentage
less than 2 years	0%
2 years but less than 3 years	25%
3 years but less than 4 years	50%
4 years but less than 5 years	75%
5 or more years	100%

Section 9.2 **Vesting on Death, Disability Retirement or Change in Control.**

(a) Any previously unvested portion of the remainder of the balance credited to the Account of a Participant or of a person who is a Former Participant solely because he is excluded from participation under section 2.1(b) shall become fully vested in him immediately upon attainment of age 65, or, if earlier, upon the termination of his participation by reason of death, Disability, Retirement or upon the occurrence of a Change in Control of the Employer.

(b) Each Participant who is employed at the Gates Avenue branch on November 5, 1999, and each person who is a Former Participant solely because he is excluded from participation under section 2.1 (b) and who is employed at the Gates Avenue branch on November 5, 1999, shall be fully vested in his account on November 5, 1999 if his employment with any Affiliated Employer is terminated on November 5, 1999, as a result of the sale of the assets and liabilities of the November 5, 1999 effective on such date.

Section 9.3 **Vesting of 401(k) Safe Harbor Contribution Account.**

Notwithstanding anything contained in the Plan to the contrary, the entire balance credited to a Participant's 401(k) Safe Harbor Contribution Account shall be 100% vested without regard to his Period of Service.

Section 9.4 **Forfeitures on Termination of Employment.**

Upon the termination of employment of a Participant or Former Participant for any reason other than death, Disability, Retirement, that portion of the balance credited to his Account which is not vested at the date of such termination shall be forfeited as of the last Valuation Date for the Plan Year in which such termination of employment occurs. The proceeds of such forfeitures, less amounts, if any, required to be credited because of re-employment pursuant to section 9.5, shall be treated as Forfeitures and shall be disposed of as provided in section 9.6.

Section 9.5 **Amounts Credited Upon Re-Employment.**

If an Employee forfeited any amount of the balance credited to his Account upon his termination of employment with the Employer, and is re-employed prior to the occurrence of a Period of Severance of five years, then:

- (i) an amount equal to the Fair Market Value of the Shares forfeited, determined as of the date of forfeiture; and
- (ii) the amount credited to his General Investment Account that was forfeited, determined as of the date of forfeiture;

shall be credited back to his Account from the proceeds of forfeitures which are redeemed pursuant to section 9.3 during the Plan Year in which he is re-employed, unless such proceeds are insufficient, in which case, the Employer shall make an additional contribution in the amount of such deficiency.

Section 9.6

Allocation of Forfeitures.

Any Forfeitures that occur during a Plan Year shall be used to reduce the contributions required of the Employer under the Plan and shall be treated as Loan Repayment Contributions and ESOP Contributions in the proportions designated by the Committee in accordance with Article V.

ARTICLE X

THE TRUST FUND

Section 10.1

The Trust Fund.

The Trust Fund shall be held and invested under the Trust Agreement with the Trustee. The provisions of the Trust Agreement shall vest such powers in the Trustee as to investment, control and disbursement of the Trust Fund, and such other provisions not inconsistent with the Plan, including provision for the appointment of one or more "investment managers" within the meaning of section 3(38) of ERISA to manage and control (including acquiring and disposing of) all or any of the assets of the Trust Fund, as the Board may from time to time authorize. Except as required by ERISA, no bond or other security shall be required of any Trustee at any time in office.

Section 10.2

Investments.

Except to the extent provided to the contrary in section 10.3, the Trust Fund shall be invested in:

- (i) Shares;
- (ii) such Investment Funds as may be established from time to time by the Committee; and
- (iii) such other investments as may be permitted under the Trust Agreement;

in such proportions as shall be determined by the Committee or, if so provided under the Trust Agreement, as directed by one or more investment managers or by the Trustee, in its discretion; *provided, however*, that the investments of the Trust Fund shall consist primarily of Shares. Notwithstanding the immediately preceding sentence, the Trustee may temporarily invest the Trust Fund in short-term obligations of, or guaranteed by, the United States Government or an agency thereof, or may retain uninvested, or sell investments to provide, amounts of cash required for purposes of the Plan.

Section 10.3

Distributions for Diversification of Investments.

(a) Notwithstanding section 10.2, each Qualified Participant may:

(i) during the first 90 days of each of the first five Plan Years to begin after the Plan Year in which he first becomes a Qualified Participant, elect that such percentage of the balance credited to his Account as he may specify, but in no event more than 25% of the balance credited to his Account, be either distributed to him pursuant to this section 10.3(a)(i) or transferred to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust to the extent permitted by such plan, no later than 90 days after the last day that such election may be made; and

(ii) during the first 90 days of the sixth Plan Year to begin after the Plan Year in which he first becomes a Qualified Participant or of any Plan Year thereafter, elect that such percentage of the balance credited to his Account as he may specify, but in no event more than 50% of the balance credited to his Account, be either distributed to him pursuant to this section 10.3(a)(ii) or transferred to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust to the extent permitted by such plan, no later than 90 days after the last day that such election may be made.

For purposes of an election under this section 10.3, the balance credited to a Participant's Account shall be the balance credited to his Account determined as of the last Valuation Date to occur in the Plan Year immediately preceding the Plan Year in which such election is made and the 25% and 50% limitations shall apply to such balance after adjustment for all amounts previously distributed or transferred to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust under this Section 10.3.

(b) An election made under section 10.3(a) shall be made in writing, in the form and manner prescribed by the Plan Administrator, and shall be filed with the Plan Administrator during the election period specified in section 10.3(a). As soon as is practicable, and in no case later than 90 days following the end of the election period during which such election is made, the Plan Administrator shall take such actions as are necessary to cause the specified percentage of the balance credited to the Account of the Qualified Participant making the election to be distributed to such Qualified Participant.

(c) An election made under section 10.3(a) may be changed or revoked at any time during the election period described in section 10.3(a) during which it is initially made. In no event, however, shall any election under this section 10.3 result in more than 25% of the balance credited to the Participant's Account being distributed to the Participant or transferred to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust, if such election is made during a Plan Year to which section 10.3(a)(i) applies, or result in more than 50% of the balance distributed to the Participant or transferred to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust, if such election is made during the Plan Year to which section 10.3(a)(ii) applies or thereafter.

Section 10.4 **Use of Commingled Trust Funds.**

Subject to the provisions of the Trust Agreement, amounts held in the Trust Fund may be invested in:

- (a) any commingled or group trust fund described in section 401(a) of the Code and exempt under section 501(a) of the Code; or
- (b) any common trust fund exempt under section 584 of the Code maintained exclusively for the collective investment of the assets of trusts that are exempt under section 501(a) of the Code;

provided that the trustee of such commingled, group or common trust fund is a bank or trust company.

Section 10.5 **Management and Control of Assets.**

All assets of the Plan shall be held by the Trustee in trust for the exclusive benefit of Participants, Former Participants and their Beneficiaries. No part of the corpus or income of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants, Former Participants and their Beneficiaries, and for defraying reasonable administrative expenses of the Plan and Trust Fund. No person shall have any interest in or right to any part of the earnings of the Trust Fund, or any rights in, to or under the Trust Fund or any part of its assets, except to the extent expressly provided in the Plan.

ARTICLE XI

VALUATION OF INTERESTS IN THE TRUST FUND

Section 11.1 **Establishment of Investment Accounts.**

The Plan Administrator shall establish, or cause to be established, for each person for whom an Account is maintained a Share Investment Account and a General Investment Account. Such Share Investment Accounts and General Investment Accounts shall be maintained in accordance with this Article XI.

Section 11.2 **Share Investment Accounts.**

The Share Investment Account established for a person in accordance with section 11.1 shall be credited with: (a) all Shares allocated to such person's Account; (b) all Shares purchased with amounts of money or property allocated to such person's Account; (c) all dividends paid in the form of Shares with respect to Shares credited to his Account; and (d) all Shares purchased with amounts credited to such person's General Investment Account. Such Share Investment Account shall be charged with all Shares that are sold or exchanged to acquire other investments or to provide cash and with all Shares that are distributed in kind.

Section 11.3

General Investment Accounts.

The General Investment Account that is established for a person in accordance with section 11.1 shall be credited with: (a) all amounts, other than Shares, allocated to such person's Account; (b) all dividends paid in a form other than Shares with respect to Shares credited to such person's Share Investment Account; (c) the proceeds of any sale of Shares credited to such person's Share Investment Account; and (d) any earnings attributable to amounts credited to such person's General Investment Account. Such General Investment Account shall be charged with all amounts credited thereto that are applied to the purchase of Shares, any losses or depreciation attributable to amounts credited thereto, any expenses allocable thereto and any distributions of amounts credited thereto.

Section 11.4

Valuation of Investment Accounts.

(a) The Plan Administrator shall determine, or cause to be determined, the aggregate value of each person's Share Investment Account as of each Valuation Date by multiplying the number of Shares credited to such Share Investment Account on such Valuation Date by the Fair Market Value of a Share on such Valuation Date.

(b) As of each Valuation Date, the Accounts of each Participant shall be separately adjusted to reflect their proportionate share of any appreciation or depreciation in the fair market value of the Investment Funds, any income earned by the Investment Funds and any expenses incurred by the Investment Funds, as well as any contributions, withdrawals or distributions and investment transfers not posted as of the last Valuation Date.

