

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

FORM 10-K

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

For the Year Ended December 31, 2004

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

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

11211
(Zip Code)

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

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

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

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

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

YES NO

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

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

As of March 11, 2005, there were 37,166,048 shares of the registrant's common stock, \$0.01 par value, outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2004 was approximately \$537.0 million. This figure is based upon the closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2004, which was \$17.48 as reported in the Wall Street Journal on July 1, 2004.

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 19, 2005 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," "may," "outlook," "plan," "potential," "predict," "project," "should," "will," "would" and similar terms and phrases, including references to assumptions.

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

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins;
- changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- changes in corporate and/or individual income tax laws;
- 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.

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 (as defined above), 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 full-service retail banking offices located in the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York.

The Bank'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 loans, consumer loans, mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities. The Bank's revenues are derived principally from interest on its loan and securities portfolios. The Bank's primary sources of funds are deposits; loan amortization, prepayments and maturities; MBS amortization, prepayments and maturities; investment securities maturities; advances ("Advances") from the Federal Home Loan Bank of New York ("FHLBNY"); securities sold under agreement to repurchase ("REPOS"); and the sale of real estate loans to the secondary market.

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The Holding Company is a unitary savings and loan holding company, which, under existing law, is generally not restricted as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender ("QTL"). The Holding Company's primary business is the operation of its wholly-owned subsidiary, the Bank. Pursuant to regulations of the Office of Thrift Supervision ("OTS"), the Bank is a QTL if its ratio of qualified thrift investments to portfolio assets ("QTL Ratio") was 65% or more, on a monthly average basis, in nine of the previous twelve months. At December 31, 2004, the Bank's QTL Ratio was 77.6%, and the Bank maintained more than 65% of its portfolio assets in qualified thrift investments throughout the year ended December 31, 2004.

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

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

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

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

Acquisitions

On January 21, 1999, the Holding Company completed the acquisition of Financial Bancorp, Inc., the holding company of Financial Federal Savings Bank, F.S.B (the "FIBC Acquisition"). The FIBC Acquisition was accounted for as a purchase transaction, generating \$44.2 million of goodwill.

Market Area, Competition and Factors That May Affect Future Results

The Bank has historically operated as, and intends to remain, 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 full-service retail banking offices located in the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is the New York City metropolitan area, although its overall lending area is much larger, 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 are secured by real estate properties located in the New York City boroughs of Brooklyn, Queens and Manhattan.

The New York City banking environment is extremely competitive. The Bank's competition for loans exists principally from 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, 2004. 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 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. In addition, it must also 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 and originate loans has increasingly utilized targeted marketing and delivery of technology-enhanced, customer-friendly banking services while controlling operating expenses.

This competition occurs within an economic and financial 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's ("FOMC's") monetary policy and governance of short-term rates also significantly influence the interest rates paid and charged by financial institutions.

The Bank's success is additionally impacted by the overall condition of the economy, particularly in the New York City metropolitan area. As home to several national companies in the financial and business services industries, and as a popular destination for domestic travelers, the New York City economy is particularly sensitive to the health of the national economy. Success in banking is more easily achieved when local income levels increase due to economic strength. The Bank has demonstrated that even in periods of intense competition, such as those that existed during 2003 and 2004, it can succeed by effectively implementing its business strategies. However, if the local market for multifamily residential and commercial real estate declines, thereby potentially increasing competitive pressures, the Bank may be unable to originate the volume of loans that it otherwise anticipates.

Lending Activities

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of mortgage loans secured by 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, including condominiums and cooperative apartments. At December 31, 2004, the Bank's loan portfolio totaled \$2.50 billion. Within the loan portfolio, \$1.92 billion, or 76.6%, were classified as multifamily residential loans; \$424.1 million, or 17.0%, were classified as commercial real estate loans; \$138.1 million, or 5.5%, were classified as one- to four-family residential, including condominium or cooperative apartments; \$4.2 million, or 0.2%, 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 \$15.6 million, or 0.6%, were loans to finance real estate construction or land acquisition. Of the total mortgage loan portfolio outstanding at that date, \$2.00 billion, or 80.2%, were adjustable-rate loans ("ARMs") and \$489.4 million, or 19.8%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 80% were ARMs at December 31, 2004, the majority of which were contracted to reprice no longer than 7 years from their origination date and carry a total amortization period of no longer than 30 years. At December 31, 2004, the Bank's loan portfolio additionally included \$2.9 million in consumer loans, composed of passbook loans, student loans, consumer installment loans, overdraft loans and mortgagor advances.

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

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

	At December 31,						At June 30,					
	2004	Percent of Total	2003	Percent of Total	2002	Percent of Total	2002	Percent of Total	2001	Percent of Total	2000	Percent of Total
(Dollars in Thousands)												
Real Estate loans:												
Multifamily residential	\$1,917,447	76.63%	\$1,734,904	79.07%	\$1,730,102	79.74%	\$1,694,422	79.92%	\$1,541,531	78.60%	\$1,349,854	78.33%
Commercial real estate	424,060	16.95	309,810	14.12	265,485	12.23	243,694	11.49	196,503	10.02	118,576	6.88
One- to four-family	126,225	5.04	124,047	5.65	145,808	6.72	155,013	7.31	189,651	9.67	215,648	12.51
Cooperative apartment	11,853	0.47	13,798	0.63	16,451	0.76	17,766	0.84	22,936	1.17	27,465	1.59
FHA/VA insured	4,209	0.17	4,646	0.21	5,215	0.24	5,565	0.26	6,450	0.33	7,536	0.44
Construction and land acquisition	15,558	0.62	2,880	0.13	1,931	0.09	-	-	-	-	-	-
Total mortgage loans	2,499,352	99.88	2,190,085	99.81	2,164,992	99.78	2,116,460	99.82	1,957,071	99.79	1,719,079	99.75
Other loans:												
Student loans	61	0.00	295	0.01	420	0.02	502	0.03	827	0.04	990	0.06
Depositor loans	1,318	0.06	2,371	0.11	1,552	0.07	1,520	0.07	1,589	0.08	1,900	0.11
Consumer installment and other	1,537	0.06	1,406	0.07	2,781	0.13	1,715	0.08	1,729	0.09	1,348	0.08
Total other loans	2,916	0.12	4,072	0.19	4,753	0.22	3,737	0.18	4,145	0.21	4,238	0.25
Gross loans	2,502,268	100.00%	2,194,157	100.00%	2,169,745	100.00%	2,120,197	100.00%	1,961,216	100.00%	1,723,317	100.00%
Net unearned costs (fees)	(463)		(1,517)		332		57		(855)		(2,017)	
Allowance for loan losses	(15,543)		(15,018)		(15,458)		(15,370)		(15,459)		(14,785)	
Loans, net	<u>\$2,486,262</u>		<u>\$2,177,622</u>		<u>\$2,154,619</u>		<u>\$2,104,884</u>		<u>\$1,944,902</u>		<u>\$1,706,515</u>	
Loans serviced for others:												
One- to four-family and cooperative apartment	\$29,524		\$33,671		\$34,683		\$35,752		\$42,175		\$47,909	
Multifamily	295,800		157,774		73,384		-		63		281	

residential						
Total loans serviced for others	\$325,324	\$191,445	\$108,067	\$35,752	\$42,238	\$48,190

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Loan Originations, Purchases, Sales and Servicing. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. For the year ended December 31, 2004, total loan originations were \$1.02 billion. ARM originations were approximately 85% of total loan originations during the same 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 the Federal National Mortgage Association ("FNMA"). One- to four-family adjustable rate and fixed-rate mortgage loans with maturities up to 15 years are retained for the Bank's portfolio. Generally, the Bank sells its newly originated one- to four-family fixed-rate mortgage loans with maturities greater than fifteen years in the secondary market to FNMA, the State of New York Mortgage Agency ("SONYMA") or private sector secondary market purchasers.

In December 2002, the Bank entered into a multifamily seller/servicing agreement with FNMA. Under the terms of this seller/servicing agreement, the Bank sells multifamily residential loans to FNMA. The majority of the loans sold under this seller/servicer agreement during 2002, 2003 and 2004 possessed a minimum term to maturity or repricing of seven years. In December 2002, the Bank sold approximately \$73.4 million of multifamily residential loans to FNMA. During the years ended December 31, 2004 and 2003, the Bank sold \$164.9 million and \$87.1 million, respectively, of such loans to FNMA.

The Bank currently has no arrangement in which it sells commercial real estate loans to the secondary market. During the year ended December 31, 2004, sales of fixed-rate one- to four-family mortgage loans totaled \$2.6 million.

The Bank generally retains the servicing rights in connection with loans it sells in the secondary market. As of December 31, 2004, the Bank was servicing \$325.3 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 other than multifamily residential loans sold to FNMA. The loan servicing fees received 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, 2004, the Bank had recorded mortgage servicing rights ("MSR") of \$2.5 million associated with the sale of multifamily residential loans.

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,			For the Six Months Ended December 31,		For the Year Ended June 30,		
	2004	2003	2002	2002	2001	2002	2001	2000
(Dollars in Thousands)								
Gross loans:								
At beginning of period	\$2,194,157	\$2,169,745	\$2,055,825	\$2,120,197	\$1,961,216	\$1,961,216	\$1,723,317	\$1,386,194
Real estate loans originated:								
Multifamily residential	774,832	917,904	616,276	358,137	242,433	504,770	355,804	453,682
Commercial real estate	187,655	126,185	56,063	39,542	15,280	27,900	37,591	28,824
One- to four-family (1)	36,363	28,259	18,846	19,969	3,608	16,343	2,346	3,165
Cooperative apartment	1,048	1,839	1,469	956	861	1,208	1,245	744
Equity lines of credit	6,488	21,469	19,535	4,961	690	1,676	-	-
Construction	6,844	4,549	805	805	-	620	1,339	24
Total mortgage loans originated	1,013,230	1,100,205	712,994	424,370	262,872	552,517	398,325	486,439
Other loans originated	3,166	3,866	3,997	2,159	2,593	3,410	8,585	8,937
Total loans originated	1,016,396	1,104,071	716,991	426,529	265,465	555,927	406,910	495,376
Less:								
Principal repayments	540,827	976,779	521,880	298,181	168,808	392,507	166,948	156,306
Loans sold (2)	167,458	102,880	81,191	78,800	1,914	4,305	1,835	1,518
Mortgage loans transferred to Other Real Estate Owned	-	-	-	-	134	134	228	429
Gross loans at end of period	\$2,502,268	\$2,194,157	\$2,169,745	\$2,169,745	\$2,055,825	\$2,120,197	\$1,961,216	\$1,723,317

(1)Includes Home Equity and Home Improvement Loans.

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

Loan Maturity and Repricing. The following table shows the earlier of the maturity or the repricing period of the Bank's loan portfolio (including loans held for sale) at December 31, 2004. ARMs are shown as being due in the period during which the interest rates are next scheduled to adjust. The table does not include prepayments or scheduled principal amortization. Scheduled loan repricing and estimated prepayment and amortization information is presented on an aggregate basis for loans in ["Item 7A. Quantitative and Qualitative Disclosure About Market Risk - Interest Sensitivity Gap."](#)

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At December 31, 2004								
Real Estate Loans								
	Multifamily Residential	Commercial Real Estate	One- to Four-Family	Cooperative Apartment	FHA/VA Insured	Construction	Other Loans	Total Loans
(Dollars In Thousands)								

Amount due:								
One year or less	\$25,807	\$13,202	\$39,722	\$7,720	\$47	\$15,558	\$2,916	\$104,972
After one year:								
More than one year to three years	183,953	30,862	6,431	790	-	-	-	222,036
More than three years to seven years	1,436,574	298,885	21,258	669	-	-	-	1,757,386
More than seven years to ten years	180,870	38,151	21,193	986	2,830	-	-	244,030
More than ten years to twenty years	90,061	42,960	27,848	1,688	1,332	-	-	163,889
Over twenty years	182	-	9,773	-	-	-	-	9,955
Total due or repricing after one year	1,891,640	410,858	86,503	4,133	4,162	-	-	2,397,296
Total amounts due or repricing, gross	\$1,917,447	\$424,060	\$126,225	\$11,853	\$4,209	\$15,558	\$2,916	\$2,502,268

The following table sets forth the outstanding principal balances in each loan category (including loans held for sale) at December 31, 2004 that are due to mature or reprice after December 31, 2005, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2005		
	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Mortgage loans:			
Multifamily residential	\$311,717	\$1,579,923	\$1,891,640
Commercial real estate	90,483	320,375	410,858
One- to four-family	65,566	20,937	86,503
Cooperative apartment	2,844	1,289	4,133
Construction	-	-	-
FHA/VA insured	4,162	-	4,162
Other loans	-	-	-
Total loans	\$474,772	\$1,922,524	\$2,397,296

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 (five or more residential units), Underlying Cooperative and commercial real estate loans. The properties securing these loans are generally located in the Bank's primary lending area. At December 31, 2004, the Bank had multifamily residential loans totaling \$1.92 billion in its portfolio, comprising 76.6% of the gross loan portfolio. Of the Bank's multifamily residential loans, \$1.70 billion, or 88.6%, were secured by apartment buildings and \$219.2 million, or 11.4%, were secured by Underlying Cooperatives at December 31, 2004. The Bank also had \$424.1 million of commercial real estate loans in its portfolio at December 31, 2004, representing 17.0% of its total loan portfolio.

The Bank originated multifamily residential, Underlying Cooperative, and commercial real estate loans totaling \$962.5 million during the year ended December 31, 2004 and \$1.04 billion during the year ended December 31, 2003. At December 31, 2004, the Bank had \$52.3 million of commitments accepted by borrowers to originate multifamily residential and commercial real estate loans, compared to \$89.7 million outstanding at December 31, 2003.