Section 11.5

Annual Statements.

There shall be furnished, by mail or otherwise, at least once in each Plan Year to each person who would then be entitled to receive all or part of the balance credited to any Account if the Plan were then terminated, a statement of his interest in the Plan as of such date as shall be selected by the Plan Administrator, which statement shall be deemed to have been accepted as correct and be binding on such person unless the Plan Administrator receives written notice to the contrary within 30 days after the statement is mailed or furnished to such person.

ARTICLE XII

SHARES

Section 12.1

Specific Allocation of Shares.

All Shares purchased under the Plan shall be specifically allocated to the Share Investment Accounts of Participants, Former Participants and their Beneficiaries in accordance with section 11.2, with the exception of Financed Shares, which shall be allocated to the Loan Repayment Account.

Section 12.2

Dividends.

(a) Subject to Article XIX, dividends paid with respect to Shares held under the Plan shall be credited to the Loan Repayment Account, if paid with respect to Financed Shares. Such dividends shall be: (i) applied to the payment of principal and accrued interest with respect to any Share Acquisition Loan, if paid in cash; or (ii) held in the Loan Repayment Account as Financed Shares for release in accordance with section 6.4, if paid in the form of Shares.

(b) Dividends paid with respect to Shares allocated to a person's Share Investment Account shall be credited to such person's Share Investment Account. Cash dividends credited to a person's General Investment Account shall be, at the direction of the Board, either: (i) held in such General Investment Account and invested in accordance with sections 10.2 and 11.3; (ii) distributed immediately to such person; (iii) distributed to such person within 90 days of the close of the Plan Year in which such dividends were paid; (iv) in the case of dividends paid after December 31, 2002, if such person is 100% vested and at the election of such person, either distributed to him as provided in section 12.2(b)(iii) or retained in his Account and reinvested in Shares; or (v) used to make payments of principal or interest on a Share Acquisition Loan; *provided, however*, that the Fair Market Value of Financed Shares released from the Loan Repayment Account equals or exceeds the amount of the dividend.

Section 12.3

Voting Rights.

(a) Each person shall direct the manner in which all voting rights appurtenant to Shares allocated to his Share Investment Account will be exercised, provided that such Shares were allocated to his Share Investment Account as of the applicable record date. Such a direction shall be given by completing and filing with the inspector of elections, the Trustee or such other person who shall be independent of the Employer as the Committee shall designate, at least 10 days prior to the date of the meeting of holders of Shares at which such voting rights will be exercised, a written direction in the form and manner prescribed by the Committee. The inspector of elections, the Trustee or such other person designated by the Committee shall tabulate the directions given on a strictly confidential basis, and shall provide the Committee with only the final results of the tabulation. The final results of the tabulation shall be followed by the Committee in directing the Trustee as to the manner in which such voting rights shall be exercised. The Plan Administrator shall make a reasonable effort to furnish, or cause to be furnished, to each person for whom a Share Investment Account is maintained all annual reports, proxy materials and other information known by the Plan Administrator to have been furnished by the issuer of the Shares, or by any solicitor of proxies, to the holders of Shares.

(b) To the extent that any person shall fail to give instructions with respect to the exercise of voting rights appurtenant to Shares allocated to his Share Investment Account:

(i) the Trustee shall, with respect to each matter to be voted upon: (A) cast a number of affirmative votes equal to the product of (I) the number of allocated Shares for which no written instructions have been given, multiplied by (II) a fraction, the numerator of which is the number of allocated Shares for which affirmative votes will be cast in accordance with written instructions given as provided in section 12.3(a) and the denominator of which is the aggregate number of affirmative and negative votes which will be cast in accordance with written instructions given as aforesaid, and (B) cast a number of negative votes equal to the excess (if any) of (I) the number of allocated Shares for which no written instructions have been given over (II) the number of affirmative votes being cast with respect to such allocated Shares pursuant to section 12.3(b)(i)(A); or

(ii) if the Trustee shall determine that it may not, consistent with its fiduciary duties, vote the allocated Shares for which no written instructions have been given in the manner described in section 12.3(b)(i), it shall vote such Shares in such manner as it, in its discretion, may determine to be in the best interests of the persons to whose Share Investment Accounts such Shares have been allocated.

(c) i) The voting rights appurtenant to Financed Shares shall be exercised as follows with respect to each matter as to which holders of Shares may vote:

(A) a number of votes equal to the product of (I) the total number of votes appurtenant to Financed Shares allocated to the Loan Repayment Account on the applicable record date; multiplied by (II) a fraction, the numerator of which is the total number of affirmative votes cast by Participants, Former Participants and the Beneficiaries of deceased Former Participants with respect to such matter pursuant to section 12.3(a) and the denominator of which is the total number of affirmative and negative votes cast by Participants, Former Participants and the Beneficiaries of deceased Former Participants, shall be cast in the affirmative; and

(B) a number of votes equal to the excess of (I) the total number of votes appurtenant to Financed Shares allocated to the Loan Repayment Account on the applicable record date, over (II) the number of affirmative votes cast pursuant to section 12.3(c)(i)(A) shall be cast in the negative.

To the extent that the Financed Shares consist of more than one class of Shares, this section 12.3(c)(i) shall be applied separately with respect to each class of Shares.

(ii) If voting rights are to be exercised with respect to Financed Shares as provided in section 12.3(c)(i)(A) and (B) at a time when there are no Shares allocated to the Share Investment Accounts of Participants, Former Participants and the Beneficiaries of deceased Former Participants, then the voting rights appurtenant to Financed Shares shall be exercised as follows with respect to each matter as to which holders of Shares may vote:

(A) Each person who is a Participant on the applicable record date and who was a Participant on the last day of the Plan Year ending on or immediately prior to such record date will be granted a number of votes equal to the quotient, rounded to the nearest integral number, of (I) such Participant's Allocation Compensation for the Plan Year ending on or immediately prior to such record date (or for the portion of such Plan Year during which he was a Participant); divided by (II) \$1,000.00; and

(B) a number of votes equal to the product of (I) the total number of Financed Shares allocated to the Loan Repayment Account on the applicable record date; multiplied by (II) a fraction, the numerator of which is the total number of votes that are cast in the affirmative with respect to such matter pursuant to section 12.3(c)(ii)(A) and the denominator of which is the total number of votes that are cast either in the affirmative or in the negative with respect to such matter pursuant to section 12.3(c)(ii)(A), shall be cast in the affirmative; and

(C) a number of votes equal to the excess of (I) the total number of Financed Shares allocated to the Loan Repayment Account on the applicable record date, over (II) the number of affirmative votes cast with respect to such matter pursuant to section 12.3(c)(ii)(B), shall be cast in the negative.

To the extent that the Financed Shares consist of more than one class of Shares, this section 12.3(c)(ii) shall be applied separately with respect to each class of Shares.

(d) Each such person shall, for purposes of this section 12.3, be deemed a "named fiduciary" within the meaning of section 402(a)(2) of ERISA.

Section 12.4 **Tender Offers.**

(a) Each person shall direct whether Shares allocated to his Share Investment Account will be delivered in response to any Tender Offer. Such a direction shall be given by completing and filing with the Trustee or such other person who shall be independent of the Employer as the Committee shall designate, at least 10 days prior to the latest date for exercising a right to deliver Shares pursuant to such Tender Offer, a written direction in the form and manner prescribed by the Committee. The Trustee or other person designated by the Committee shall tabulate the directions given on a strictly confidential basis, and shall provide the Committee with only the final results of the tabulation. The final results of the tabulation shall be followed by the Committee in directing the number of Shares to be delivered. The Plan Administrator shall make a reasonable effort to furnish, or cause to be furnished, to each person for whom a Share Investment Account is maintained, all information known by the Plan Administrator to have been furnished by the issuer or by or on behalf of any person making such Tender Offer, to the holders of Shares in connection with such Tender Offer.

- (b) To the extent that any person shall fail to give instructions with respect to Shares allocated to his Share Investment Account:
- (i) the Trustee shall (A) tender or otherwise offer for purchase, exchange or redemption a number of such Shares equal to the product of (I) the number of allocated Shares for which no written instructions have been given, multiplied by (II) a fraction, the numerator of which is the number of allocated Shares tendered or otherwise offered for purchase, exchange or redemption in accordance with written instructions given as provided in section 12.4(a) and the denominator of which is the aggregate number of allocated Shares for which written instructions have been given as aforesaid, and (B) withhold a number of Shares equal to the excess (if any) of (I) the number of allocated Shares for which no written instructions have been given over (II) the number of Shares being tendered or otherwise offered pursuant to section 12.4(b)(i)(A); or
 - (ii) if the Trustee shall determine that it may not, consistent with its fiduciary duties, exercise the tender or other rights appurtenant to allocated Shares for which no written instructions have been given in the manner described in section 12.4(b)(i), it shall tender, or otherwise offer, or withhold such Shares in such manner as it, in its discretion, may determine to be in the best interests of the persons to whose Share Investment Accounts such Shares have been allocated.
- (c) In the case of any Tender Offer, any Financed Shares held in the Loan Repayment Account shall be dealt with as follows:
- (i) If such Tender Offer occurs at a time when there are no Shares allocated to the Share Investment Accounts of Participants, Former Participants and the Beneficiaries of deceased Former Participants, then the disposition of the Financed Shares shall be determined as follows:
 - (A) each person who is a Participant on the applicable record date and who was a Participant on the last day of the Plan Year ending on or immediately prior to such record date will be granted a number of tender rights equal to the quotient, rounded to the nearest integral number, of (I) such Participant's Allocation Compensation for the Plan Year ending on or immediately prior to such record date (or for the portion of such Plan Year during which he was a Participant), divided by (II) \$1,000.00; and
 - (B) on the last day for delivering Shares or otherwise responding to such Tender Offer, a number of Shares equal to the product of (I) the total number of Financed Shares allocated to the Loan Repayment Account on the last day of the effective period of such Tender Offer; multiplied by (II) a fraction, the numerator of which is the total number of tender rights exercised in favor of the delivery of Shares in response to the Tender Offer pursuant to section 12.4(c)(i)(A) and the denominator of which is the total number of tender rights that are exercisable in response to the Tender Offer pursuant to section 12.4(c)(i)(A), shall be delivered in response to the Tender Offer; and

(C) a number of Shares equal to the excess of (I) the total number of Financed Shares allocated to the Loan Repayment Account on the last day of the effective period of such Tender Offer; over (II) the number of Shares to be delivered in response to the Tender Offer pursuant to section 12.4(c)(i)(B), shall be withheld from delivery.

(ii) If such Tender Offer occurs at a time when the voting rights appurtenant to such Financed Shares are to be exercised in accordance with section 12.3(c)(i), then:

(A) on the last day for delivering Shares or otherwise responding to such Tender Offer, a number of Financed Shares equal to the product of (I) the total number of Financed Shares allocated to the Loan Repayment Account on the last day of the effective period of such Tender Offer; multiplied by (II) a fraction, the numerator of which is the total number of Shares delivered from the Share Investment Accounts of Participants, Former Participants and the Beneficiaries of deceased Former Participants in response to such Tender Offer pursuant to section 12.4(a), and the denominator of which is the total number of Shares allocated to the Share Investment Accounts of Participants, Former Participants and Beneficiaries of deceased Former Participants immediately prior to the last day for delivering Shares or otherwise responding to such Tender Offer, shall be delivered; and

(B) a number of Financed Shares equal to the excess of (I) the total number of Financed Shares allocated to the Loan Repayment Account on the last day for delivering Shares or otherwise responding to such Tender Offer; over (II) the number of Financed Shares to be delivered pursuant to section 12.4(c)(ii)(A), shall be withheld from delivery.

To the extent that the Financed Shares consist of more than one class of Shares, this section 12.4(c) shall be applied separately with respect to each class of Shares.

(d) Each such person shall, for purposes of this section 12.4, be deemed a "named fiduciary" within the meaning of section 402(a)(2) of ERISA.

(d) If no Beneficiary survives the person entitled to the benefit under the Plan or if no Beneficiary has been designated by such person, such benefit shall be paid to the executor or administrator of the estate of such person, or if no such executor or administrator is appointed within such time as the Plan Administrator, in his sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Plan Administrator may select.

Section 13.3

Distributions to Participants and Former Participants.

(a) (i) The vested portion of the balance credited to a Participant's or a Former Participant's Account shall be distributed to him commencing as of the last Valuation Date to occur in the Plan Year in which the Participant or Former Participant terminates employment with the Employer or attains age 65, whichever is later, unless the Participant or Former Participant elects otherwise pursuant to section 13.3(a)(ii), and the payment, or first in a series of payments, is actually made within sixty (60) days following such Valuation Date; *provided, however*, that required minimum distributions shall be made earlier in accordance with section 13.5; and *provided, further*, that if termination of employment occurs prior to January 1, 1999 and the total vested balance credited to his Account at termination of employment is \$3,500 or less, or if termination of employment occurs after December 31, 1998 and the total vested balance credited to his Account at termination of employment is \$5,000 (or such higher amount as may be prescribed by law) or less, or if termination of employment occurs on or after March 28, 2005 and the total vested balance credited to his Account at termination of employment is \$1,000 or less, his entire vested interest in his Account shall be paid to him in a single lump sum as soon as practicable after termination of employment.

(ii) A Participant or Former Participant may, upon request on a form provided by the Plan Administrator and filed with the Plan Administrator not later than 15 days prior to the date on which his employment with the Employer terminates, elect that his vested interest in his Account be paid commencing as of any earlier or later Valuation Date after his termination of employment, but in no event later than the last Valuation Date to occur in the calendar year in which the Participant or Former Participant attains age 70½, in which case the payment, or first in a series of payments, shall be made within three months following such Valuation Date.

(b) (i) Subject to section 13.3(b)(ii), the vested portion of the balance credited to the Account of a Participant or Former Participant will be paid to him, commencing as of the Valuation Date determined under section 13.3(a), in substantially equal annual installments over a fixed period equal to the greater of:

(A) five years; or

(B) if the vested portion of the balance credited to the Account of the Participant or Former Participant, determined as of the Valuation Date determined under section 13.3(a), is greater than \$500,000 (or such larger amount as may be prescribed by the Secretary of the Treasury, pursuant to section 409(o) of the Code), the sum of five years plus the lesser of (I) five additional years; or (II) one additional year for each \$100,000 (or fraction thereof) by which the vested portion of the balance credited to the Participant's or Former Participant's Account exceeds \$500,000 (or such larger amount as may be prescribed by the Secretary of the Treasury pursuant to section 409(o) of the Code).

(ii) A Participant or Former Participant may, upon request on a form provided by the Plan Administrator and filed with the Plan Administrator not later than 15 days prior to the date on which his employment terminates, elect that the vested portion of the balance credited to his Account be paid, commencing as of the Valuation Date determined under section 13.3(a):

(A) in substantially equal annual installments over a fixed period not to exceed the lesser of (I) 10 years, or (II) the life expectancy of the Participant or Former Participant, or, if his Beneficiary is a Designated Beneficiary, the joint life and last survivor expectancy of the Participant or Former Participant and his Designated Beneficiary (determined before January 1, 2002 under Tables V and VI of section 1.72-9 of the Income Tax Regulations, using their respective attained ages as of their birthdays in the calendar year that includes the Valuation Date as of which the first payment is made, and after December 31, 2001 under the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury regulations using the Participant's age as of the Participant's birthday in such calendar year or, if the Participant's sole Designated Beneficiary is a surviving spouse who is more than 10 years younger than the Participant, the under the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in such calendar year); Or

(B) subject to section 13.4, in a lump sum payment.

(c) If any person entitled to a benefit under the Plan dies before his entire benefit has been distributed to him, then the remainder of such benefit shall be paid to the Beneficiary designated by him under section 13.2 either:

(i) in a lump sum distribution as of the Valuation Date next following the date of his death, and the amount thereof shall be based upon the vested portion of the balance credited to his Account as of such Valuation Date; or

(ii) if, prior to the death of the Participant or Former Participant whose vested Account is being distributed, an election pursuant to section 13.3(b)(ii)(B) is in effect for him, in a lump sum distribution as of the Valuation Date specified in such election, or, if earlier, as of the latest Valuation Date that would permit payment to be made within five years after the Participant's or Former Participant's death, and the amount thereof shall be based upon the vested portion of the balance credited to his Account as of such Valuation Date; or

(iii) if, prior to the death of the Participant or Former Participant whose vested Account is being distributed, an election pursuant to section 13.3(b)(ii)(A) is in effect for him:

(A) over the period and at the times set forth in such election, if distribution has begun prior to the Participant's or Former Participant's death; or

(B) commencing at the time set forth in such election and over the period set forth in such election (or, if less, over a period equal to the life expectancy of the Beneficiary of the deceased Participant or Former Participant), if the deceased Participant's or Former Participant's spouse is his Beneficiary and distribution has not begun prior to the deceased Participant's or Former Participant's death; or

(C) commencing on the date specified in such election (or, if earlier, the last Valuation Date that will permit payment to begin within one year after the deceased Participant's or Former Participant's death) and over the period set forth in such election (or, if less, over a period equal to the life expectancy of the Beneficiary of the deceased Participant or Former Participant), if the deceased Participant's or Former Participant's Beneficiary is a natural person other than his spouse and distribution has not begun prior to the deceased Participant's or Former Participant's death;

and the amount thereof shall be based upon the vested portion of the balance credited to his Account as of the Valuation Dates as of which payments are determined; or

(iv) upon written application of the Beneficiary made in such form and manner as the Plan Administrator may prescribe, at another time or in another manner permitted under section 13.3(a) or (b), subject to the following limitations:

(A) (I) If such Beneficiary is a Designated Beneficiary other than the spouse of the deceased Participant or Former Participant whose vested Account is being distributed, a distribution that commences within one year after such deceased Participant's or Former Participant's death shall be made over a fixed period that does not exceed the life expectancy of such Beneficiary when distribution commences.