At December 31, 2004, multifamily residential, Underlying Cooperative 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 units and commercial units within the same building; and (3) fully commercial real estate buildings. The underwriting procedures for each of these property types are substantially similar. Loans secured by fully residential apartment buildings are classified by the Bank as multifamily residential loans in all instances. Loans secured by fully commercial real estate buildings are classified as commercial real estate loans in all instances. Loans secured by mixed-use properties may be classified as either multifamily residential or commercial real estate loans based upon the percentage of the property's rental income that is received from its residential tenants compared to its commercial tenants. If 50% or more of the rental income is received from residential tenants, the full balance of the loan is classified

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as multifamily residential. If less than 50% of the rental income is received from residential tenants, the full balance of the loan is classified as commercial real estate. At December 31, 2004, mixed use properties classified as multifamily residential or commercial real estate loans totaled \$809.2 million.

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 loan principal amounts. 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, 2004, had an average loan size of approximately \$1.2 million and a median loan balance of \$749,000. Multifamily residential loans in this range are generally secured by buildings that possess between 5 and 100 apartments. The Bank had a total of \$1.84 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units as of December 31, 2004. Principally as a result of New York City rent control and rent stabilization laws which limit the amount of rent that may be charged to tenants, the associated rent rolls for buildings of this type indicate a rent range that would be considered affordable for low- to moderate-income households, regardless of the household income profiles of the associated census tracts.

At December 31, 2004, the Bank had 305 multifamily residential and commercial real estate loans with principal balances greater than \$2.0 million, totaling \$1.10 billion. These 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 adjustable-rate multifamily residential and commercial real estate loan carries a final maturity of 10 or 12 years, and an amortization period not exceeding 30 years. These loans generally have an interest rate that adjusts once after the fifth or seventh year, indexed to the 5-year FHLBNY advance rate (plus a spread typically approximating 225 basis points), but may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout

the life of the loans. The Bank also offers fixed-rate, self-amortizing, multifamily residential and commercial real estate loans with maturities of up to fifteen years.

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

The underwriting standards for new multifamily residential loans generally require (1) a maximum loan-to-value ratio of 75% based upon an appraisal performed by an independent, state licensed appraiser, and (2) sufficient cash flow from the underlying property to adequately service the debt, represented by a minimum debt service ratio of 120%. The Bank may additionally require environmental hazard reports. 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. Where appropriate, the Bank utilizes rent or lease income and the borrower's credit history and business experience when underwriting multifamily real estate applications. (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 loans).

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

During the period July 1, 1999 through December 31, 2004, the Bank's charge-offs related to its multifamily residential loan portfolio totaled \$113,000, or 0.006% of the total of such loans outstanding at December 31, 2004. As of December 31, 2004, the Bank had two non-performing multifamily residential loans totaling \$830,000. (See Item 1 - Business - "[Asset Quality](#)" and "[Allowance for Loan Losses](#)").

The Bank's three largest multifamily residential loans at December 31, 2004 were a \$24.5 million loan originated in March 2004 secured by an eight-story, mixed use building containing 137 residential apartments and 4 commercial units and located in Flushing, New York; a \$15.0 million loan originated in December 2003 secured by a nine story building in Manhattan, New York, containing 159 loft cooperative apartments; and a \$13.0 million loan originated in December 2004 secured by ten adjacent, mixed use buildings ranging between one and five stories located in Manhattan, New York.

The underwriting standards for new commercial real estate loans generally require a maximum loan-to-value ratio of 65% and sufficient cash flow from the underlying property to adequately service the debt, represented by a minimum debt service ratio of 120%. To originate commercial real estate loans, the Bank requires a security interest in the personal property associated with the collateral, and standby assignments of rents and leases in addition to the security interest in the underlying property.

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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 payment of loans secured by commercial real estate often is dependent upon successful operation and management of the collateral property, satisfaction of such loans may be subject, to a greater extent, to adverse conditions in the real estate market or economy. The Bank seeks to minimize these risks by obtaining personal guarantees, if possible. The Bank utilizes, where appropriate, rent or lease income, the borrower's credit history and business experience, and valuation determined under the income approach when underwriting commercial real estate loan applications. (See Item 1 - Business - "[Lending Activities - Loan Approval Authority and Underwriting](#)" for a discussion of the Bank's underwriting procedures utilized in originating commercial real estate loans).

During the period July 1, 1999 through December 31, 2004, the Bank's charge-offs related to its commercial real estate loan portfolio totaled \$6,000, or 0.001% of the total of such loans outstanding as of December 31, 2004. As of December 31, 2004, the Bank had no non-performing commercial real estate loans (See Item 1 - Business - "[Asset Quality](#)" and "[Allowance for Loan Losses](#)").

The Bank's three largest commercial real estate loans at December 31, 2004 were a \$12.0 million loan originated in July 2004 secured by five-story mixed-use building located in Manhattan, New York, containing 30 residential apartments and 10 commercial units; a \$9.4 million loan originated in April 2004 secured by a four story office building and parking facility located in Garden City, New York containing 22 commercial tenants; and an \$8.9 million loan originated in January 2003 secured by a 17-story loft building in Manhattan, New York containing 63 commercial tenants.

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 loans in the Bank's loan portfolio were obtained through the FIBC Acquisition and the acquisition of Pioneer Savings Bank, F.S.B. in 1996. The Bank originated \$37.4 million of one- to four-family mortgages during the year ended December 31, 2004, the majority of which were home equity and home improvement loans. At December 31, 2004, \$138.1 million, or 5.5%, of the Bank's loans consisted of one- to four-family residential and cooperative apartment loans. The Bank is a participating seller/servicer with two government-sponsored mortgage agencies: FNMA and SONYMA, and generally underwrites its one- to four-family residential mortgage loans to conform with standards required by those agencies.

Although the collateral for cooperative apartment loans is composed of shares in a cooperative corporation (i.e., a corporation whose primary asset is the underlying 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 \$11.9 million, or 0.5% of total loans, as of December 31, 2004. Adjustable-rate cooperative apartment loans continue to be originated for portfolio.

For all one- to four-family loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower: (1) a credit report is reviewed; (2) income, assets and certain other information are verified by an independent credit agency; (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.

During the period July 1, 1999 through December 31, 2004, the Bank's charge-offs related to its one- to four-family and cooperative apartment loan portfolio totaled \$707,000. As of December 31, 2004, the Bank had non-performing one- to four-family loans totaling \$475,000 (See Item 1 - Business - "[Asset Quality](#)" and "[Allowance for Loan Losses](#)").

The Bank generally sells its newly originated conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years in the secondary market to FNMA and SONYMA, and its non-conforming fixed-rate one- to four-family mortgage loans with maturities in excess of 15 years to various private sector secondary market purchasers. With few exceptions, such as SONYMA, the Bank retains the servicing rights on all such loans sold. During the year ended December 31, 2004, the Bank sold one- to four-family mortgage loans totaling \$2.6 million to non-affiliates. As of December 31, 2004, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled \$29.5 million.

Home Equity and Home Improvement Loans. Home equity loans and home improvement loans, the majority of which are included in one- to four-family loans, are originated to a maximum of \$250,000. At the time of origination, the combined balance of the first mortgage and home equity or home improvement loan may not exceed the following limitations: (1) 89% of the appraised value of the collateral property at origination of the home equity or home improvement loan in the event that the Bank holds the first mortgage on the collateral property; or (2) 85% of the appraised value of the collateral property at origination of the home equity or home improvement loan in the event that the Bank does not hold the first

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mortgage on the collateral property. On home equity and home improvement loans, the borrower pays an initial interest rate that may be as low as 200 basis points below the prime rate of interest in effect at origination. After six months, the interest rate adjusts and ranges from the prime interest rate in effect at the time to 100 basis points above the prime interest rate in effect at the time. The combined outstanding balance of the Bank's home equity and home improvement loans was \$31.4 million at December 31, 2004.

Equity credit is also 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 cannot exceed 75%. On equity loans, the borrower pays, based upon the loan-to-value ratio of the underlying collateral at the time of origination, an interest rate generally ranging from 100 to 200 basis points above the prime rate. The outstanding balance of these equity loans was less than \$6.5 million at December 31, 2004, on outstanding total lines of \$20.7 million.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authorities for individual officers as to the various types of loan products. In addition, the Bank maintains a Loan Operating Committee which possess collective loan approval authority. The Loan Operating Committee is composed of, at a minimum, the Chief Executive Officer, President, Chief Financial Officer, and a credit officer overseeing the underwriting function for the respective type of loan being originated. The Loan Operating Committee has authority to approve loan originations in amounts up to \$3.0 million. Both the Loan Operating Committee and the Board of Directors must approve all loan originations exceeding \$3.0 million. All loans approved by the Loan Operating Committee are presented to the Board of Directors for its review. In addition, regulatory restrictions imposed on the Bank's lending activities limit the amount of credit that can be extended to any one borrower to 15% of unimpaired capital and unimpaired surplus ([See Item 1 - Business - "Regulation - Regulation of Federal Savings Associations - Loans to One Borrower"](#)).

Asset Quality

Non-performing loans (*i.e.*, delinquent loans for which interest accruals have ceased in accordance with the Bank's policy discussed below - typically loans 90 days or more past due) totaled \$1.5 million and \$525,000 at December 31, 2004 and 2003, respectively. The increase in non-performing loans during the year resulted primarily from the addition of six loans totaling \$1.1 million to nonaccrual status, which was partially offset by the removal of one loan totaling \$99,000 from nonaccrual status. In addition, the largest single nonaccrual loan at December 31, 2004, which possessed an outstanding principal balance of \$446,000, was removed from nonaccrual status in January 2005.

Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, any interest accrued to income in the current year is reversed. Payments on nonaccrual loans are generally applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least twelve months. The Bank had no loans that were 90 days past due and accruing interest at December 31, 2004, 2003, or 2002 or at June 30, 2002, 2001 or 2000.

The Bank had a total of 10 real estate and consumer loans, totaling \$754,000, delinquent 60-89 days at December 31, 2004, compared to a total of 30 such delinquent loans, totaling \$1.4 million, at December 31, 2003. The majority of the dollar amount of both non-performing loans and loans delinquent 60-89 days was composed of real estate loans. The majority of the count of both non-performing loans and loans delinquent 60-89 days was composed of consumer loans (primarily depositor loans). The decrease in the amount delinquent 60-89 days from December 31, 2003 to December 31, 2004 resulted from a net decrease of \$799,000 of delinquent real estate loans during the period. The 60-89 day delinquency levels fluctuate monthly, and are generally considered a less accurate indicator of credit quality trends than non-performing loans.

Under accounting principles generally accepted in the United States of America ("GAAP"), the Bank is required to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a loan constitutes a troubled-debt restructuring if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Current regulations of the OTS require that troubled-debt restructurings remain classified as such until either the loan is repaid or returns to its original terms. The Bank had no loans classified as troubled-debt restructurings at December 31, 2004 or December 31, 2003.

Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting By Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures an amendment of FASB Statement No. 114" ("Amended SFAS 114"), provides guidelines for determining and measuring impairment in loans. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued

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interest, exceeds the estimate of its fair value. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. Generally, the Bank considers non-performing and troubled-debt restructured multifamily residential and commercial real estate loans, along with non-performing one- to four-family loans exceeding \$333,700, to be impaired. Non-performing one-to four-family loans of \$333,700 or less are considered homogeneous loan pools and are not required to be evaluated individually for impairment. The recorded investment in loans deemed impaired was approximately \$830,000, consisting of two loans, at December 31, 2004. There were no loans considered impaired by the Bank under Amended SFAS 114 as of December 31, 2003. The largest single impaired loan at December 31, 2004, which possessed an outstanding principal balance of \$446,000, was removed from

impaired status in January 2005. The average total balance of impaired loans was approximately \$608,000 during the year ended December 31, 2004, \$314,000 during the year ended December 31, 2003, \$684,000 during the six months ended December 31, 2002, and \$3.2 million during the year ended June 30, 2002. The increase in the average and ending balances of impaired loans during the year ended December 31, 2004 resulted primarily from the addition of two impaired loans totaling \$830,000 during the period. The decrease in both the current and average balance of impaired loans during the year ended December 31, 2003 and the six months ended December 31, 2002 resulted primarily from the repayment in June 2002 of an impaired \$2.9 million troubled-debt restructured loan. At December 31, 2004, reserves totaling \$83,000 were allocated within the allowance for loan losses for impaired loans. At both December 31, 2003 and 2002, there were no reserves allocated within the allowance for loan losses for impaired loans. At June 30, 2002, reserves totaling \$88,000 were allocated within the allowance for loan losses for impaired loans. At December 31, 2004, non-performing loans exceeded impaired loans by \$628,000, due to \$628,000 of one- to four-family and consumer loans, which, while on non-performing status, were not deemed impaired since they had individual outstanding balances less than \$333,700.

Other Real Estate Owned ("OREO"). Property acquired by the Bank as a result of a foreclosure on a mortgage loan or deed in lieu of foreclosure is classified as OREO and is recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses. The Bank obtains a current appraisal on an OREO property as soon as practicable after it takes possession of the real property. The Bank will generally reassess the value of OREO at least annually thereafter. There were no OREO properties as of December 31, 2004 and 2003. The balance of OREO was \$134,000 at December 31, 2002 and \$114,000 at June 30, 2002, consisting of one property in both instances. During the six months ended December 31, 2002, a reserve of \$20,000 was reversed on the OREO property. The property was sold in January 2003 and no loss was recognized on the sale.

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

	At December 31,			At June 30,		
	2004	2003	2002	2002	2001	2000
	(Dollars in Thousands)					
Non-performing loans						
One- to four-family	\$475	\$346	\$1,232	\$1,077	\$1,572	\$1,769
Multifamily residential	830	-	690	878	1,131	2,591
Cooperative apartment	-	-	70	71	200	54
Other	154	179	124	97	155	7
Total non-performing loans	1,459	525	2,116	2,123	3,058	4,421
Other Real Estate Owned	-	-	134	114	370	381
Total non-performing assets	1,459	525	2,250	2,237	3,428	4,802
Troubled-debt restructurings	-	-	-	-	2,924	700
Total non-performing assets and troubled-debt restructurings	\$1,459	\$525	\$2,250	\$2,237	\$6,352	\$5,502
Impaired loans	\$830	\$-	\$690	\$878	\$4,054	\$2,591
Ratios:						
Total non-performing loans to total loans	0.06%	0.02%	0.10%	0.10%	0.16%	0.26%
Total non-performing loans and troubled-debt restructurings to total loans	0.06	0.02	0.10	0.10	0.30	0.30
Total non-performing assets to total assets	0.04	0.02	0.08	0.08	0.13	0.19
Total non-performing assets and troubled-debt restructurings to total assets	0.04	0.02	0.08	0.08	0.23	0.22

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

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of a 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.

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

Classified Assets. Federal regulations and Bank policy require that loans and other assets possessing certain characteristics be classified as "Substandard," "Doubtful" or "Loss" assets. An asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or 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

transferred from (to) other liabilities	378	(699)	-	-	-	-	-	-
Balance at end of period	\$15,543	\$15,018	\$15,458	\$15,458	\$15,492	\$15,370	\$15,459	\$14,785
Allowance for loan losses to total loans at end of period	0.62%	0.68%	0.71%	0.71%	0.75%	0.72%	0.79%	0.86%
Allowance for loan losses to total non-performing loans at end of period	1,065.32	2,860.57	730.53	730.53	815.80	723.98	505.53	334.43
Allowance for loan losses to total non-performing loans and troubled-debt restructurings at end of period	1,065.32	2,860.57	730.53	730.53	321.21	723.98	258.43	288.71
Ratio of net charge-offs to average loans outstanding during the period	-	-	-	-	-	0.02%	-	0.03%

(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 has maintained its allowance for loan losses at a level which is appropriate to absorb losses

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inherent within the Bank's loan portfolio as of the balance sheet dates. The allowance for loan losses was \$15.5 million at December 31, 2004 compared to \$15.0 million at December 31, 2003. During the year ended December 31, 2004, the Bank re-designated \$378,000 of reserves related to loan origination commitments into its allowance for loan losses. Previously, these reserves were recorded in other liabilities. In addition, during the year ended December 31, 2004, the Bank recorded a provision of \$280,000 to the allowance for loan losses to provide for growth in its loan portfolio balances. The Bank also recorded net charge-offs of \$133,000 during the year ended December 31, 2004, virtually all of which related to consumer loans.

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

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

	At December 31,					
	2004		2003		2002	
	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)
	(Dollars in Thousands)					
Impaired loans	83	0.04%	-	-	-	0.03%
Multifamily residential	11,753	76.72	11,391	79.24%	11,831	79.90
Commercial real estate	3,161	16.98	2,742	14.15	2,416	12.26
One-to four- family	436	5.05	686	5.67	1,051	6.74
Cooperative apartment	65	0.47	124	0.63	151	0.76
Construction	-	0.62	-	0.13	-	0.09
Other	45	0.12	75	0.18	9	0.22
Total	\$15,543	100.00%	\$15,018	100.00%	\$15,458	100.00%

	At June 30,					
	2002		2001		2000	
	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)
	(Dollars in Thousands)					
Impaired loans	\$88	0.01%	\$775	0.21%	\$130	0.15%
Multifamily residential	11,843	80.12	10,190	80.98	10,000	78.65
Commercial real estate	2,167	11.52	1,214	7.78	1,095	6.92
One-to four- family	1,094	7.33	3,005	9.48	3,176	12.23

Cooperative apartment	162	0.84	184	1.17	254	1.60
Construction	-	-	-	-	-	-
Other	16	0.18	91	0.38	130	0.45
Total	\$15,370	100.00%	\$15,459	100.00%	\$14,785	100.00%

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

Investment Activities

Investment Strategies of the Holding Company. The Holding Company's principal asset is its investment in the Bank's common stock, which amounted to \$312.8 million at December 31, 2004. All of the Holding Company's other investments were intended primarily to provide future liquidity which may be utilized for general business activities, which may include, but are not limited to: (1) purchases of the Holding Company's common stock into treasury; (2) repayment of principal and interest on the Holding Company's \$25.0 million subordinated note obligation 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 the securities defined in the securities investment policy of the Bank. The Holding Company cannot assure that it will engage in any of these activities in the future.

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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 and to comply with the applicable regulations of the OTS. Generally, when selecting new investments for the Bank's portfolio, the policy calls for management to emphasize principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment. The policy permits investments in various types of liquid assets, including obligations of the U.S. Treasury and federal agencies, investment grade corporate 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 that buy federal funds from the Bank.

Investment strategies are implemented by the Asset and Liability Management Committee ("ALCO"), composed of the Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer, 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. The strategies are reviewed monthly by the ALCO and reported regularly to the Board of Directors.

During the years ended December 31, 2004 and 2003, neither the Holding Company nor the Bank held any derivative instruments or any embedded derivative instruments that required bifurcation. The Holding Company or the Bank may, with respective Board approval, engage in hedging transactions utilizing derivative instruments.

Mortgage-Backed Securities ("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. None of the Company's MBS as of December 31, 2004 possessed call features.

The Company's consolidated investment in MBS totaled \$519.9 million, or 15.4% of total assets, at December 31, 2004, the majority of which was owned by the Bank. At December 31, 2004, the largest component of the portfolio was \$474.5 million in Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs") owned by the Bank. All of the CMOs and REMICs were either U.S. agency guaranteed obligations or issued by private financial institutions. All of the non-agency guaranteed obligations were rated in the highest ratings category by at least one nationally recognized rating agency at the time of purchase. None of the CMOs and REMICs had stripped principal and interest components and all occupied priority tranches within their respective issues. As of December 31, 2004, the fair value of CMOs and REMICs was approximately \$6.4 million below their cost basis.

The remaining MBS portfolio was composed of pass-through securities guaranteed by the Government National Mortgage Agency ("GNMA"), The Federal Home Loan Mortgage Corporation ("FHLMC") or FNMA. These securities approximated 8.7% of the total MBS portfolio at December 31, 2004. This portion of the portfolio was composed of a \$15.6 million investment in ARM MBS pass-through securities with a weighted average term to next rate adjustment of less than one year, and a \$29.8 million investment in seasoned fixed-rate GNMA, FNMA and FHLMC pass-through securities with an estimated average remaining life of less than 3.5 years.

GAAP requires that investments in equity securities have readily determinable fair values and all 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 Company nor the Bank had any securities classified as trading securities during the twelve months ended December 31, 2004, nor do they presently anticipate establishing a trading portfolio. Unrealized gains and losses on available for sale securities are reported as a separate component of stockholders' equity referred to as accumulated other comprehensive income, net of deferred taxes. At December 31, 2004, the Holding Company and the Bank had, on a combined basis, \$574.3 million of securities classified as available for sale, which represented 17.0% of total assets at December 31, 2004. 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.

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The Company typically classifies purchased MBS as available for sale, in recognition of the greater prepayment uncertainty associated with these securities, and carries them at fair market value. The amortized cost of MBS available for sale (excluding CMOs and REMICs) exceeded their fair value by \$217,000 at December 31, 2004.

Mortgage-backed securities:								
Pass-through securities	\$44,744	\$44,961	\$35,054	\$35,950	\$64,514	\$66,775	\$72,450	\$74,633
CMOs and REMICs	480,865	474,459	428,847	426,017	292,541	293,928	209,476	213,579
Total mortgage-backed securities available for sale								
	525,609	519,420	463,901	461,967	357,055	360,703	281,926	288,212
Investment securities (2)	54,557	54,840	36,743	37,107	104,379	104,564	137,311	138,578
Net unrealized (loss) gain (3)	(5,906)	-	(1,570)	-	3,833	-	7,553	-
Total Available-for-Sale	\$574,260	\$574,260	\$499,074	\$499,074	\$465,267	\$465,267	\$426,790	\$426,790
Total securities, net	\$575,310	\$575,334	\$500,554	\$500,614	\$468,341	\$468,439	\$430,940	\$431,083

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

(2) Includes corporate debt obligations.

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

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The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of investment securities and MBS at December 31, 2004, by remaining period to contractual maturity. With respect to MBS, the entire carrying amount of the security at December 31, 2004 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 2.5 years as of December 31, 2004 when giving consideration to anticipated repayments or possible prepayments, which is far less than their calculated average maturity in the table below. Other than obligations of federal agencies and GSEs, neither the Holding Company nor the Bank had a combined investment in securities issued by any one entity in excess of 15% of stockholders' equity at December 31, 2004.

	At December 31, 2004					
	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in Thousands)						
Mortgage-backed securities:						
Due within 1 year	-	-	-	-	-	-
Due after 1 year but within 5 years	\$465	\$485	7.97%	\$899	\$933	5.66%
Due after 5 years but within 10 years	-	-	-	29,217	28,975	3.98
Due after ten years	-	-	-	495,494	489,512	4.01
Total	465	485	7.97	525,610	519,420	4.01
U.S. Treasury and agency:						
Due within 1 year	-	-	-	10,000	9,961	2.29
Due after 1 year but within 5 years	-	-	-	2,999	2,995	2.88
Due after 5 years but within 10 years	-	-	-	-	-	-
Due after ten years	-	-	-	-	-	-
Total	-	-	-	12,999	12,956	2.43
Corporate and other:						
Due within 1 year	-	-	-	1,036	1,032	6.75
Due after 1 year but within 5 years	585	589	7.26	997	986	2.80
Due after 5 years but within 10 years	-	-	-	1,000	1,025	5.00
Due after ten years	-	-	-	38,525	38,841	4.04
Total	585	589	7.26	41,558	41,884	4.10
Total:						
Due within 1 year	-	-	-	11,036	10,993	2.71
Due after 1 year but within 5 years	1,050	1,074	7.58	4,895	4,914	3.37
Due after 5 years but within 10 years	-	-	-	30,217	30,000	4.01
Due after ten years	-	-	-	534,019	528,353	4.01
Total	\$1,050	\$1,074	7.58%	\$580,167	\$574,260	3.98%

Sources of Funds

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

Deposits. The Bank offers a variety of deposit accounts possessing a range of interest rates and terms. The Bank, at December 31, 2004 and presently, offers savings, money market, checking, NOW and Super NOW accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. Traditionally, the Bank has relied upon direct marketing, customer service, convenience and long-standing relationships with customers to generate deposits. The communities in which the Bank

maintains branch offices have historically provided the Bank with nearly all of its deposits. At December 31, 2004, the Bank had deposit liabilities of \$2.21 billion, up \$168.4 million from December 31, 2003 (See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"). Within total deposits at December 31, 2004, \$263.2 million, or 11.9%, consisted of CDs with balances over

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\$100,000. Individual Retirement Accounts totaled \$116.8 million, or 5.3% of total deposits.

The Bank is authorized to accept brokered CDs up to an aggregate limit of \$120.0 million. At December 31, 2004 and 2003, the Bank had no brokered CDs.

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

	Year Ended December 31,			Six Months Ended December 31,		Year Ended June 30,
	2004	2003	2002	2002	2001	2002
(Dollars in Thousands)						
Deposits	\$3,445,897	\$3,055,095	\$3,012,112	\$1,556,645	\$1,332,182	\$2,787,649
Withdrawals	3,315,462	2,978,932	2,728,969	1,435,740	1,191,845	2,485,046
Deposits greater than Withdrawals	130,435	76,163	283,143	120,905	140,337	302,603
Interest credited	37,936	38,340	48,670	26,236	26,565	48,999
Total increase in deposits	\$168,371	\$114,503	\$331,813	\$147,141	\$166,902	\$351,602

At December 31, 2004, the Bank had \$263.2 million in CDs over \$100,000 maturing as follows:

Maturity Period	Amount	Weighted Average Rate
(Dollars in Thousands)		
Within three months	\$102,780	2.36%
After three but within six months	85,622	2.58
After six but within twelve months	23,259	2.32
After 12 months	51,544	3.27
Total	\$263,205	2.61%

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, 2004			At December 31, 2003			At December 31, 2002		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
(Dollars in Thousands)									
Savings accounts	\$362,656	16.41%	0.56%	\$366,592	17.96%	0.55%	\$362,400	18.80%	0.78%
CDs	959,951	43.44	2.52	800,350	39.20	2.64	830,140	43.08	3.21
Money market accounts	749,040	33.89	1.40	745,387	36.51	1.35	616,762	32.00	1.90
NOW and Super NOW accounts	45,178	2.04	1.08	37,043	1.81	1.02	31,822	1.65	1.24
Checking accounts	93,224	4.22	-	92,306	4.52	-	86,051	4.47	-
Totals	\$2,210,049	100.00%	1.68%	\$2,041,678	100.00%	1.65%	\$1,927,175	100.00%	2.16%

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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, 2004:

Interest Rate Range	Period to Maturity at December 31, 2004						
	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total at December 31, 2004	Total at December 31, 2003	Total at December 31, 2002
(Dollars in Thousands)							
2.00% and below	\$337,826	\$27,034	\$11	-	\$364,871	\$353,485	\$173,179
2.01% to 3.00%	351,053	104,744	216	\$6	456,019	182,233	297,770
3.01% to 4.00%	21,372	14,146	34,312	6	69,836	162,063	176,384
4.01% to 5.00%	12,035	31,994	202	-	44,231	50,109	95,512
5.01% and above	12,558	12,436	-	-	24,994	52,460	87,295
Total	\$734,844	\$190,354	\$34,741	\$12	\$959,951	\$800,350	\$830,140

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 under various lending programs at competitive interest rates. The Bank's borrowing line equaled \$993.5 million at December 31, 2004.

The Bank had Advances from the FHLBNY totaling \$506.5 million and \$534.0 million at December 31, 2004 and 2003, respectively. At December 31, 2004, the Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such Advances.