(II) If such Designated Beneficiary is the spouse of the deceased Participant or Former Participant whose vested Account is being distributed, a distribution that commences no later than the later of: (1) the date on which the deceased Participant or Former Participant would have attained age 70½ had he lived; or (2) the first anniversary of the death of such deceased Participant or Former Participant; shall be made over a fixed period that does not exceed the life expectancy of such Designated Beneficiary when distribution commences.

(III) In all other cases where the spouse of the deceased Participant or Former Participant whose vested Account is being distributed is not the Beneficiary, payment must be completed within five years after the death of such deceased Participant or Former Participant.

(B) In cases where distribution has commenced prior to the death of the deceased Participant or Former Participant whose vested Account is being distributed, distribution must be completed as least as rapidly as under the method in effect prior to such deceased Participant's or Former Participant's death.

The determination whether a Beneficiary is a Designated Beneficiary and whether a Designated Beneficiary is a surviving spouse shall be made not later than September 30th of the calendar year following the calendar year in which the Employee dies. For purposes of computing payments in years prior to 2002, life expectancy shall be determined using Table V of section 1.72-9 of the Income Tax Regulations based on the Beneficiary's attained age in the year of the first payment. For purposes of computing payments in years after 2002, payments for calendar years that begin during the lifetime of a surviving spouse who is a Designated Beneficiary shall be determined using the Single Life Table set forth in section 1.401(a)(9)-9 of the Income Tax Regulations based on the spouse's attain age in such year and payments for subsequent calendar years shall be determined using the Single Life Table set forth in section 1.401(a)(9)-9 of the Income Tax Regulations based on the spouse's attain age in the year of death. For purposes of computing payments in years after 2001, payments to a Designated Beneficiary other than surviving spouse shall be determined using the Single Life Table set forth in section 1.401(a)(9)-9 of the Income Tax Regulations based on the Designated Beneficiary's attain age in the year of the Employee's death.

Section 13.4

Manner of Payment.

(a) Subject to section 13.4(b), payments of distributions made pursuant to section 13.3 or section 13.5 shall be paid, in accordance with the written direction of the person requesting the payment, in whole Shares, in cash, or in a combination of cash and whole Shares. Such written direction shall be given in such form and manner as the Plan Administrator may prescribe. If no such direction is given, then payment shall be made in the maximum number of whole Shares that may be acquired with the amount of the payment, plus, if necessary, an amount of money equal to any remaining amount of the payment that is less than the Fair Market Value of a whole Share.

(b) No distribution of a lump sum payment shall be made in cash to the extent that the making of such distribution, when combined with all other distributions to be made in cash as of the same Valuation Date, would require the sale of Shares constituting 1% or more of all outstanding Shares; *provided, however*, that this section 13.4(b) shall not apply to or in respect of a Participant or Former Participant:

- (i) following such Participant's or Former Participant's termination of employment with the Employer on account of his Retirement or Disability; or
- (ii) following such Participant's or Former Participant's 65th birthday; or
- (iii) following the death of such Participant or Former Participant.

Section 13.5 **Minimum Required Distributions.**

(a) Required minimum distributions of a Participant's or Former Participant's Account shall commence no later than:

(i) if the Participant or Former Participant attained age 70½ prior to January 1, 1988 and was not a Five Percent Owner at any time during the Plan Year ending in the calendar year in which he attained age 70½, during any of the four preceding Plan Years or during any subsequent years, the later of (A) the calendar year in which he attains or attained age 70½ or (B) the calendar year in which he terminates employment with the Employer; or

(ii) if the Participant or Former Participant attained age 70½ prior to January 1, 1988 and is or was a Five Percent Owner at any time during the Plan Year ending in the calendar year in which he attained age 70½, or during any of the four preceding Plan Years or during any subsequent years, the later of (A) the calendar year in which he attains age 70½ or (B) the calendar year in which he first becomes a Five Percent Owner; or

(iii) if the Participant or Former Participant attains age 70½ after December 31, 1987 and before January 1, 1997, in all other cases, the calendar year in which the Participant or Former Participant attains age 70½; or

(iv) if the Participant or Former Participant attains age 70½ after December 31, 1998 and was not a Five Percent Owner at any time during the Plan Year ending in the calendar year in which he attained age 70½, during any of the four preceding Plan Years or during any subsequent years, the later of (A) the calendar year in which he attains or attained age 70½ or (B) the calendar year in which he terminates employment with the Employer and all Affiliated Employers; or

(v) if the Participant or Former Participant attains age 70½ after December 31, 1998 and is or was a Five Percent Owner at any time during the Plan Year ending in the calendar year in which he attained age 70½, during any of the four preceding Plan Years or during any subsequent years, the later of (A) the calendar year in which he attains age 70½ or (B) the calendar year in which he first becomes a Five Percent Owner;

provided, however, that any Participant who is employed by an Employer after December 31, 1996 may elect not to receive, or to discontinue receiving, such required minimum distributions until April 1 of the year following the year in which such Participant terminates employment or is or becomes a Five Percent Owner, whichever is earlier.

(b) The required minimum distributions contemplated by section 13.5(a) shall be made as follows:

(i) The minimum required distribution to be made for the calendar year for which the first minimum distribution is required shall be no later than April 1st of the immediately following calendar year and shall be equal to the quotient obtained by dividing (A) the vested balance credited to the Participant's or Former Participant's Account as of the last Valuation Date to occur in the calendar year immediately preceding the calendar year in which the first minimum distribution is required (adjusted to account for any additions thereto or subtractions therefrom after such Valuation Date but on or before December 31st of such calendar year); by (B) the Participant's or Former Participant's life expectancy (or, if his Beneficiary is a natural person, the joint life and last survivor expectancy of him and his Beneficiary); and

(ii) the minimum required distribution to be made for each calendar year following the calendar year for which the first minimum distribution is required shall be made no later than December 31st of the calendar year for which the distribution is required and shall be equal to the quotient obtained by dividing (A) the vested balance credited to the Participant's or Former Participant's Account as of the last Valuation Date to occur in the calendar year prior to the calendar year for which the distribution is required (adjusted to account for any additions thereto or subtractions therefrom after such Valuation Date but on or before December 31st of such calendar year and, in the case of the distribution for the calendar year immediately following the calendar year for which the first minimum distribution is required, reduced by any distribution for the prior calendar year that is made in the current calendar year); by (B) the Participant's or Former Participant's life expectancy (or, if his Beneficiary is a Designated Beneficiary, the joint life and last survivor expectancy of him and his Beneficiary).

For purposes of this section 13.5, the life expectancy of a Participant or Former Participant (or the joint life and last survivor expectancy of a Participant or Former Participant and his Designated Beneficiary) for the calendar year in which the Participant or Former Participant attains age 70½ shall be determined on the basis of Tables V and VI, as applicable, of section 1.72-9 of the Income Tax Regulations as of the Participant's or Former Participant's and Beneficiary's birthday in such year. Such life expectancy or joint life and last survivor expectancy for any subsequent year shall be equal to the excess of (1) the life expectancy or joint life and last survivor expectancy for the year in which the Participant or Former Participant attains age 70½, over (2) the number of whole years that have elapsed since the Participant or Former Participant attained age 70½.

(c) For purposes of this section 13.5:

(A) for taxable years beginning before January 1, 2003, the life expectancy of a Participant or Former Participant (or the joint life and last survivor expectancy of a Participant or Former Participant and his Designated Beneficiary) for the calendar year in which the Participant or Former Participant attains age 70½ shall be determined on the basis of Tables V and VI, as applicable, of section 1.72-9 of the Income Tax Regulations as of the Participant's or Former Participant's birthday in such year. Such life expectancy or joint life and last survivor expectancy for any subsequent year shall be equal to the excess of (1) the life expectancy or joint life and last survivor expectancy for the year which the Participant or Former Participant attains age 70½, over (2) the number of whole years that have elapsed since the Participant or Former Participant attained age 70½; and

(B) for taxable years beginning after December 31, 2002, during the Participant's or Former Participant's lifetime, life expectancy shall be equal to:

(1) the distribution period in the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Participant's age as of the Participant's birthday in such calendar year; or

(2) if the Participant's spouse is the sole designated Beneficiary and the spouse is more than ten years younger than the Participant, the number in the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in such calendar year.

(d) Payment of the distributions required to be made to a Participant or Former Participant under this section 13.5 shall be made in accordance with section 13.4.

Section 13.6 **Direct Rollover of Eligible Rollover Distributions.**

(a) A Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) The following rules shall apply with respect to Direct Rollovers made pursuant to this section 13.6:

(i) A Participant may only elect to make a Direct Rollover of an Eligible Rollover Distribution if such Eligible Rollover Distribution (when combined with other Eligible Rollover Distributions made or to be made in the same calendar year) is reasonably expected to be at least \$200;

(ii) If a Participant elects a Direct Rollover of a portion of an Eligible Rollover Distribution, that portion must be equal to at least \$500; and

(iii) A Participant may not divide his or her Eligible Rollover Distribution into separate distributions to be transferred to two or more Eligible Retirement Plans.