REPOS totaled \$205.6 million and \$12.7 million, respectively, at December 31, 2004 and 2003. 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 Fiscal Year Ended December 31,		At or for the Six Months Ended December 31,	At or for the Fiscal Year Ended June 30,
	2004	2003	2002	2002
	(Dollars in Thousands)			
Balance outstanding at end of period	\$205,584	\$12,675	\$95,541	\$97,717
Average interest cost at end of period	2.48%	4.96%	5.68%	5.61%
Average balance outstanding during the period	\$129,426	\$71,302	\$97,941	\$260,988
Average interest cost during the period (1)	2.34%	8.86%	5.35%	4.47%
Carrying value of underlying collateral at end of period	\$219,311	\$12,967	\$85,226	\$95,994
Estimated fair value of underlying collateral	\$216,754	\$13,045	\$87,479	\$96,093
Maximum balance outstanding at month end during the year	\$220,649	\$86,020	\$98,728	\$395,444

(1) Excluding prepayment expenses of \$2,555 recorded during the year ended December 31, 2003, the average interest cost was 5.29% during the year ended December 31, 2003. Excluding prepayment expenses of \$339 recorded during the year ended June 30, 2002, the average interest cost was 4.31% during the year ended June 30, 2002. There were no prepayments during the year ended December 31, 2004, or the six months ended December 31, 2002.

FHLBNY Advances:

	At or for the Fiscal Year Ended December 31,		At or for the Six Months Ended December 31,	At or for the Fiscal Year Ended June 30,
	2004	2003	2002	2002
	(Dollars in Thousands)			
Balance outstanding at end of period	\$506,500	\$534,000	\$555,000	\$575,000
Average interest cost at end of period	4.21%	3.85%	4.11%	5.07%
Weighted average balance outstanding during the period	\$515,626	\$559,726	\$572,024	\$565,520
Average interest cost during the period (1)	4.00%	3.98%	4.90%	5.90%
Maximum balance outstanding at month end during period	\$534,000	\$574,000	\$590,000	\$582,500

(1) Amounts in the above table exclude the effects of prepayment expenses paid on FHLBNY Advances. Including prepayment expenses paid on FHLBNY Advances of \$1.6 million during the year ended December 31, 2003, \$3.6 million during the six months ended December 31, 2002 and \$5.9 million during the year ended June 30, 2002, the average interest cost on FHLBNY Advances was 4.30% during the year ended December 31, 2003, 6.18% during the six months ended December 31, 2002 and 6.94% during the year ended June 30, 2002. The Bank did not prepay any FHLBNY Advances during the year ended December 31, 2004.

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

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

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

Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of seven wholly-owned corporations, one of which are directly owned by the Holding Company and six of which are directly or indirectly owned by the Bank. DSBW Preferred Funding Corp. is a direct subsidiary of Havemeyer Equities, Inc., which is a direct subsidiary of the Bank. The following table presents an overview of the Holding Company's subsidiaries as of December 31, 2004:

Subsidiary	Year/ State of Incorporation	Primary Business Activities
Havemeyer Equities, Inc.	1977 / New York	Ownership of DSBW Preferred Funding Corp.
Boulevard Funding Corp.	1981 / New York	Currently inactive
Havemeyer Investments, Inc.	1997 / New York	Sale of 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
842 Manhattan Avenue Corp.	1995/ New York	Management and ownership of real estate
Dime Reinvestment Corporation	2004 / Delaware	Community Development Entity. Currently inactive.

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Personnel

As of December 31, 2004, the Company had 315 full-time employees and 80 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 discussion of material tax matters and does not purport to be a comprehensive description of the tax rules applicable to the Company.

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

Tax Bad Debt Reserves. The Bank, as a "large bank" under IRS classifications (*i.e.*, one with assets having an adjusted basis of more than \$500 million), is: (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. Since the Bank has already provided a deferred income tax liability for this tax for financial reporting purposes, there was no adverse impact to the Bank's financial condition or results of operations from the enactment of the federal legislation that imposed such recapture.

Distributions. "Non-dividend distributions" to shareholders of the Bank are considered distributions from the Bank's "base year reserve" (*i.e.*, its reserve as of December 31, 1987, to the extent thereof), and then from its supplemental reserve for losses on loans. 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 distributed will be included in the Bank's taxable income in the year of distribution. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's income. The amount of additional taxable income created from a non-dividend distribution is the amount that, when reduced by the amount of the tax attributable to this income, is equal to the amount of the distribution. Thus, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. (See "[Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions](#)" for limits on the payment of dividends by the Bank). The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserves.

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

State and Local Taxation

State of New York. The Company is subject to New York State ("NYS") franchise tax on one of several alternative bases, whichever results in the greatest tax, and files combined returns for this purpose. The basic tax is measured by "entire net income," which is federal taxable income with adjustments.

For NYS tax purposes, as long as the Bank continues to satisfy certain definitional tests relating to its assets and the nature of its business, it will be permitted deductions, within specified formula limits, for additions to its bad debt reserves for purposes of computing its entire net income.

The Bank's deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property, may be computed using an amount based on the Bank's actual loss experience (the "Experience Method") or 32% of the Bank's entire net income, computed without regard to this deduction and reduced by the amount of any

permitted addition to the Bank's reserve for non-qualifying loans. The Bank's deduction with respect to non-qualifying loans must be computed pursuant to the Experience Method. 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 bad debt reserve in excess of a reserve amount computed pursuant to the Experience Method is subject to recapture upon a non-dividend distribution in a manner similar to the recapture of the federal bad debt reserves for such distributions. In addition, the reserve is subject to recapture in the event that the Bank fails either to satisfy a thrift definitional test relating to the composition of its assets or to maintain a thrift charter.

The NYS tax rate for the year ended December 31, 2004 was 9.03% of taxable income. This rate includes a commuter transportation surcharge. In general, the Holding Company is not required to pay NYS tax on dividends and interest received from the Bank.

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

New York City generally conforms its tax law to NYS tax law in the determination of taxable income (including the laws relating to bad debt reserves). New York City 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 Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF"), which are administered by the FDIC. The Bank must file reports with the OTS concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OTS conducts periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings association may engage and is intended primarily for the protection of the insurance fund and depositors. As a publicly-held unitary savings and loan holding company, the Holding Company is required to file certain reports with, and otherwise comply with the rules and regulations of 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 Owner's 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 commercial 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 acquisitions of certain 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.

Loans to One Borrower. Under HOLA, savings associations are generally subject to the same limits on loans to one borrower as are imposed on national banks. Generally, pursuant to these limits, a savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of the association's unimpaired capital and 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, 2004, the Bank's limit on loans to one borrower was \$68.1 million. The Bank's largest aggregate amount of loans to one borrower on that date was \$33.9 million and the second largest borrower had an aggregate balance of \$33.2 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: (a) specified liquid assets up to 20% of total assets, (b) certain intangibles, including goodwill, credit card relationships and purchased MSR, and (c) the value of property used to conduct the association's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities; 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, 2004, the Bank maintained 77.6% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each of the prior 12 months and, therefore, was a QTL.

A savings association that fails the QTL test must either operate under certain restrictions on its activities or convert to a bank charter. The initial restrictions include prohibitions against (a) engaging in any new activity not permissible for a national bank, (b) paying dividends not permissible under national bank regulations, and (c) establishing any new branch office in a location not permissible for a national bank in the association's home state. In addition, within one year of the date a savings association ceases to satisfy the QTL test, any company controlling the association must register under, and become subject to the

requirements of, the Bank Holding Company Act of 1956, as amended. A savings association that has failed the QTL test may requalify under the QTL test and be relieved of the limitations, however, may do so only once. If the savings association does not requalify under the QTL test within three years after failing the QTL test, it will be required to terminate any activity, and dispose of any investment, not permissible for a national bank, and repay as promptly as possible any outstanding Advances from the FHLBNY.

Capital Requirements. OTS regulations require savings associations to satisfy three minimum capital standards: (1) a tangible capital ratio of 1.5% of total assets as adjusted under OTS regulations; (2) a risk-based capital ratio of 8% of risk-based capital (as defined under OTS regulations) to total risk-based assets (also as defined under OTS regulations); and (3) a leverage capital ratio (as defined under OTS regulations). For depository institutions that have been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating, 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.

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

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

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

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") required 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

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do not include a specific IRR component of the risk-based capital requirement; however, the OTS monitors the IRR of individual institutions through a variety of methods, including an analysis of the change in net portfolio value ("NPV"). NPV is defined as the net present value of the expected future cash flows on an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The OTS has also used the NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. In addition, OTS Thrift Bulletin 13a provides guidance on the management of IRR and the responsibility of boards of directors in that area. The OTS, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent they are not in compliance with certain written OTS guidelines regarding NPV analysis. The OTS has not imposed any such requirements on the Company.

The table below presents the Bank's regulatory capital as compared to the OTS regulatory capital requirements at December 31, 2004:

	As of December 31, 2004			
	Actual		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
Tangible	\$256,955	7.88%	\$48,937	1.5%
Leverage Capital	256,955	7.88	130,498	4.0
Risk-based capital	261,835	12.83	163,247	8.0

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

	At December 31, 2004		
	Tangible Capital	Leverage Capital	Risk-Based Capital
GAAP capital	\$309,190	\$309,190	\$309,190
Non-allowable assets:			
Core deposit intangible	(48)	(48)	(48)
Loan servicing asset	(250)	(250)	(250)
Accumulated other comprehensive income	3,701	3,701	3,701
Goodwill	(55,638)	(55,638)	(55,638)
General valuation allowance	-	-	15,543
Adjustment for recourse provision on loans sold	-	-	(10,663)
Regulatory capital	256,955	256,955	261,835
Minimum capital requirement	48,937	130,498	163,247
Regulatory capital excess	\$208,018	\$126,457	\$98,588

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, then the Bank must file an application for OTS approval of a proposed capital distribution. In addition, the OTS can prohibit a proposed capital distribution otherwise permissible under the regulation if it determines that the association is in need of greater than customary supervision or that a proposed distribution would constitute an unsafe or unsound practice. Furthermore, under OTS prompt corrective action regulations, the Bank would be prohibited from making a capital distribution if, after the distribution, the Bank failed to satisfy its minimum capital requirements, as described above ([See "Regulation - Regulation of Federal Savings Associations - Prompt Corrective Regulatory Action"](#)). In addition, pursuant to the Federal Deposit Insurance Act ("FDIA"), an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" as defined in the FDIA.

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Liquidity. Pursuant to OTS regulations, the Bank is required to maintain sufficient liquidity to ensure its safe and sound operation ([See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"](#) for further discussion). At December 31, 2004, the Bank's liquid assets approximated 9.1% of total assets.

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

Branching. Subject to certain limitations, HOLA and OTS regulations permit federally chartered savings associations to establish branches in any state of the United States. The authority to establish such a branch is available: (a) in states that expressly authorize branches of savings associations located in another state, and (b) to an association that either satisfies the QTL test or qualifies as a "domestic building and loan association" under the Code, which imposes qualification requirements similar to those for a QTL under HOLA ([See "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 best suited to its particular community. The CRA requires the OTS, in connection with its examination of a savings association, to assess the association's record of 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: (a) a lending test, to evaluate the institution's record of making loans in its service areas; (b) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) a service test, to evaluate the institution's delivery of services through its branches, automated teller machines and other offices. A regulation recently adopted by the OTS allows a savings association to elect alternative weights for each of the three tests as long as a weight of 50% or more is applied to the lending test. 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.

The Gramm-Leach-Bliley Act of 1999 ("Gramm-Leach") and its implementing regulations require that insured depository institutions publicly disclose certain agreements that are in fulfillment of the CRA. The Bank had no such agreements in place at December 31, 2004.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by OTS regulations and 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. In general, an affiliate of the Bank is any company that controls the Bank or any other company that is controlled by a company that controls the Bank, excluding the Bank's subsidiaries other than those that are insured depository institutions. A subsidiary of a bank that is not also a depository institution is currently generally not treated as an affiliate of the bank for purposes of Sections 23A and 23B, however, the Federal Reserve Bank has proposed treating any subsidiary of a bank that is engaged in activities not permissible for bank holding companies under the Bank Holding Company Act ("BHC Act") as an affiliate for purposes of Sections 23A and 23B. OTS regulations prohibit a savings association from (a) lending to any of its affiliates that are engaged in activities not permissible for bank holding companies under Section 4(c) of the BHC Act, and (b) purchasing the securities of any affiliate other than a subsidiary. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the savings association and also limits the aggregate amount of transactions with all affiliates to 20% of the savings association's capital and surplus. Extensions of credit to affiliates are required to be secured by collateral in an amount and of a type described in Section 23A, and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to the association, as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards, that in good faith would be offered, or would apply, to nonaffiliated companies.

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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. The OTS regulations also include certain exemptions from these prohibitions. The FRB and the OTS require each depository institution that was 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. Implementation of these regulations did not have a material impact upon the financial condition or results of operations of the Company.

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

The Bank's authority to extend credit to its directors, executive officers, and shareholders owning 10% or more of the Holding Company's outstanding common stock, as well as to entities controlled by such persons, is additionally governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB enacted thereunder. Among other matters, these provisions require that extensions of credit to insiders: (a) be made on terms substantially the same as, and follow credit underwriting procedures not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (b) not exceed certain 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 Company and Bank both presently prohibit loans to Directors and executive management.

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

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 a set of guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other features, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the OTS adopted regulations pursuant to FDICIA that authorize, but do not require, the OTS to order an institution that has been given notice by the OTS that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the OTS must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized association is subject under the "prompt corrective action" provisions of FDICIA ([See "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.

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Real Estate Lending Standards. The OTS and the other federal banking agencies have adopted regulations prescribing standards for extensions of credit that are (a) secured by real estate, or (b) made for the purpose of financing the construction of improvements on real estate. The regulations require each savings association to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the association and the nature and scope of its real estate lending activities. The standards must additionally conform to accompanying OTS guidelines, which include loan-to-value ratios for the different types of real estate loans. Associations are 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.