(c) For purposes of this section 13.6 and any other applicable section of the Plan, the following definitions shall have the following meanings:

(i) "Direct Rollover" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

(ii) "Distributee" means an Employee or former Employee or, for distributions after June 30, 2008, a designated Beneficiary of a deceased Participant who is not the surviving spouse of such Participant. In addition, the Employee's or former Employee's surviving spouse and the Employee's spouse or former spouse who is the alternate payee under a Qualified Domestic Relations Order are considered Distributees with regard to the interest of the spouse or former spouse.

(iii) "Eligible Retirement Plan" means an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, a qualified trust described in section 401(a) of the Code, and (for distributions after December 31, 2001 only) an annuity contract described in section 403(b) of the Code or an eligible deferred compensation plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or an agency or instrumentality of a state or political subdivision thereof, and (for distributions after December 31, 2007 only) a Roth IRA described in section 408A(b) and which agrees to separately account for amounts transferred into such plan from this Plan, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution made before January 1, 2002 to a current or former spouse who is the alternate payee under a Qualified Domestic Relations Order or to a surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity. In the case of an Eligible Rollover Distribution made after June 30, 2008, on behalf of a designated Beneficiary of a deceased Participant who is not a surviving spouse of such Participant, an Eligible Retirement Plan shall mean an individual retirement account described in section 408(a) of the Code or an individual retirement annuity described in section 408(b) of the Code, established for the purpose of receiving the distribution only in a direct trustee-to-trustee transfer, provided that such account or annuity accepts the Beneficiary's trustee-to-trustee Eligible Rollover Distribution.

(iv) "Eligible Rollover Distribution" means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee's designated Beneficiary, or for a specified period of ten (10) years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; any distribution made after December 31, 1999 on account of Hardship; and in the case of a distribution made before January 1, 2002, in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

Section 13.7 **Valuation of Shares Upon Distribution to a Participant.**

Notwithstanding any contrary provision in this Article XIII, in the event that all or a portion of a payment of a distribution to a Participant is to be made in cash, such Participant shall only be entitled to receive the proceeds of the Shares allocated to his Account that are sold in connection with such distribution and which are valued as of the date of such sale.

Section 13.8 **Put Options.**

(a) Subject to section 13.8(c) and except as provided otherwise in section 13.8(b), each Participant or Former Participant to whom Shares are distributed under the Plan, each Beneficiary of a deceased Participant or Former Participant, including the estate of a deceased Participant or Former Participant, to whom Shares are distributed under the Plan, and each person to whom such a Participant, Former Participant or Beneficiary gives Shares that have been distributed under the Plan shall have the right to require the Employer to purchase from him all or any portion of such Shares. A person shall exercise such right by delivering to the Employer a written notice, in such form and manner as the Employer may by written notice to such person prescribe, setting forth the number of Shares to be purchased by the Employer, the number of the stock certificate evidencing such person's ownership of such Shares, and the effective date of the purchase. Such notice shall be given at least 30 days in advance of the effective date of purchase, and the effective date of purchase specified therein shall be, either within the 60 day period that begins on the date on which the Shares to be purchased by the Employer were distributed from the Plan or within the 60 day period that begins on the first day of the Plan Year immediately following the Plan Year in which the Shares to be purchased by the Employer are distributed from the Plan. As soon as practicable following its receipt of such a notice, the Employer shall take such actions as are necessary to purchase the Shares specified in such notice at a price per Share equal to the Fair Market Value of a Share determined as of the Valuation Date coincident with or immediately preceding the effective date of the purchase.

(b) The Employer shall have no obligation to purchase any Share (i) pursuant to a notice that is not timely given, or on an effective date of purchase that is not within the periods prescribed in section 13.8(a) or (ii) following the earliest date on which Shares are publicly traded on an established market.

(c) This section 13.8 shall not apply so long as the Employer is prohibited by law from redeeming or purchasing its own securities.

Section 13.9 **Right of First Refusal.**

(a) Subject to section 13.9(d), for any period during which Shares are not publicly traded in any established market, no person who owns Shares that were distributed from the Plan, other than a person to whom such Shares were sold in compliance with this section 13.9, shall sell such Shares to any person other than the Employer without first offering to sell such Shares to the Employer in accordance with this section 13.9.

(b) In the event that a person to whom this section 13.9 applies shall receive and desire to accept from a person other than the Employer an offer to purchase Shares to which this section 13.9 applies, he shall furnish to the Employer a written notice which shall:

- (i) include a copy of such offer to purchase;
- (ii) offer to sell to the Employer the Shares subject to such offer to purchase at a price per Share that is equal to the greater of:
 - (A) the price per Share specified in such offer to purchase; or
 - (B) the Fair Market Value of a Share as of the Valuation Date coincident with or immediately preceding the date of such notice;

and otherwise upon the same terms and conditions as those specified in such offer to purchase; and

- (iii) include an indication of his intention to accept such offer to purchase if the Employer does not accept his offer to sell.

Such person shall refrain from accepting such offer to purchase for a period of fourteen days following the date on which such notice is given.

(c) Subject to section 13.9(d), the Employer shall have the right to purchase the Shares covered by the offer to sell contained in a notice given pursuant to section 13.9(b), on the terms and conditions specified in such notice, by written notice given to the party making the offer to sell not later than the fourteenth day after the notice described in section 13.9(b) is given. If the Employer does not give such a notice during the prescribed fourteen day period, then the person owning such Shares may accept the offer to purchase described in the notice.

(A) either (1) the members of the Board of Dime Community Bancshares, Inc. 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 (2) the shareholders of Dime Community Bancshares, Inc. 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 Dime Community Bancshares, Inc. before such merger or consolidation; and

(B) the entity which results from such merger or consolidation expressly agrees in writing to assume and perform Dime Community Bancshares, Inc.'s obligations under the Plan; or

(ii) a plan of complete liquidation of Dime Community Bancshares, Inc. or an agreement for the sale or disposition by Dime Community Bancshares, Inc. of all or substantially all of its assets; and

(d) any event that would be described in section 14.1(b)(i), (ii) or (iii) if "Bank" were substituted for "Dime Community Bancshares, Inc." therein; and

In no event, however, shall the transaction by which the Bank converts from a mutual savings bank to a stock savings bank, or any transaction by which a company wholly owned by the Bank becomes the parent company of the Bank be deemed a Change in Control.

Section 14.2 **Vesting on Change of Control.**

Upon the effective date of a Change in Control, the Account of each person who would then, upon termination of the Plan, be entitled to a benefit, shall be fully vested and nonforfeitable.

Section 14.3 **Repayment of Loan.**

(a) Upon a Change in Control described in section 14.1(c) (or which would be described in section 14.1(c) if "Bank" were substituted for "Dime Community Bancshares, Inc." thereunder), the Committee shall direct the Trustee to sell a sufficient number of Shares to repay any outstanding Share Acquisition Loan in full. The proceeds of such sale shall be used to repay such Share Acquisition Loan immediately prior to the closing of the transaction. After repayment of the Share Acquisition Loan, all remaining Shares which had been unallocated (or the proceeds thereof, if applicable) shall be allocated among the accounts of all Participants who were employed by an Employer on the effective date of such Change in Control. Such allocation of Shares or proceeds shall be credited as of the date on which the Change in Control occurs to the Accounts of each person with an undistributed, vested Account balance, in proportion to the balances credited to such Accounts immediately prior to such allocation. If any amount cannot be allocated to an affected Participant in the year of such Change in Control as a result of the limitations of section 415 of the Code, the amounts will be allocated in subsequent years to those persons who were affected Participants and who continue to be Participants in the Plan until finally distributed to affected Participants.

(b) In the event that the application of section 415 of the Code prevents the allocation of all of the Shares or other assets released from the Loan Repayment Account as provided in section 14.3(a) as of the effective date of the Change in Control, each affected Participant shall be entitled to receive a supplemental benefit payment directly from the Employer. The supplemental benefit payment to each affected Participant shall be an amount equal to the excess of:

(i) the total amount of Shares or other property that would be allocated to such affected Participant's Account under section 14.3(a) if section 415 of the Code did not apply; over

(ii) the total of Shares or other property actually allocated to such affected Participant's Account under section 14.3(a).

Such payment (without offset for any allocations which may occur under this Plan subsequent to the Change in Control) shall be made as soon as practicable, but in any event within ten (10) business days, after the effective date of the Change in Control. This section 14.3(b) shall be treated as a separate, non-qualified "excess benefit plan" within the meaning of section 3(34) of ERISA and shall be interpreted, administered and enforced in a manner consistent with this intention. To the extent that any affected Participant is entitled to the same or a similar payment under any other nonqualified plan, program or arrangement of the Employer, any payment under this section 14.3(b) shall be coordinated with the payments under such other non-qualified programs, plan or arrangements in such manner as shall be determined by the Committee to be necessary to prevent the duplication of benefits.

Section 14.4 **Plan Termination After Change in Control.**

After repayment of the loan and allocation of shares or proceeds as provided in section 14.2, the Plan shall be terminated and all amounts shall be distributed as soon as practicable.

Section 14.5 **Amendment of Article XIV.**

Article XIV of the Plan may not be amended after a Change in Control of the Employer unless required by the Internal Revenue Service as a condition to the continued treatment of the Plan as a tax-qualified plan under section 401 (a) of the Code.

ARTICLE XV

ADMINISTRATION

Section 15.1 **Named Fiduciaries.**

The term "Named Fiduciary" shall mean (but only to the extent of the responsibilities of each of them) the Plan Administrator, the Committee, the Board and the Trustee. This Article XV is intended to allocate to each Named Fiduciary the responsibility for the prudent execution of the functions assigned to him or it, and none of such responsibilities or any other responsibility shall be shared by two or more of such Named Fiduciaries. Whenever one Named Fiduciary is required by the Plan or Trust Agreement to follow the directions of another Named Fiduciary, the two Named Fiduciaries shall not be deemed to have been assigned a shared responsibility, but the responsibility of the Named Fiduciary giving the directions shall be deemed his sole responsibility, and the responsibility of the Named Fiduciary receiving those directions shall be to follow them insofar as such instructions are on their face proper under applicable law.

Section 15.2

Plan Administrator.

There shall be a Plan Administrator, who shall be the Senior Human Resources Officer of Dime Community Bancshares, Inc., or such Employee or officer as may be designated by the Committee, as hereinafter provided, and who shall, subject to the responsibilities of the Committee and the Board, have the responsibility for the day-to-day control, management, operation and administration of the Plan (except trust duties). The Plan Administrator shall have the following responsibilities:

- (a) To maintain records necessary or appropriate for the administration of the Plan;
- (b) To give and receive such instructions, notices, information, materials, reports and certifications to the Trustee as may be necessary or appropriate in the administration of the Plan;
- (c) To prescribe forms and make rules and regulations consistent with the terms of the Plan and with the interpretations and other actions of the Committee;
- (d) To require such proof of age or evidence of good health of an Employee, Participant or Former Participant or the spouse of either, or of a Beneficiary as may be necessary or appropriate in the administration of the Plan;
- (e) To prepare and file, distribute or furnish all reports, plan descriptions, and other information concerning the Plan, including, without limitation, filings with the Secretary of Labor and communications with Participants, Former Participants and other persons, as shall be required of the Plan Administrator under ERISA;
- (f) To determine any question arising in connection with the Plan, and the Plan Administrator's decision or action in respect thereof shall be final and conclusive and binding upon the Employer, the Trustee, Participants, Former Participants, Beneficiaries and any other person having an interest under the Plan; *provided, however*, that any question relating to inconsistency or omission in the Plan, or interpretation of the provisions of the Plan, shall be referred to the Committee by the Plan Administrator and the decision of the Committee in respect thereof shall be final;
- (g) Subject to the provisions of section 15.5, to review and dispose of claims under the Plan filed pursuant to section 15.4;

(h) If the Plan Administrator shall determine that by reason of illness, senility, insanity, or for any other reason, it is undesirable to make any payment to a Participant, Former Participant, Beneficiary or any other person entitled thereto, to direct the application of any amount so payable to the use or benefit of such person in any manner that he may deem advisable or to direct in his discretion the withholding of any payment under the Plan due to any person under legal disability until a representative competent to receive such payment in his behalf shall be appointed pursuant to law;

(i) To discharge such other responsibilities or follow such directions as may be assigned or given by the Committee or the Board; and

(j) To perform any duty or take any action which is allocated to the Plan Administrator under the Plan.

The Plan Administrator shall have the power and authority necessary or appropriate to carry out his responsibilities. The Plan Administrator may resign only by giving at least 30 days' prior written notice of resignation to the Committee, and such resignation shall be effective on the date specified in such notice.

Section 15.3 **Committee Responsibilities.**

The Committee shall, subject to the responsibilities of the Board, have the following responsibilities:

(a) To review the performance of the Plan Administrator;

(b) To hear and decide appeals, pursuant to the claims procedure contained in section 15.5 of the Plan, taken from the decisions of the Plan Administrator;

(c) To hear and decide questions, including interpretation of the Plan, as may be referred to the Committee by the Plan Administrator;

(d) To review the performance of the Trustee and such investment managers as may be appointed in or pursuant to the Trust Agreement in investing, managing and controlling the assets of the Plan;

(e) To the extent required by ERISA, to establish a funding policy and method consistent with the objectives of the Plan and the requirements of ERISA, and to review such policy and method at least annually;

(f) To report and make recommendations to the Board regarding changes in the Plan, including changes in the operation and management of the Plan and removal and replacement of the Trustee and such investment managers as may be appointed in or pursuant to the Trust Agreement;

(g) To designate an Alternate Plan Administrator to serve in the event that the Plan Administrator is absent or otherwise unable to discharge his responsibilities;

- (h) To remove and replace the Plan Administrator or Alternate, or both of them, and to fill a vacancy in either office;
- (i) To the extent provided under and subject to the provisions of the Trust Agreement, to appoint "investment managers" as defined in section 3(38) of ERISA to manage and control (including acquiring and disposing of) all or any of the assets of the Plan;
- (j) With the prior approval of the Board, to direct the Trustee to obtain one or more Share Acquisition Loans;
- (k) To develop and provide procedures and forms necessary to enable Participants to give voting and tendering directions on a confidential basis;
- (l) To discharge such other responsibilities or follow such directions as may be assigned or given by the Board; and
- (m) To perform any duty or take any action which is allocated to the Committee under the Plan.

The Committee shall have the power and authority necessary or appropriate to carry out its responsibilities.

Section 15.4 **Claims Procedure.**

Any claim relating to benefits under the Plan shall be filed with the Plan Administrator on a form prescribed by him. If a claim is denied in whole or in part, the Plan Administrator shall give the claimant written notice of such denial, which notice shall specifically set forth:

- (a) The reasons for the denial;
- (b) The pertinent Plan provisions on which the denial was based;
- (c) Any additional material or information necessary for the claimant to perfect his claim and an explanation of why such material or information is needed; and
- (d) An explanation of the Plan's procedure for review of the denial of the claim.

In the event that the claim is not granted and notice of denial of a claim is not furnished by the 30th day after such claim was filed, the claim shall be deemed to have been denied on that day for the purpose of permitting the claimant to request review of the claim.

Section 15.5 **Claims Review Procedure.**

Any person whose claim filed pursuant to section 15.4 has been denied in whole or in part by the Plan Administrator may request review of the claim by the Committee, upon a form prescribed by the Plan Administrator. The claimant shall file such form (including a statement of his position) with the Committee no later than 60 days after the mailing or delivery of the written notice of denial provided for in section 15.4, or, if such notice is not provided, within 60 days after such claim is deemed denied pursuant to section 15.4. The claimant shall be permitted to review pertinent documents. A decision shall be rendered by the Committee and communicated to the claimant not later than 30 days after receipt of the claimant's written request for review. However, if the Committee finds it necessary, due to special circumstances (for example, the need to hold a hearing), to extend this period and so notifies the claimant in writing, the decision shall be rendered as soon as practicable, but in no event later than 120 days after the claimant's request for review. The Committee's decision shall be in writing and shall specifically set forth:

- (a) The reasons for the decision; and
- (b) The pertinent Plan provisions on which the decision is based.

Any such decision of the Committee shall be binding upon the claimant and the Employer, and the Plan Administrator shall take appropriate action to carry out such decision.

Section 15.6 **Allocation of Fiduciary Responsibilities and Employment of Advisors.**

Any Named Fiduciary may:

- (a) Allocate any of his or its responsibilities (other than trustee responsibilities) under the Plan to such other person or persons as he or it may designate, provided that such allocation and designation shall be in writing and filed with the Plan Administrator;
- (b) Employ one or more persons to render advice to him or it with regard to any of his or its responsibilities under the Plan; and
- (c) Consult with counsel, who may be counsel to the Employer.

Section 15.7 **Other Administrative Provisions.**

- (a) Any person whose claim has been denied in whole or in part must exhaust the administrative review procedures provided in section 15.5 prior to initiating any claim for judicial review.
- (b) No bond or other security shall be required of a member of the Committee, the Plan Administrator, or any officer or Employee of the Employer to whom fiduciary responsibilities are allocated by a Named Fiduciary, except as may be required by ERISA.
- (c) Subject to any limitation on the application of this section 15.7(c) pursuant to ERISA, neither the Plan Administrator, nor a member of the Committee, nor any officer or Employee of the Employer to whom fiduciary responsibilities are allocated by a Named Fiduciary, shall be liable for any act of omission or commission by himself or by another person, except for his own individual willful and intentional malfeasance.

Section 16.3**Conformity to Internal Revenue Code.**

The Employer has established the Plan with the intent that the Plan and Trust will at all times be qualified under section 401(a) and exempt under section 501(a) of the Code and with the intent that contributions under the Plan will be allowed as deductions in computing the net income of the Employer for federal income tax purposes, and the provisions of the Plan and Trust Agreement shall be construed to effectuate such intentions. Accordingly, notwithstanding anything to the contrary hereinbefore provided, the Plan and the Trust Agreement may be amended at any time without prior notice to Participants, Former Participants, Beneficiaries or any other persons entitled to benefits, if such amendment is deemed by the Board to be necessary or appropriate to effectuate such intent.