Prompt Corrective Regulatory Action. Under the OTS prompt corrective action regulations, the OTS is required to take certain, and authorized to take other, supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of five categories based on the association's capital. Generally, a savings association is considered "well capitalized" if it maintains all of the following capital ratios: (1) Total capital to risk-based assets of at least 10.0%; (2) Leverage capital to risk-based assets of at least 6.0%; and (3) Leverage capital to adjusted total assets of at least 5.0%. In addition, in order to be considered "well capitalized," the savings association cannot be subject to any order or directive of the OTS to satisfy or maintain specific capital levels. A savings association is considered "adequately capitalized" if it maintains all of the following capital ratios: (1) Total capital to risk-based assets of at least 8.0%; (2) Leverage capital to risk-based assets of at least 4.0%; and (3) Leverage capital to adjusted total assets of at least 4.0% (or at least 3.0% if the association received the highest possible overall rating on its most recent OTS safety and soundness examination). A savings association is considered "undercapitalized" if it maintains any of the following capital ratios: (1) Total capital to total risk-based assets of less than 8.0%; (2) Leverage capital to risk-based assets of less than 4.0%; or (3) Leverage capital to adjusted total assets of less than 4.0% (or of less than 3.0% if the association received the highest possible overall rating on its most recent OTS safety and soundness examination). A savings association is considered "significantly undercapitalized" if it maintains any of the following capital ratios: (1) Total capital to risk-based assets of less than 6.0%; (2) Leverage capital to risk-based assets of less than 3.0%; or (3) Leverage capital to adjusted total assets of less than 3.0%. A savings association that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." The elements of an association's capital for purposes of the prompt corrective action regulations are defined generally as they are under the regulations for minimum capital requirements ([See "Item 1 - Business - Regulation - Regulation of Savings Associations - Capital Requirements"](#)). As of December 31, 2004, the Bank satisfied all criteria necessary to be categorized "well capitalized" under the prompt corrective action regulatory framework.

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

restrictions on rates paid on deposits, forced termination or reduction of activities deemed risky, and any further operational restrictions deemed necessary by the OTS.

If one or more grounds exist for appointing a conservator or receiver for an association, the OTS may require the association to issue additional debt or stock, sell assets, be acquired by a depository association holding company, or combine with another depository association. The OTS and FDIC possess a broad range of justifications pursuant to which they may appoint a receiver or conservator for an insured depository association. Pursuant to FDICIA, the OTS is required to appoint a receiver (or with the concurrence of the FDIC, a conservator) for a critically undercapitalized association within 90 days after the association becomes critically undercapitalized or, with the concurrence of the FDIC, to take such other action that would better achieve the purposes of the prompt corrective action provisions. Such alternative action may be renewed for successive 90-day periods. However, if the association remains critically undercapitalized on average during the quarter that begins 270 days after it initially became critically undercapitalized, a receiver must be appointed, unless the OTS makes certain findings with which the FDIC concurs and the Director of the OTS and the Chairman of the FDIC certify that the association is viable. In addition, an association that is critically undercapitalized is subject to more severe restrictions on its activities, and is prohibited, without prior approval of the FDIC, from, among other actions, entering into certain material transactions or paying interest on new or renewed liabilities at a rate that would significantly increase the association's weighted average cost of funds.

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

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

The Deposit Insurance Funds Act of 1996 amended the FDIA to recapitalize the SAIF and expand the assessment base for the payments of Financing Corporation ("FICO") bonds. FICO bonds were sold by the federal government in order to finance the recapitalization of the SAIF and BIF insurance funds that was necessitated following payments from the funds to compensate depositors of federally-insured depository institutions that experienced bankruptcy and dissolution during the 1980's and 1990's. The quarterly adjusted rate of assessment for FICO bonds is 0.0146% for both BIF-and SAIF-insured institutions.

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

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

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

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

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Insurance Activities. As a federal savings bank, the Bank is generally permitted to engage in certain insurance activities through subsidiaries. OTS regulations promulgated pursuant to Gramm-Leach prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity or an agreement by the consumer not to purchase an insurance product or annuity from an entity not affiliated with

the depository institution. The regulations additionally require prior disclosure of this prohibition if such products are offered to credit applicants. Implementation of these regulations did not have a material impact upon the financial condition or results of operations of the Company.

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 capital stock in the FHLBNY in an amount equal to the greater of: (i) \$500; (ii) 1% of the unpaid principal balance of residential mortgage loans and contracts and other mortgage related assets at the beginning of each year; or (iii) 5% of the Bank's aggregate outstanding Advances from the FHLBNY. The Bank is in compliance with these requirements.

Federal Reserve System. The Bank is subject to provisions of the FRA and FRB regulations pursuant to which depository institutions may be required to maintain non-interest-earning reserves against their deposit accounts and certain other liabilities. Currently, reserves must be maintained against transaction accounts (primarily NOW and regular checking accounts). FRB regulations generally require that reserves be maintained in the amount of 3% of the aggregate of transaction accounts between \$7.0 million and \$47.6 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 \$47.6 million. The initial \$7.0 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.

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

Anti-Money Laundering and Customer Identification. The Company is subject to OTS regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("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 enacts measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of Title III and the related OTS regulations impose affirmative obligations on a broad range of financial institutions, including banks and thrifts. Title III imposes the following requirements, among others, with respect to financial institutions: (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.

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

As a unitary savings and loan holding company, the Holding Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to satisfy the QTL test (See "[Item 1 - Business - Regulation - Regulation of Federal Savings Associations - QTL Test](#)" for a discussion of the QTL requirements). Upon any non-supervisory acquisition by the Holding Company of another savings association or a savings bank that satisfies the QTL test and is deemed to be a savings association by the OTS and that will be held as a separate subsidiary, the Holding Company will become a multiple savings association holding company and will be subject to limitations on the types of business activities in which it may engage. HOLA limits the activities of a multiple savings association holding company and its non-insured association subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the BHC Act, subject to prior approval of the OTS, and to other activities authorized by OTS regulation.

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

Gramm-Leach 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.

The Bank must file a notice with the OTS prior to the declaration or payment of any dividends or other capital distributions to the Holding Company ([See "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 information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Item 2. Properties

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

Item 3. Legal Proceedings

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

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

None.

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PART II

Item 5. Market for the Holding Company'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. All amounts have been adjusted to reflect the Company's 50% stock dividends paid on August 21, 2001, April 24, 2002 and March 16, 2004.

Quarter Ended	Twelve Months Ended December 31, 2004			Twelve Months Ended December 31, 2003		
	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
March 31 st	\$0.13	\$21.38	\$19.67	\$0.09	\$15.66	\$12.40
June 30 th	0.14	20.81	15.97	0.09	17.56	14.85
September 30 th	0.14	17.61	15.60	0.11	18.67	15.33
December 31 st	0.14	18.78	16.04	0.11	21.27	15.35

On December 31, 2004, the final trading date in the fiscal year, the Holding Company's common stock closed at \$17.91.

Management estimates that the Holding Company had approximately 3,200 shareholders of record as of March 11, 2005, including persons or entities holding stock in nominee or street name through various brokers and banks. There were 37,165,740 shares of common stock outstanding at December 31, 2004.

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, 2004, the Holding Company paid cash dividends totaling \$19.7 million, representing \$0.55 per outstanding common share. During the year ended December 31, 2003, the Holding Company paid cash dividends totaling \$15.8 million, representing \$0.41 per outstanding common share.

On January 20, 2005, the Board of Directors declared a cash dividend of \$0.14 per common share to all shareholders of record as of January 31, 2005. This dividend was paid on February 15, 2005.

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 (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 [Notes to the Company's Audited Financial Statements](#) for a discussion of limitations on distributions from the Bank to the Holding Company).

In April 2000, the Holding Company issued \$25.0 million in subordinated notes payable, with a stated annual coupon rate of 9.25%. It is required, pursuant to the provisions of the notes, to first satisfy the interest obligation on 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%. It is required, pursuant to the provisions of the debt, 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.

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During the three months ended December 31, 2004, the Holding Company purchased 307,504 shares of its common stock into treasury. These repurchases were made under the Company's Tenth Stock Repurchase Program, which was publicly announced on May 20, 2004.

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

Period	Total Number Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Programs	Maximum Number of Shares that May Yet be Purchased Under the Programs
October 2004	80,000	\$16.97	80,000	1,645,060
November 2004	116,404	17.34	116,404	1,528,656
December 2004	111,100	17.87	111,100	1,417,556

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, 2004 and 2003, the years ended June 30, 2002, 2001, and 2000, and the six months ended December 31, 2002 set forth below is derived in part from, and should be read in conjunction with, the Company's audited Consolidated Financial Statements and Notes thereto. The consolidated financial and other data for the year ended December 31, 2002 is unaudited. Amounts as of and for the twelve months ended December 31, 2003 and 2002, the six months ended December 31, 2002, and the years ended June 30, 2002, 2001, and 2000 have been reclassified to conform to the December 31, 2004 presentation.

	At or for the Twelve Months Ended December 31,			At or for the Six Months Ended December 31,	At or for the Twelve Months Ended June 30,		
	2004	2003	2002	2002	2002	2001	2000
Selected Financial Condition Data:							
Total assets	\$3,377,266	\$2,971,661	\$2,946,374	\$2,946,374	\$2,810,132	\$2,721,744	\$2,502,139
Loans, net (1)	2,486,262	2,177,622	2,154,619	2,154,619	2,104,884	1,944,902	1,706,515
Mortgage-backed securities	519,885	462,737	362,952	362,952	291,488	438,447	442,690
Investment securities (2)	80,750	64,517	140,279	140,279	173,818	139,523	181,033
Federal funds sold and other short-term investments	103,291	95,286	114,291	114,291	76,474	36,619	9,449
Goodwill	55,638	55,638	55,638	55,638	55,638	55,638	60,254
Deposits	2,210,049	2,041,678	1,927,175	1,927,175	1,780,034	1,428,432	1,219,148
Borrowings	809,249	571,675	675,541	675,541	697,717	995,288	1,014,027
Stockholders' equity	281,721	283,919	265,737	265,737	249,741	227,116	207,169
Tangible Stockholders' equity	229,013	228,026	206,325	206,325	189,827	164,513	149,464
Selected Operating Data:							
Interest income	\$163,621	\$169,115	\$181,914	\$90,469	\$184,581	\$181,648	\$165,623
Interest expense on deposits and borrowings	67,776	71,063	91,790	43,278	102,244	114,043	98,820
Net interest income	95,845	98,052	90,124	47,191	82,337	67,605	66,803
Provision for losses	280	288	240	120	240	740	240
Net interest income after provision for loan losses	95,565	97,764	89,884	47,071	82,097	66,865	66,563
Non-interest income	20,513	25,122	19,999	10,765	14,837	9,292	5,043
Non-interest expense	42,407	40,809	38,696	20,368	35,431	35,096	34,015
Income before income tax	73,671	82,077	71,187	37,468	61,503	41,061	37,591
Income tax expense	27,449	30,801	26,565	14,008	22,826	15,821	15,217
Net income	\$46,222	\$51,276	\$44,622	\$23,460	\$38,677	\$25,240	\$22,374

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

(2) Amount includes investment in FHLBNY capital stock.

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	At or for the Twelve Months Ended December 31,			At or for the Six Months Ended December 31,	At or for the Twelve Months Ended June 30,		
	2004	2003	2002	2002	2002	2001	2000
SELECTED FINANCIAL RATIOS AND OTHER DATA							
(3):							
Return on average assets	1.38%	1.67%	1.57%	1.62%	1.40%	0.97%	0.93%
Return on average stockholders' equity	16.76	18.76	17.65	18.17	16.07	11.67	10.65
Stockholders' equity to total assets at end of period	8.34	9.55	9.02	9.02	8.89	8.34	8.28
Tangible equity to tangible assets at end of period	6.88	7.82	7.15	7.15	6.90	6.19	6.11
Loans to deposits at end of period	113.20	107.39	112.60	112.60	119.11	137.24	141.18
Loans to interest-earning assets at end of period	78.04	77.89	77.85	77.85	79.65	76.13	73.10
Net interest spread (4)	2.77	3.08	2.93	3.07	2.70	2.32	2.48
Net interest margin (5)	3.00	3.36	3.33	3.41	3.12	2.76	2.91
Average interest-earning assets to average interest-bearing liabilities	110.79	111.60	111.64	111.88	110.99	109.33	110.04
Non-interest expense to average assets	1.27	1.33	1.36	1.40	1.28	1.35	1.41
Core non-interest expense to average assets (6)	1.24	1.30	1.28	1.37	1.25	1.14	1.24
Efficiency ratio (7)	36.67	33.05	36.49	36.41	37.29	46.25	46.33
Core efficiency ratio (6) (7)	35.96	32.38	34.44	35.67	36.42	39.08	40.77
Effective tax rate	37.26	37.53	37.32	37.39	37.11	38.53	40.48
Dividend payout ratio	42.97	30.10	25.00	25.81	24.61	33.63	34.74
Per Share Data:							
Diluted earnings per share	\$1.28	\$1.37	\$1.17	\$0.62	\$1.03	\$0.67	\$0.56
Cash dividends paid per share	0.55	0.41	0.29	0.16	0.25	0.23	0.19
Book value per share	7.58	7.45	6.91	6.91	6.45	5.94	5.26
Tangible book value per share	6.16	5.98	5.36	5.36	4.90	4.30	3.79
Asset Quality Ratios and Other Data:							
Net charge-offs	\$133	\$29	\$274	\$32	\$329	\$66	\$536
Total non-performing loans	1,459	525	2,116	2,116	2,123	3,058	4,421
Other real estate owned, net	-	-	134	134	114	370	381
Non-performing loans to total loans	0.06%	0.02%	0.10%	0.10%	0.10%	0.16%	0.26%
Non-performing loans and real estate owned to total assets	0.04	0.02	0.08	0.08	0.08	0.13	0.19
Allowance for Loan Losses to:							
Non-performing loans	1,065.32%	2,860.57%	730.53%	730.53%	723.98%	505.53%	334.43%
Total loans (8)	0.62	0.68	0.71	0.71	0.72	0.79	0.86
Regulatory Capital Ratios: (Bank only)							
Tangible capital	7.88%	7.97%	7.19%	7.19%	6.91%	6.10%	5.76%
Leverage capital	7.88	7.97	7.19	7.19	6.91	6.10	5.76
Risk-based capital	12.83	15.03	13.17	13.17	12.94	12.57	11.62
Earnings to Fixed Charges Ratios (9):							
Including interest on deposits	2.09x	2.15x	1.78x	1.87x	1.60x	1.36x	1.38x
Excluding interest on deposits	3.46	3.50	2.49	2.73	2.16	1.64	1.70
Full Service Branches	20	20	20	20	20	18	18

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

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

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

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

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

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

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

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

Executive Summary

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

The Bank's primary strategy is to increase its household and deposit market shares in the communities which it serves, either through direct marketing, acquisitions or purchases of deposits. The Bank also seeks to increase its product and service utilization for each individual depositor. In addition, the Bank's primary strategy includes the origination of, and investment in, mortgage loans, with an emphasis on multifamily residential and commercial real estate loans, reflecting the fact that a significant portion of the housing in the Bank's primary lending area is multifamily. Recently, the Bank has increased its portfolio of loans secured by mixed-use properties typically comprised of ground level commercial units and residential apartments on the upper floors.