Section 16.4**Contingent Nature of Contributions.**

(a) All ESOP Contributions to the Plan are conditioned upon the issuance by the Internal Revenue Service of a determination that the Plan and Trust are qualified under section 401(a) of the Code and exempt under section 501(a) of the Code. If the Employer applies to the Internal Revenue Service for such a determination within 90 days after the date on which it files its federal income tax return for its taxable year that includes the last day of the Plan Year in which the Plan is adopted, and if the Internal Revenue Service issues a determination that the Plan and Trust are not so qualified or exempt, all ESOP Contributions made by the Employer prior to the date of receipt of such a determination may, at the election of the Employer, be returned to the Employer within one year after the date of such determination.

(b) All ESOP Contributions and Loan Repayment Contributions to the Plan are made upon the condition that such ESOP Contributions and Loan Repayment Contributions will be allowed as a deduction in computing the net income of the Employer for federal income tax purposes. To the extent that any such deduction is disallowed, the amount disallowed may, at the election of the Employer, be returned to the Employer within one year after the deduction is disallowed.

(c) Any contribution to the Plan made by the Employer as a result of a mistake of fact may, at the election of the Employer, be returned to the Employer within one year after such contribution is made.

Section 17.3

Determination Date.

The Determination Date for the Plan Year in which the Effective Date occurs shall be the last day of such Plan Year, and the Determination Date for each Plan Year beginning after the Plan Year in which the Effective Date occurs shall be the last day of the preceding Plan Year. The Determination Date for any other qualified plan maintained by the Employer for a plan year shall be the last day of the preceding plan year of each such plan, except that in the case of the first plan year of such plan, it shall be the last day of such first plan year.

Section 17.4

Cumulative Accrued Benefits.

- (a) An individual's Cumulative Accrued Benefits under this Plan as of a Determination Date are equal to the sum of:
- (i) the balance credited to such individual's Account under this Plan as of the most recent Valuation Date preceding the Determination Date;
 - (ii) the amount of any ESOP Contributions or Loan Repayment Contributions made after such Valuation Date but on or before the Determination Date; and
 - (iii) the amount of any distributions of such individual's Cumulative Accrued Benefits under the Plan during the five year period (for all distributions for Plan Years beginning before January 1, 2002) or one year period (for all distributions for Plan Years beginning after December 31, 2001) ending on the Determination Date.

For purposes of this section 17.4(a), the computation of an individual's Cumulative Accrued Benefits, and the extent to which distributions, rollovers and transfers are taken into account, will be made in accordance with section 416 of the Code and the regulations thereunder.

(b) For purposes of this Plan, the term "Cumulative Accrued Benefits" with respect to any other qualified plan, shall mean the cumulative accrued benefits determined for purposes of section 416 of the Code under the provisions of such plans.

(c) For purposes of determining the top heavy status of a Required Aggregation Group or a Permissible Aggregation Group, the Cumulative Accrued Benefits under this Plan and the Cumulative Accrued Benefits under any other plan shall be determined as of the Determination Date that falls within the same calendar year as the Determination Dates for all other members of such Required Aggregation Group or Permissible Aggregation Group.

Section 17.5

Key Employees.

(a) For purposes of the Plan, the term Key Employee means any employee or former employee of the Employer or any Affiliated Employer who is at any time during the current Plan Year or (for Plan Years beginning before January 1, 2002) was at any time during the immediately preceding four Plan Years:

- (i) a Five Percent Owner;
 - (ii) a person who would be described in section 1.27 if the number "1%" were substituted for the number "5%" in section 1.27 and who has an annual Total Compensation from the Employer and any Affiliated Employer of more than \$150,000;
 - (iii) an Officer of the Employer or any Affiliated Employer who has an annual Total Compensation greater than 50% of the amount in effect under section 415(b)(1)(A) of the Code for any such Plan Year (for Plan Years beginning before January 1, 2002) and ((B) the greater of \$130,000 or such higher amount as may be prescribed under section 416(i) of the Code (for Plan Years beginning after December 31, 2001); or
 - (iv) for Plan Years beginning before January 1, 2002, one of the ten persons owning the largest interests in the Employer and having an annual Total Compensation from the Employer or any Affiliated Employer in excess of the dollar limitation in effect under section 415(c)(1)(A) of the Code for such Plan Year.
- (b) For purposes of section 17.5(a):
- (i) for purposes of section 17.5(a)(iii), in the event the Employer or any Affiliated Employer has more officers than are considered Officers, the term Key Employee shall mean those officers, up to the maximum number, with the highest annual compensation in any one of the five consecutive Plan Years ending on the Determination Date; and
 - (ii) for purposes of section 17.5(a)(iv), if two or more persons have equal ownership interests in the Employer, each such person shall be considered as having a larger ownership interest than any such person with a lower annual compensation from the Employer or any Affiliated Employer.
- (c) For purposes of section 17.5(a): (i) a person's compensation from Affiliated Employers shall be aggregated, but his ownership interests in Affiliated Employers shall not be aggregated; (ii) an employee shall only be deemed to be an officer if he has the power and responsibility of a person who is an officer within the meaning of section 416 of the Code; and (iii) the term Key Employee shall also include the Beneficiary of a deceased Key Employee.

Section 17.6 **Required Aggregation Group.**

For purposes of this Article XVII, a Required Aggregation Group shall consist of (a) this Plan; (b) any other qualified plans currently maintained (or previously maintained and terminated within the five year period ending on the Determination Date) by the Employer and any Affiliated Employers that cover Key Employees; and (c) any other qualified plans currently maintained (or previously maintained and terminated within the five year period ending on the Determination Date) by the Employer and any Affiliated Employers that cover Key Employees that are required to be aggregated for purposes of satisfying the requirements of sections 401(a)(4) or 410(b) of the Code.

Section 17.7

Permissible Aggregation Group.

For purposes of this Article XVII, a Permissible Aggregation Group shall consist of (a) the Required Aggregation Group and (b) any other qualified plans maintained by the Employer and any Affiliated Employers; *provided, however*, that the Permissible Aggregation Group must satisfy the requirements of sections 401(a)(4) and 410(b) of the Code.

Section 17.8

Special Requirements During Top Heavy Plan Years.

(a) Notwithstanding any other provision of the Plan to the contrary, for each Top Heavy Plan Year, in the case of a Participant (other than a Key Employee) on the last day of such Top Heavy Plan Year who is not also a participant in another qualified plan which satisfies the minimum contribution and benefit requirements of section 416 of the Code with respect to such Participant, the sum of the ESOP Contributions and Loan Repayment Contributions made with respect to such Participant, when expressed as a percentage of his Total Compensation for such Top Heavy Plan Year, shall not be less than 3% of such Participant's Total Compensation for such Top Heavy Plan Year or, if less, the highest combined rate, expressed as a percentage of Total Compensation at which ESOP Contributions and Loan Repayment Contributions were made on behalf of a Key Employee for such Top Heavy Plan Year. The Employer shall make an additional contribution to the Account of each Participant to the extent necessary to satisfy the foregoing requirement.

(b) For any Top Heavy Plan Year beginning before January 1, 2000, the number "1.0" shall be substituted for the number "1.25" in sections 8.2(c)(iii) and 8.2(c)(iv), except that:

(i) this section 17.8(b) shall not apply to any individual for a Top Heavy Plan Year that is not a Super Top Heavy Plan Year if the requirements of section 17.8(a) would be satisfied for such Super Top Heavy Plan Year if the number "4%" were substituted for the number 3% in section 17.8(a); and

(ii) this section 17.8(b) shall not apply to an individual for a Top Heavy Plan Year if, during such Top Heavy Plan Year, there are no ESOP Contributions or Loan Repayment Contributions allocated to such individual under this Plan, there are no contributions under any other qualified defined contribution plan maintained by the Employer, and there are no accruals for such individual under any qualified defined benefit plan maintained by the Employer.

For purposes of this section 17.8(b), the term Super Top Heavy Plan Year means a Top Heavy Plan Year in which the Plan would meet the definitional requirements of sections 17.2(a) or 17.2(b) if the term "90%" were substituted for the term "60%" in sections 17.2(a), 17.2(b) and 17.2(c).

(b) This section 18.6 shall not prohibit the Plan Administrator from recognizing a Domestic Relations Order that is determined to be a Qualified Domestic Relations Order in accordance with section 18.7.

(c) Notwithstanding anything in the Plan to the contrary, a Participant's, Former Participant's or Beneficiary's Accounts under the Plan may be offset by any amount such Participant, Former Participant or Beneficiary is required or ordered to pay to the Plan if:

(i) the order or requirement to pay arises: (A) under a judgment issued on or after August 5, 1997 of conviction for a crime involving the Plan; (B) under a civil judgment (including a consent order or decree) entered by a court on or after August 5, 1997 in an action brought in connection with a violation (or alleged violation) of part 4 of subtitle B of title I of ERISA; or (C) pursuant to a settlement agreement entered into on or after August 5, 1997 between the Participant, Former Participant or Beneficiary and one or both of the United States Department of Labor and the Pension Benefit Guaranty Corporation in connection with a violation (or alleged violation) of part 4 of subtitle B of title I of ERISA by a fiduciary or any other person; and

(ii) the judgment, order, decree or settlement agreement expressly provides for the offset of all or part of the amount ordered or required to be paid to the Plan against the Participant's, For Participant's or Beneficiary's benefits under the Plan.