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

The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities; seeks to maintain the asset quality of its loans and other investments; and uses appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital. In 2004, the Company experienced modest growth in assets, primarily in MBS available for sale and commercial real estate loans secured by mixed-use properties. Increases in real estate loan origination levels were driven by the continuation of low interest rates during 2003 and 2004, which were partially offset by an increase in principal repayments on loans and MBS resulting from increased customer refinance activities. Deposits grew in 2004 due to the success of various sales and marketing activities during the period, primarily for CDs and money market accounts.

Prior to January 2004, the overall low interest rate environment resulted in a greater decline in the average cost of interest bearing liabilities than the average yield on interest earning assets. During the year ended December 31, 2004, the continued low interest rate environment created the opposite effect, resulting in a greater decline in the average yield on interest earning assets than in the average cost of interest bearing liabilities. Additionally, both an increase in short-term interest rates during the latter part of the year ended December 31, 2004 and the 7.0% coupon trust preferred borrowing issued by the Company in March 2004 added to interest expense on borrowed funds during the year. As a result, both the net interest spread and the net interest margin, which had increased during most of 2002 and 2003, declined during the year ended December 31, 2004 when compared to the year ended December 31, 2003. Also contributing to the decline in net income during the year ended December 31, 2004 compared to the year ended December 31, 2003 was a \$5.6 million decline in multifamily residential and commercial real estate loan prepayment fees.

The tightening of monetary policy by the FOMC during the second half of 2004 resulted in a narrowing spread between short and long-term interest rates, which negatively impacted the Company's earnings during 2004. Absent any future change in interest rates, the narrowing of spreads between long and short-term interest rates is currently expected to negatively impact the Company's earnings during the years ending December 31, 2005, 2006 and 2007, since the Company will experience a greater level of re-pricing of interest-bearing liabilities compared to interest-earning assets. ([See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk - Interest Sensitivity GAP"](#)). Management believes that by funding a large portion of its long-term investments with core deposits, which have historically been less sensitive to interest rate fluctuations than wholesale funding, the negative impact upon the Company's future earnings that would otherwise result from the narrowing spread between short and long-term interest rates, could be partially mitigated. In addition, in the event that the spread between long and short-term interest rates were to increase during the years ending December 31, 2005 and 2006, the Company has attempted to position itself to benefit from this occurrence by: (i) not fully deploying its strong capital position during the low interest rate environments of 2003 and 2004; and (ii) maintaining a short-duration securities portfolio that is expected to provide a steady source of liquidity during 2005 and 2006.

Critical Accounting Policies

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

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

Allowance for Loan Losses. The loan loss reserve methodology consists of several key components, including a review of the two elements of the Bank's loan portfolio, classified loans (*i.e.*, non-performing loans, troubled-debt restructuring and impaired loans under Amended SFAS 114) and performing loans. At December 31, 2004, 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 date for which the review has been performed. As a result, the Bank calculates an allowance for loan losses related to its performing loans by deriving an expected loan loss percentage and applying it to its performing loans. In deriving the expected loan loss percentage, the Bank considers the following criteria: the Bank's historical loss experience; the age and payment history of the loans (commonly referred to as their "seasoned quality"); the type of loan (*i.e.*, one- to four-family, multifamily residential, commercial real estate, cooperative apartment, construction or consumer); the underwriting history of the loan (*i.e.*, whether it was underwritten by the Bank or a predecessor institution acquired subsequently by the Bank and, therefore, originally subjected to different underwriting criteria); both the current condition and recent history of the overall local real estate market (in order to determine the accuracy of utilizing recent historical charge-off data to derive the expected loan loss percentages); the level of, and trend in, non-performing loans; the level and composition of new loan activity; and the existence of geographic loan concentrations (as the overwhelming majority of the Bank's loans are secured by real estate properties located in the New York City metropolitan area) or specific industry conditions within the portfolio segments. Since these criteria affect the expected loan loss percentages that are applied to performing loans, changes in any one of them will effect the amount of the allowance and the provision for loan losses. The Bank applied the process of determining the allowance for loan losses consistently throughout the years ended December 31, 2004 and 2003.

Loans classified as Special Mention, Substandard or Doubtful are reviewed individually on a quarterly basis by the Loan Loss Reserve Committee to determine if specific reserves are appropriate. Under the guidance established by Amended SFAS 114, loans determined to be impaired (generally, non-performing and troubled-debt restructured multifamily residential and commercial real estate loans and non-performing one- to four-family loans in excess of \$333,700) are evaluated in order to establish whether the estimated value of the underlying collateral determined based upon an independent appraisal is sufficient to satisfy the existing debt. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimate of its fair value. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses. The Loan Loss Reserve Committee's determination of the estimated fair value of the underlying collateral is subject to assumptions and judgments made by the committee. A specific valuation allowance could differ materially as a result of changes in these assumptions and judgments.

The recorded investment in loans deemed impaired was approximately \$830,000, consisting of two loans, at December 31, 2004. There were no loans considered impaired by the Bank under Amended SFAS 114 as of December 31, 2003. The largest single impaired loan at December 31, 2004, which possessed an outstanding principal balance of \$446,000, was removed from impaired status in January 2005. The average total balance of impaired loans was approximately \$608,000 during the year ended December 31, 2004, \$314,000 during the year ended December 31, 2003, \$684,000 during the six months ended December 31, 2002, and \$3.2 million during the year ended June 30, 2002. The increase in the average balance of impaired loans during the year ended December 31, 2004 resulted primarily from the addition of the two impaired loans totaling \$830,000 during the period. The decrease in both the current and average balance of impaired loans during the years ended December 31, 2003 and 2002 resulted from the repayment in June 2002 of an impaired \$2.9 million troubled-debt restructured loan. At December 31, 2004, reserves totaling \$83,000 were allocated within the allowance for loan losses for impaired loans. At December 31, 2003, there was no reserve allocated within the allowance for loan losses for impaired loans.

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If approved by the Board of Directors, the Bank will additionally increase its valuation allowance in an amount recommended by the Loan Loss Reserve Committee to appropriately reflect the anticipated loss from any other loss classification category. Typically, the Bank's policy is to charge-off immediately all balances classified "Loss" and all charge-offs are recorded as a reduction of the allowance for loan losses. The Bank applied this process consistently throughout the years ended December 31, 2004 and 2003.

Although management believes that the Bank maintains its allowance for loan losses at appropriate levels, adjustments may be necessary if economic, market or other conditions in the future 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, even though they are based upon objective data, it is management's interpretation of that data that determines the amount of the appropriate allowance. Therefore, the Company periodically reviews the actual performance and charge-off of its portfolio and compares them to the previously determined allowance coverage percentages. In doing so, the Company evaluates the impact that the previously mentioned variables may have on the portfolio to determine whether or not changes should be made to the assumptions and analyses.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and the level of loans both in, and pending, foreclosure. Based on their judgments about information available to them at the time of their examination, the regulators may require the Bank to recognize adjustments to the allowance.

Valuation of MSR. The estimated origination and servicing costs of mortgage loans sold in which servicing rights are retained is allocated between the loans and the servicing rights based on their estimated fair values at the time of 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, net servicing income. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that the Company believes market participants would use for similar assets. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans for the purpose of evaluating impairment. A valuation allowance is then established in the event the recorded value of an individual stratum exceeds fair value. All estimates and assumptions utilized in the valuation of the MSR are derived based upon actual historical results for either the Bank or its industry peers.

The fair value of MSR is sensitive to changes in assumptions. Fluctuations in prepayment speed assumptions have the most significant impact on the fair value of MSR. In the event that loan prepayment activities increase due to increased loan refinancing, the fair value of MSR would likely decline. In the event that loan prepayment activities decrease due to a decline in loan refinancing, the fair value of MSR would likely increase. Any measurement 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.

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

Goodwill is accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which was adopted on July 1, 2001. SFAS No. 142 eliminated amortization of goodwill and instead requires performance of an annual impairment test at the reporting unit level. As of both July 1, 2001 and December 31, 2004, the Company had goodwill totaling \$55.6 million. Prior to adoption of SFAS No. 142, annual goodwill amortization expense totaled \$4.6 million.

The Company identified a single reporting unit for purposes of its goodwill impairment testing. The impairment test is therefore performed on a consolidated basis and compares the Company's market capitalization (reporting unit fair value) to its outstanding equity (reporting unit carrying value). In accordance with the recommended provisions of SFAS No. 142, the Company utilizes its closing stock price as reported on the Nasdaq National Market on the date of the impairment test in order to compute market capitalization. The Company has designated the last day of its fiscal year as the annual date for impairment testing. The Company performed its annual impairment test as of December 31, 2004 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events have occurred, nor circumstances changed, subsequent to December 31, 2004 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require an immediate impairment test to be performed in accordance with SFAS No. 142. Differences in the identification of reporting units and the use of valuation techniques can result in materially different evaluations of impairment.

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Debt and equity securities that have readily determinable fair values are carried at fair value unless they are held to maturity. Estimated fair values for securities are based on published or securities dealers' market values. Debt securities are classified as held to maturity and carried at amortized cost only if the Company has a positive intent and ability to hold 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 are excluded from net income and reported net of income taxes as other comprehensive income or loss. The Company conducts a periodic review and evaluation of its securities portfolio taking into account the severity, duration and intent with regard to the securities in order to determine if the 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 valuation allowance. For the periods ended December 31, 2004 and 2003, there were no other-than temporary impairments in the securities portfolio.

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

Liquidity and Capital Resources

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

The Bank gathers deposits in direct competition with other savings banks, commercial 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. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives such as the U.S. bond or equity markets. To the extent that the Bank is responsive to general increases or declines in interest rates, its deposit flows should not be materially impacted. A favorable performance by the equity markets, however, could adversely impact the Company's deposit flows.

Deposits increased \$168.4 million during the year ended December 31, 2004 and \$114.5 million during the year ended December 31, 2003. The increase in deposits during each of these periods reflected marketing efforts that helped generate additional deposit balances in CDs and core deposit accounts. Successful CD promotional campaigns implemented during the year ended December 31, 2004 resulted in CD growth totaling \$159.6 million. Money market accounts realized the greatest growth during the year ended December 31, 2003, increasing \$128.6 million.

During the year ended December 31, 2004, principal re-payments received on real estate loans totaled \$540.8 million and on MBS totaled \$206.5 million. During the year ended December 31, 2003, principal payments received on real estate loans totaled \$972.6 million and on MBS totaled \$364.2 million. The decreases during 2004 resulted from a reduction in customer refinance activities associated with mortgage-backed assets. The majority of this decline resulted from the significant number of loans that were satisfied or refinanced during 2003 as a result of historically low interest rates, which substantially reduced the level of loans likely to prepay or refinance during 2004.

Maturities and calls of investment securities totaled \$5.1 million during the year ended December 31, 2004 and \$67.9 million during the year ended December 31, 2003, providing additional liquidity to the Company during these periods. During the period January 2002 through December 2003, the Company experienced calls on a large portion of its investment securities as a result of the low level of interest rates that prevailed during that period. The balance of callable securities during 2004 was greatly diminished due to the extensive call activity during 2003.

During the year ended December 31, 2004, the Company received proceeds of \$127.1 million from the sale of MBS and \$8.0 million from the sale of available for sale investment securities. During the year ended December 31, 2003, the Company received proceeds of \$55.9 million from the sale of MBS. These sales were conducted for various business purposes, including, but not limited to, added liquidity and asset/liability management.

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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 underwrites these loans using its customary underwriting standards, funds the loans, and sells them to FNMA at agreed upon pricing. Typically, the Bank seeks to sell loans to FNMA with terms to maturity or repricing in excess of seven years from the origination date, since the Bank does not desire to hold such loans in its portfolio due to the heightened interest rate risk that they present. Under the terms of the sales program, the Bank retains

Credit Commitments:					
Available lines of credit	\$50,868	\$-	\$-	\$-	\$50,868
Other loan commitments	57,407	-	-	-	57,407
Total Credit Commitments	\$108,275	\$-	\$-	\$-	\$108,275

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Analysis of Net Interest Income

The Company's profitability, like that of most financial institutions, is dependent to a significant extent upon net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits or borrowings. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned or paid on them. The following tables set forth certain information relating to the Company's consolidated statements of operations for the years ended December 31, 2004 and 2003, the unaudited year ended December 31, 2002, the six months ended December 31, 2002 and the unaudited six months ended December 31, 2001, and reflect the average yield on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated. Average balances are derived from daily balances. The yields and costs include fees that are considered adjustments to yields. All significant changes in average balances and income or expense are discussed in the comparison of operating results commencing on [page 48](#).

	For the Year Ended December 31,					
	2004			2003		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars In Thousands)					
Assets:						
Interest-earning assets:						
Real estate loans (1)	\$2,393,862	\$138,720	5.79%	\$2,189,747	\$145,704	6.65%
Other loans	3,325	235	7.07	3,609	273	7.56
Investment securities (2)	47,384	1,745	3.68	61,352	2,361	3.85
Mortgage-backed securities	618,471	21,091	3.41	511,848	17,984	3.51
Other	129,570	1,830	1.41	148,908	2,793	1.88
Total interest-earning assets	3,192,612	\$163,621	5.12%	2,915,464	\$169,115	5.80%
Non-interest earning assets	159,580			148,747		
Total assets	\$3,352,192			\$3,064,211		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
NOW, Super Now accounts	\$41,535	\$410	0.99%	\$33,055	\$344	1.04%
Money Market accounts	806,582	11,745	1.46	682,277	10,740	1.57
Savings accounts	367,746	1,938	0.53	368,451	2,405	0.65
Certificates of deposit	939,682	23,780	2.53	872,568	24,732	2.83
Borrowed Funds	726,083	29,903	4.12	656,187	32,842	5.00
Total interest-bearing liabilities	2,881,628	\$67,776	2.35%	2,612,538	\$71,063	2.72%
Checking accounts	93,845			89,389		
Other non-interest-bearing liabilities	100,926			89,029		
Total liabilities	3,076,399			2,790,956		
Stockholders' equity	275,793			273,255		
Total liabilities and stockholders' equity	\$3,352,192			\$3,064,211		
Net interest spread (3)			2.77%			3.08%
Net interest income/ interest margin (4)		\$95,845	3.00%		\$98,052	3.36%
Net interest-earning assets	\$310,984			\$302,926		
Ratio of interest-earning assets to interest-bearing liabilities			110.79%			111.60%

(1)In computing the average balance of loans, non-performing loans have been included. Interest income includes loan servicing fees as defined under SFAS No. 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* ("SFAS 91").

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

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

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

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

(1)In computing the average balance of loans, non-performing loans have been included. Interest income includes loan servicing fees as defined under SFAS No. 91.

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

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

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

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	For the Six Months Ended December 31,					
	2002			2001 (Unaudited)		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars In Thousands)					
Assets:						
Interest-earning assets:						
Real Estate Loans (1)	\$2,166,062	\$78,275	7.23%	\$1,995,364	\$75,823	7.60%
Other loans	3,380	141	8.34	3,330	179	10.75
Investment securities (2)	124,456	2,455	3.95	103,405	2,773	5.36
Mortgage-backed securities	344,656	7,895	4.58	407,056	12,149	5.97
Other	126,160	1,703	2.70	108,612	2,212	4.07
Total interest-earning assets	2,764,714	\$90,469	6.54%	2,617,767	\$93,136	7.12%
Non-interest earning assets	138,461			130,866		
Total assets	\$2,903,175			\$2,748,633		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						

NOW, Super Now accounts	\$31,085	\$189	1.21%	\$26,606	\$157	1.17%
Money Market accounts	584,743	6,016	2.04	369,822	6,637	3.56
Savings accounts	366,260	1,843	1.00	349,993	3,236	1.83
Certificates of deposit	794,116	13,583	3.39	698,136	16,474	4.68
Borrowed Funds	694,973	21,647	6.18	922,705	27,228	5.85
Total interest-bearing liabilities	2,471,177	\$43,278	3.47%	2,367,262	\$53,732	4.50%
Checking accounts	82,783			69,333		
Other non-interest-bearing liabilities	90,979			78,014		
Total liabilities	2,644,939			2,514,609		
Stockholders' equity	258,236			234,024		
Total liabilities and stockholders' equity	\$2,903,175			\$2,748,633		
Net interest spread (3)			3.07%			2.61%
Net interest income/ interest margin (4)		\$47,191	3.41%		\$39,404	3.01%
Net interest-earning assets	\$293,537			\$250,505		
Ratio of interest-earning assets to interest-bearing liabilities			111.88%			110.58%

(1) In computing the average balance of loans, non-performing loans have been included. Interest income includes loan servicing fees as defined under SFAS No. 91.

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

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

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

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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 the volume and the changes due to rate.

	Year Ended December 31, 2004 Compared to Year Ended December 31, 2003			Year Ended December 31, 2003 Compared to Year Ended December 31, 2002		
	Increase/ (Decrease) Due to			Increase/ (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars In Thousands)					
Interest-earning assets:						
Real Estate Loans	\$12,715	\$(19,699)	\$(6,984)	\$4,570	\$(15,288)	\$(10,718)
Other loans	(20)	(18)	(38)	21	(21)	-
Investment securities	(525)	(91)	(616)	(2,278)	(270)	(2,548)
Mortgage-backed securities	3,683	(576)	3,107	7,655	(6,466)	1,189
Other	(313)	(650)	(963)	461	(1,183)	(722)
Total	\$15,540	\$(21,034)	\$(5,494)	\$10,429	\$(23,228)	\$(12,799)
Interest-bearing liabilities:						
NOW and Super Now accounts	\$86	\$(20)	\$66	\$38	\$(50)	\$(12)
Money market accounts	1,857	(852)	1,005	2,783	(3,884)	(1,101)
Savings accounts	(15)	(452)	(467)	44	(1,899)	(1,855)
Certificates of deposit	1,784	(2,736)	(952)	3,656	(6,602)	(2,946)
Borrowed funds	3,167	(6,106)	(2,939)	(4,544)	(10,269)	(14,813)
Total	6,879	(10,166)	(3,287)	1,977	(22,704)	(20,727)
Net change in net interest income	\$8,661	\$(10,868)	\$(2,207)	\$8,452	\$(524)	\$7,928

	Six Months Ended December 31, 2002 Compared to Six Months Ended December 31, 2001		
	Increase/ (Decrease)		
	Volume	Rate	Total
Interest-earning assets:			
Real Estate Loans			\$6,315
Other loans			3
			\$(3,863)
			(41)
			\$2,452
			(38)

Investment securities	487	(805)	(318)
Mortgage-backed securities	(1,644)	(2,610)	(4,254)
Other	296	(805)	(509)
Total	\$5,457	\$(8,124)	\$(2,667)
Interest-bearing liabilities:			
NOW and Super Now accounts	\$26	\$6	\$32
Money market accounts	3,035	(3,656)	(621)
Savings accounts	111	(1,504)	(1,393)
Certificates of deposit	1,957	(4,848)	(2,891)
Borrowed funds	(6,918)	1,337	(5,581)
Total	(1,789)	(8,665)	(10,454)
Net change in net interest income	\$7,246	\$541	\$7,787

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Comparison of Financial Condition at December 31, 2004 and December 31, 2003

Assets. Assets totaled \$3.38 billion at December 31, 2004, an increase of \$405.6 million from total assets of \$2.97 billion at December 31, 2003. The growth in assets occurred primarily in MBS available for sale and real estate loans, which increased \$57.5 million and \$306.9 million, respectively. During the year ended December 31, 2004, the Bank purchased \$398.2 million of MBS available for sale. These purchases were intended to provide additional yield over other short-term investments, while offering liquidity to the Bank in future quarters when it may desire to deploy funds into higher yielding investments. Partially offsetting these purchases were principal payments received of \$206.2 million and net sales proceeds of \$127.1 million on MBS available for sale during the year ended December 31, 2004. During the year ended December 31, 2004, the Bank experienced a reduction in the historically high levels of principal repayments on MBS available for sale that occurred during 2003. This decline reflected a reduction in mortgage refinancing activity during the period as a result of the historically high levels of prepayments during 2003 that significantly reduced the total population of mortgage-backed assets likely to refinance in future years.

Real estate loans (including loans held for sale) increased \$306.9 million during the year ended December 31, 2004. During the year ended December 31, 2004, real estate loan originations totaled \$1.01 billion, of which \$962.5 million were multifamily residential and commercial real estate loans. Real estate loan origination levels were driven by the continuation of the low interest rate environment during the period January through December 2004. Offsetting the growth in real estate loans from originations were principal repayments totaling \$540.8 million during the year ended December 31, 2004. Principal repayments, which include both regular amortization and prepayments, totaled \$972.6 million during the year ended December 31, 2003. The decline reflected a reduction in overall loan refinancing activity during the period as the record level of loan refinancing during 2003 significantly reduced the total population of loans likely to refinance in future years.

Investment securities available for sale increased \$17.7 million during the year ended December 31, 2004, due primarily to purchases of \$30.1 million during the period that were partially offset by maturities and sales totaling \$13.0 million.

Liabilities. Total liabilities increased \$407.8 million during the year ended December 31, 2004. Deposits grew \$168.4 million due to the success of various sales and marketing activities during the period, with virtually all of this growth experienced in CDs. In addition, escrow and other deposits increased \$8.3 million during the period due to increased funding for real estate taxes.

During the year ended December 31, 2004, REPOS increased \$192.9 million and FHLB NY Advances decreased \$27.5 million. (See ["Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"](#)).

In March 2004, the Company completed an offering of trust preferred securities in an aggregate amount of \$72.2 million. The trust preferred securities, which 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. These borrowings were undertaken in order to obtain funding for general business activities including, but not limited to, repurchases of common stock and payment of cash dividends.

Stockholders' Equity. Stockholders' equity decreased \$2.2 million during the year ended December 31, 2004, due to the repurchase of \$38.2 million of treasury stock, a net decrease in accumulated other comprehensive income or loss of \$2.4 million, and the payment of cash dividends of \$19.8 million during the period. These reductions in stockholders' equity were partially offset by net income of \$46.2 million, an increase to stockholders' equity of \$9.4 million related to the issuance of common stock for the exercise of stock options and tax benefits associated with both the 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc. ("Stock Option Plans") and the RRP, and an increase to equity of \$2.6 million related to amortization of the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates ("ESOP") and RRP stock benefit plans. Both the ESOP and RRP have investments in the Holding Company's common stock that are recorded as reductions in stockholders' equity ("Contra Equity Balances"). As compensation expense is recognized on the ESOP and RRP, the Contra Equity Balances are reduced, resulting in an increase to their respective equity balances. This increase to equity offsets the decline in the Company's retained earnings related to the periodic ESOP and RRP expenses that are recorded. The stockholders' equity component of other comprehensive income decreased \$2.4 million during the year ended December 31, 2004 as a result of a decline in the net unrealized gain on investment and mortgage-backed securities available for sale that was attributable to increases in short-term interest rates during 2004.

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

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

above average mortgage refinancing activity during the period, which resulted from the continued low level of interest rates during the period January through December 2003.

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

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

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

During the year ended December 31, 2003, REPOS declined \$82.9 million, while FHLB NY Advances declined \$21.0 million. (See "[Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources](#)").

Stockholders' Equity. Stockholders' equity increased \$18.2 million during the year ended December 31, 2003, due to the addition of net income of \$51.3 million, the increase to equity of \$11.7 million related to the issuance of stock for the exercise of stock options and tax benefits associated with the Stock Option Plans and the RRP, and the increase to equity of \$2.6 million related to the amortization of the ESOP and RRP. Both the ESOP and RRP have Contra Equity Balances. As compensation expense is recognized on the ESOP and RRP, the Contra Equity Balances are reduced, resulting in an increase to their respective equity balances. This increase to equity offsets the decline in the Company's retained earnings related to the periodic ESOP and RRP expenses that are recorded.

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

Comparison of the Operating Results for the Years Ended December 31, 2004 and 2003

General. Net income was \$46.2 million during the year ended December 31, 2004, a decrease of \$5.1 million from net income of \$51.3 million during the year ended December 31, 2003. During this comparative period, net interest income decreased \$2.2 million, non-interest income decreased \$4.6 million and non-interest expense increased \$1.6 million, resulting in a decline in pre-tax income of \$8.4 million. Income tax expense decreased \$3.4 million as a result of the reduced pre-tax income.

Net Interest Income. Net interest income for the year ended December 31, 2004 decreased \$2.2 million to \$95.8 million from \$98.1 million during the year ended December 31, 2003. This decrease was attributable to a decline of \$5.5 million in interest income that was partially offset by a decline of \$3.3 million in interest expense during the year ended December 31, 2004 compared to the year ended December 31, 2003. The net interest spread decreased 31 basis points from 3.08% for the year ended December 31, 2003 to 2.77% for the year ended December 31, 2004, and the net interest margin decreased 36 basis points from 3.36% to 3.00% during the same period.

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The decrease in both the net interest spread and net interest margin reflected a 68 basis point decline in the average yield on interest earning assets as a result of the continued repricing of assets during the historically low interest rate environment that has persisted over the past three years. In addition, prior to January 2004, the overall low interest rate environment resulted in a greater decline in the average cost of interest bearing liabilities than the decline in average yield on interest earning assets. During the year ended December 31, 2004, the continued low interest rate environment created the opposite effect, resulting in a greater decline in the average yield on interest earning assets than in the average cost of interest bearing liabilities. (See section entitled "[Interest Income](#)" below for a further discussion of these declines). As a result, both the net interest spread and the net interest margin, which had increased during most of 2003 and 2002, declined during the year ended December 31, 2004.

During the year ended December 31, 2004 compared to the year ended December 31, 2003, the average yield on real estate loans and MBS, which collectively comprised the great majority of the Company's interest earning assets, declined by 86 basis points and 10 basis points, respectively (See the discussion entitled "[Interest Income](#)" below for a further examination of these declines).