Section 18.7

Procedures Involving Domestic Relations Orders.

Upon receiving a Domestic Relations Order, the Plan Administrator shall segregate in a separate account or in an escrow account or separately account for the amounts payable to any person pursuant to such Domestic Relations Order, pending a determination whether such Domestic Relations Order constitutes a Qualified Domestic Relations Order, and shall give notice of the receipt of the Domestic Relations Order to the Participant or Former Participant and each other person affected thereby. If, within 18 months after receipt of such Domestic Relations Order, the Plan Administrator, a court of competent jurisdiction or another appropriate authority determines that such Domestic Relations Order constitutes a Qualified Domestic Relations Order, the Plan Administrator shall direct the Trustee to pay the segregated amounts (plus any interest thereon) to the person or persons entitled thereto under the Qualified Domestic Relations Order. If it is determined that the Domestic Relations Order is not a Qualified Domestic Relations Order or if no determination is made within the prescribed 18-month period, the segregated amounts shall be distributed as though the Domestic Relations Order had not been received, and any later determination that such Domestic Relations Order constitutes a Qualified Domestic Relations Order shall be applied only with respect to benefits that remain undistributed on the date of such determination. The Plan Administrator shall be authorized to establish such reasonable administrative procedures as he deems necessary or appropriate to administer this section 18.7. This section 18.7 shall be construed and administered so as to comply with the requirements of section 401(a)(13) of the Code.

Section 18.8

Leased Employees.

(a) Subject to section 18.8(b), a leased employee shall be treated as an Employee for purposes of the Plan. For purposes of this section 18.8, the term "leased employee" means any person (i) who would not, but for the application of this section 18.8, be an Employee and (ii) who pursuant to an agreement between the Employer and any other person ("leasing organization") has performed for the Employer (or for the Employer and related persons determined in accordance with section 414(n)(6) of the Code), on a substantially full-time basis for a period of at least one year, services of a type historically performed by employees in the business field of the Employer: (i) prior to January 1, 1997, services of a type historically performed by employees in the business field of the Bank; and (ii) after December 31, 1996, services under the primary direction or control of the Bank.

(b) For purposes of the Plan:

(i) contributions or benefits provided to the leased employee by the leasing organization which are attributable to services performed for the Employer shall be treated as provided by the Employer; and

(ii) section 18.8(a) shall not apply to a leased employee if:

(A) the number of leased employees performing services for the Employer does not exceed 20% of the number of the Employer's Employees who are not Highly Compensated Employees; and

(B) such leased employee is covered by a money purchase pension plan providing (I) a nonintegrated contribution rate of at least 10% of the leased employee's compensation; (II) immediate participation; (III) full and immediate vesting; and (IV) coverage for all of the employees of the leasing organization (ether than employees who perform substantially all of their services for the leasing organization).

Section 18.9

Status as an Employee Stock Ownership Plan.

It is intended that the Plan constitute an "employee stock ownership plan," as defined in section 4975(e)(7) of the Code and section 407(d)(6) of ERISA. The Plan shall be construed and administered to give effect to such intent.

(e) For each year for which 401(k) Safe Harbor Contributions are made, the Plan Administrator shall give, or cause to be given, to each Employee who is or may be eligible to receive a 401(k) Safe Harbor Contribution for such year, a detailed notice setting forth such Employee's rights and obligations with respect to the 401(k) Safe Harbor Contributions, which notice shall be given at the time, be in such form, and contain such information as shall be required by applicable law, including Notice 2000-3 or the corresponding provisions of any successor authority.

Section 19.2 **Dividend Maintenance Contributions.**

(a) Notwithstanding anything in the Plan to the contrary other than the limitations in Article VIII, if, for any calendar quarter during the period beginning July 1, 2000 and ending June 30, 2006, Dime Community Bancshares, Inc. declares a dividend on its common stock, par value \$.01 per share, of less than \$.17 per share, the Employer shall make a Dividend Maintenance Contribution for such quarter. Subject to the limitations of Article VIII the amount of any such Dividend Maintenance Contribution shall be determined under the following formula:

$$DMC = (\$.17 - DR) \times X$$

where:

- DMC = the amount of the Dividend Maintenance Contribution;
- DR = the actual dividend rate per share on common stock, par value \$.01 per share, of Dime Community Bancshares, Inc. for the period in question; and
- X = the applicable multiplier for the quarter in question, determined as follows:

QUARTERS ENDING	APPLICABLE MULTIPLIER
September, December 2000 March, June 2001	688,582
September, December 2001 March, June 2002	572,202
September, December 2002 March, June 2003	455,822
September, December 2003 March, June 2004	339,442
September, December 2004 March, June 2005	223,062
September, December 2005 March, June 2006	106,682

; *provided, however*, that such amount shall be reduced to zero for any calendar quarter that ends after the effective date of the Plan's termination pursuant to section 16.2.

(b) The Dividend Maintenance Contributions (if any) for any quarter shall be made no later than January 31 of the calendar year following the calendar year that includes the quarter for which the contribution is made and shall be allocated among the same persons who are eligible to receive 401(k) Safe Harbor Contributions for the calendar year that includes such quarter. The amount allocated to each such person shall be determined by multiplying the total Dividend Maintenance Contributions being allocated by a fraction, the numerator of which is the 401(k) Safe Harbor Contribution made for such person for such calendar year and the denominator of which is the aggregate 401(k) Safe Harbor Contributions made for the calendar year (or, if no 401(k) Safe Harbor Contributions are made for such year, in portion to Allocation Compensation actually paid while a Participant during the Plan Year). Dividend Maintenance Contributions shall be treated as ESOP Contributions for all purposes of the Plan.

(c) In the event of any merger, consolidation, or other business reorganization in which shares of common stock, par value \$.01 per share, of Dime Community Bancshares, Inc. are converted into or exchanged for any other security or property, and in the event of any stock split, stock dividend or other event generally affecting the number of shares of such common stock held by each person who is then a holder of record of such shares, the formula for the calculation of any Dividend Maintenance Contribution shall be adjusted, in such manner as the Committee may determine to be necessary or appropriate, to prevent the enlargement or dilution of the Dividend Maintenance Contribution that may be or become due.

Section 19.3 **Application of Dividends on Certain Financed Shares.**

Notwithstanding anything in the Plan to the contrary, dividends payable with respect to Shares that are, as of July 1, 1999, pledged as collateral for a Share Acquisition Loan that is outstanding as of July 1, 1990 (or dividends payable with respect to securities received as the proceeds of sale or conversion of such Shares) shall not be pledged as collateral for or used for the purpose of the repayment of such Share Acquisition Loan. Any such dividends with a record date that is after June 30, 2000 and prior to the date as of which such Shares are allocated to the Accounts of Participants shall be allocated to the Accounts of Participants, Former Participants and the Beneficiaries of deceased Former Participants as investment earnings for the quarter in which the dividend is actually received by the Trustee. The allocation to each such Account shall be calculated by multiplying the aggregate amount of such dividends by a fraction, the numerator of which is the balance credited to the Account as of the last day of quarter immediately preceding the quarter in which the dividends are received and the denominator of which is the aggregate balances credited to all Accounts as of the last day of such immediately preceding quarter. Once allocated, such dividends may, at the direction of the Committee, be paid out to the Account holder within ninety (90) days after the end of the Plan Year in which they are received by the Trustee.

Section 19.4 **Additional Loan Repayment Contributions.**

For each Plan Year beginning after June 30, 2000 (or portion thereof) that occurs after the occurrence of a Change in Control described in section 14.1(c) and before the closing of the transaction whose approval has resulted in such Change in Control, the Company shall make Loan Repayment Contributions in an amount equal to the lesser of (a) the amount required to repay in full any outstanding Share Acquisition Loan or (b) the maximum amount which may be contributed without exceeding the limitations of Article VIII. Such contribution shall be made as of the last day of the applicable Plan Year and the Shares and other property released for allocation as a consequence thereof shall be allocated in the manner provided in Article VII. In no event, however, shall any Loan Repayment Contribution be required for any Plan Year that ends after the abandonment (whether by unilateral repudiation, contractual termination or otherwise) prior to closing of the transaction whose approval by stockholders triggered the activation of this section 19.4.

Section 19.5

Amendment of Article XIX.

Notwithstanding anything in the Plan to the contrary, the provisions of this Article XIX may not be amended without the written consent of the Trustee unless, in the opinion of legal counsel for the Employer, such amendment is necessary to maintain the tax-qualified status of the Plan under the Code or otherwise to comply with the requirements of applicable law, rule or regulation.

CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO 17 CFR 240.13a-14(a) / 15d-14(a)

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 16, 2009

/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(a) / 15d-14(a)

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 16, 2009

/s/ KENNETH J. MAHON

Kenneth J. Mahon
First 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 period ended December 31, 2008 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 16, 2009

Date

By: /s/ VINCENT F. PALAGIANO
Vincent F. Palagiano
Chairman of the Board and Chief Executive 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 period ended December 31, 2008 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 16, 2009

Date

By: /s/ KENNETH J. MAHON
Kenneth J. Mahon
First Executive Vice President and Chief Financial Officer