Partially offsetting the decline in the average yield on interest earning assets was a reduction of 37 basis points in the average cost of interest bearing liabilities. This resulted primarily from declines in the average cost of borrowings of 88 basis points and a decline in the average cost of CDs of 30 basis points, coupled with the movement of the overall composition of funding from higher-cost borrowings into deposits with a lower average cost (See the discussion entitled "[Interest Expense](#)" below for a further examination of these declines).

Interest Income. Interest income was \$163.6 million during the year ended December 31, 2004, a decrease of \$5.5 million from \$169.1 million during the year ended December 31, 2003. Interest income on real estate loans, investment securities and other short term investments declined by \$7.0 million, \$616,000 and \$963,000, respectively, during the year ended December 31, 2004 compared to the year ended December 31, 2003. Partially offsetting these declines was an increase of \$3.1 million in interest income on MBS during the year ended December 31, 2004 compared to the year ended December 31, 2003.

The decline in interest income resulted from the historically low interest rate environment that existed during the period January 1, 2002 through December 31, 2004. That environment stimulated the refinancing and prepayment of higher rate loans in the Bank's portfolio, while also resulting in reduced rates on

existing portfolio loans that repriced during the period January 1, 2003 to December 31, 2004 (although the levels of refinancing and prepayment did experience a slight decline during the year ended December 31, 2004 as a result of an increase in interest rates). The combination of these two factors resulted in a decline of 86 basis points in the average yield on real estate loans (the Bank's largest interest-earning asset) during the year ended December 31, 2004 compared to the year ended December 31, 2003. In addition, the average yield on MBS declined 10 basis points during the same period as a result of the high level of prepayments on portfolio securities during 2003 and 2002 as well as the purchase of new securities during the period January 1, 2002 through December 31, 2004 while rates were historically low. Finally, as a result of the low interest rate environment, the average yields on investment securities and other short-term investments also declined by 17 basis points and 47 basis points, respectively, during the year ended December 31, 2004 compared to the year ended December 31, 2003.

The Bank's general policy has been to emphasize growth in real estate loans as its primary interest-earning asset, and de-emphasize its investment and MBS portfolios, while loan origination demand is strong. However, as part of a specific investment strategy to achieve a desirable balance of yield and liquidity on short-term investments, the Bank purchased \$398.2 million of MBS during the year ended December 31, 2004. This purchase level exceeded the level of MBS principal repayments of \$206.5 million during the same period, and contributed to an overall increase of \$106.6 million in the average balance of MBS during the year ended December 31, 2004 compared to the year ended December 31, 2003. As a result, the dollar amount of interest income on MBS increased by \$3.1 million during the year ended December 31, 2004 compared to the year ended December 31, 2003, despite the decline in average yield of 10 basis points during the same period.

Interest Expense. Interest expense declined \$3.3 million, to \$67.8 million during the year ended December 31, 2004, from \$71.1 million during the year ended December 31, 2003. The decrease resulted primarily from a reduction of \$2.9 million in interest expense on borrowed funds, due to a decline of 88 basis points in the average cost of borrowed funds during the year ended December 31, 2004 compared to the year ended December 31, 2003.

During the twelve months ended December 31, 2003, the Company reduced its total borrowings by \$103.9 million by either not replacing borrowings that matured or prepaying outstanding debt. During the year ended December 31, 2003, the Company incurred \$4.1 million of expense on prepaid borrowings, which increased the average cost of borrowed funds by 63 basis points during the period. During the year ended December 31, 2004, the Company added \$192.9 million of REPOS, and a \$72.2 million trust preferred borrowing. The REPOS

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were added during the period of historically low interest rates; and, therefore, possessed a lower average cost than the existing average cost within the Company's total portfolio of borrowings, which was not materially impacted by the increases in short-term interest rates that occurred during the period June through December 2004. The trust preferred borrowing added 26 basis points to the average cost of borrowings during the year ended December 31, 2004. The combination of activity in these two periods resulted in an overall increase of \$69.9 million in the average balance of borrowings during the year ended December 31, 2004 compared to the year ended December 31, 2003, but a decline of 88 basis points in their average cost.

During the year ended December 31, 2004 compared to the year ended December 31, 2003, the average cost of CDs, the next largest component of interest expense during the 2004 period, declined by 30 basis points, while their average balance increased by \$67.1 million. The combination of these two events resulted in a reduction in interest expense of \$952,000 during the year ended December 31, 2004 compared to the year ended December 31, 2003. The decline in interest rates offered on CDs reflected the continued low level of interest rates paid during the period January 1, 2002 through December 31, 2004, which was not materially impacted by the recent increase in short-term interest rates that occurred during the period June through December 2004. The increase in the average balance of CDs during the year ended December 31, 2004 compared to the year ended December 31, 2003 resulted from new promotional CDs added during the year ended December 31, 2004.

The average cost of savings accounts declined by 12 basis points during the comparative period, resulting in a \$467,000 reduction in interest expense. The decline in average cost reflected reductions in interest rates paid by the Bank as a result of the overall interest rate environment in effect during 2004, which was not materially impacted by the recent increase in short-term interest rates that occurred during the period June through December 2004.

Interest expense on money market accounts increased \$1.0 million during the year ended December 31, 2004 compared to the year ended December 31, 2003, due to an increase in average balance of \$124.3 million during the period. The increase in average balance reflected successful deposit gathering promotions during the period July 1, 2003 to September 30, 2004. Partially offsetting the increase was a decline in the average cost of money market accounts of 11 basis points, reflecting reductions in interest rates paid by the Bank as a result of the overall low interest rate environment in effect during 2004, which was not materially impacted by the recent increase in short-term interest rates.

Provision for Loan Losses. The provision for loan losses was approximately \$280,000 during both the years ended December 31, 2004 and 2003. ([See "Item 1. Business - Allowance for Loan Losses"](#)).

Non-Interest Income. Non-interest income decreased \$4.6 million, to \$20.5 million, during the year ended December 31, 2004, from \$25.1 million during the year ended December 31, 2003. The decline resulted primarily from decreased prepayment fee income of \$5.6 million, due to a decrease in refinancing driven by the significant levels of refinancing that occurred during 2003, as well as increases in interest rates during the second half of 2004. The decline in prepayment fee income was partially offset by an increase of \$1.0 million in the net gain recorded on the sale of loans, investment securities and MBS.

During the year ended December 31, 2004, the net gain on the sale of loans was \$336,000. During the year ended December 31, 2003, the Company recorded a net gain of \$1.6 million on the sale of loans (primarily multifamily residential) to FNMA. Increases in interest rates during 2004 reduced the level of gain recorded on loans sold from the Bank's portfolio to FNMA. The gain on portfolio loan sales to FNMA was significantly higher during 2003, when rates were at historic lows. During the year ended December 31, 2004, the Company recorded a net gain of \$377,000 on the sale of investment and mortgage-backed securities. During the year ended December 31, 2003, the Company recorded a net loss of \$1.9 million on the sale of investment and mortgage-backed securities. The sale of securities and associated loss during the year ended December 31, 2003 were incurred in connection with a balance sheet restructuring performed in October 2003.

Non-Interest Expense. Non-interest expense was \$42.4 million during the year ended December 31, 2004, an increase of \$1.6 million over the year ended December 31, 2003.

Salaries and benefits decreased \$491,000, primarily as a result of a reduction of \$1.6 million in benefits accrued under the BMP, which was partially offset by increased salaries resulting from both general salary increases and added staff.

The benefit costs associated with the ESOP and RRP increased \$1.0 million during the year ended December 31, 2004 compared to the year ended December 31, 2003, due primarily to the recording of expense related to dividends paid on unallocated ESOP shares that commenced in 2004.

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Data processing costs increased \$765,000 during the comparative period, and were primarily due to non-recurring charges approximating \$640,000 associated with a data system conversion completed by the Company in November 2004, that affected loan servicing, retail deposit branch operations and accounting transaction processing.

Occupancy and equipment expenses increased \$159,000 due to increased maintenance and utility costs and increased depreciation expense associated with recently acquired furniture and fixtures.

Income Tax Expense. Income tax expense decreased \$3.4 million during the year ended December 31, 2004 compared to the year ended December 31, 2003, due primarily to a decline of \$8.4 million in pre-tax net income. The effective tax rate approximated 37.5% during both the years ended December 31, 2004 and 2003.

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

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

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

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

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

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

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

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compared to the year ended December 31, 2002. However, due to the continuation of low interest rates during the period October 1, 2002 through December 31, 2003, the average yield on MBS declined from 5.04% during the year ended December 31, 2002 to 3.51% during the year ended December 31, 2003. The combination of these factors resulted in a net increase in interest income on MBS of \$1.2 million during the year ended December 31, 2003 compared to the year ended December 31, 2002.

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

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

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

Interest Expense. Interest expense declined \$20.7 million, to \$71.1 million, during the year ended December 31, 2003, from \$91.8 million during the year ended December 31, 2002. The decline in interest expense resulted primarily from a reduction of \$14.8 million in interest expense on borrowed funds, which resulted from declines of \$79.8 million in the average balance of borrowed funds and 148 basis points in the average cost of borrowed funds during the year ended December 31, 2003 compared to the year ended December 31, 2002.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impact of Inflation and Changing Prices

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

Recently Issued Accounting Standards

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). EITF 03-1 provides guidance for determining when an investment is other-than-temporarily impaired, including whether an investor has the ability and intent to hold an investment until recovery. In addition, EITF 03-1 contains disclosure requirements regarding impairments that have not been recognized as other than temporary. Except as discussed in the following paragraph, the guidance for evaluating whether an investment is other-than-temporarily impaired was to be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosures were effective in annual financial statements for fiscal years ending after December 15, 2003 for investments accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." For all other investments within the scope of this Issue, the disclosures are effective in annual financial statements for fiscal years ending after June 15, 2004. The additional disclosures for cost method investments are effective for fiscal years ending after June 15, 2004. Comparative information for periods prior to initial application is not required.

In October 2004, the FASB issued proposed staff position ("FSP") EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.'" The proposed staff position provided implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of EITF 03-1. In addition, in November 2004, the FASB indefinitely delayed the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. Additionally, the FASB issued a proposed staff position EITF Issue No. 03-1-1, which indefinitely delayed the effective date of measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. Management will evaluate the impact of adopting the application of the guidance for evaluating an other-than-temporary impairment upon issuance of the guidance. However, management is applying current guidance in evaluating losses for other than temporary impairment.

In November 2004, the EITF issued EITF No. 04-5, "Investors' Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights" ("EITF 04-5"). EITF 04-5 provides a framework for addressing the question of when a sole general partner, as defined in EITF 04-5, should consolidate a limited partner. In response to EITF 04-5, the FASB issued Statement of Position 78-9-a ("SOP 78-9-a"), which will amend Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures" ("SOP 78-9"), in order to provide consistency between participation rights and consolidation of partnership interests defined in SOP 78-9 and EITF 04-5. Management does not expect that the adoption of either EITF 04-5 or SOP 78-9-a will have a material impact upon the Company's consolidated statement of financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," ("SFAS 152"). SFAS 152 amends SFAS 66 to reference the financial accounting and reporting guidance for real estate time-sharing transactions provided in American Institute of Certified Public Accountants ('AICPA') Statement of Position 04-2, "Accounting for Real Estate Time-Sharing Transactions" ("SOP 04-2"). SFAS 152 also amends SFAS 67 to state that the guidance for both incidental operations and the costs incurred to sell the real estate projects does not apply to real estate time-sharing transactions. Under SFAS 152, guidance for operations and costs associated with time-sharing transactions will be provided by SOP 04-2. The provisions of SFAS 152 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 152 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets- an amendment of APB Opinion No. 29," ("SFAS 153"). SFAS 153 amends APB Opinion No. 29 by eliminating the specific exception for nonmonetary exchanges of similar productive assets, and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations .

In December , 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123R"), that addresses the accounting for share-based payment transactions (e.g., stock options and awards of restricted stock) in which an employer receives employee services in exchange for equity securities of the company or liabilities that are based on the fair value of the company's equity securities. The proposed statement, if adopted as proposed, would eliminate APB 25 and would generally require that such transactions be accounted for using a fair-value-based method and the recording of compensation expense rather than optional pro forma disclosure. Adoption of SFAS 123R is required for quarterly periods beginning after June 15, 2005. Management of the Company is still evaluating the impact of adoption of SFAS 123R upon its consolidated financial position and results of operations.

In May 2004, the FASB issued FASB Statement Position No. 106-2 ("FSP 106-2") to provide guidance on accounting for the effects of the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the "Act"), to employers that sponsor postretirement health care plans which provide prescription drug benefits. FSP 106-2 supersedes FSP SFAS 106-1, *Accounting and Disclosure Requirements Related to Medicare Prescription Drug, Improvement and Modernization Act*. FSP SFAS 106-2 applies only to sponsors of single-employer defined benefit postretirement health care plans for which (1) the employer has concluded that prescription drug benefits available under the plan to some or all participants, for some or all future years, are "actuarially equivalent" to Medicare Part D and thus qualify for the subsidy provided by the Act, and (2) the expected subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. 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. Since the Company is currently assessing whether the benefits provided by its postretirement benefit medical plan are actuarially equivalent to Medicare Part D under the Act, the measure of the APBO or net periodic postretirement benefit cost disclosed in the consolidated financial statements did not reflect any amount associated with the subsidy.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a depository financial institution, the Bank's primary source of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of interest income recorded on, and the market value of, a significant portion of the Bank's assets. Fluctuations in interest rates will also ultimately

impact the level of interest expense recorded on, and the market value of, a significant portion of the Bank's liabilities. In addition, the Bank's real estate loan portfolio, concentrated primarily within the New York City metropolitan area, is subject to risks associated with the local economy.

Neither the Holding Company nor the Bank are subject to foreign currency exchange or commodity price risk. In addition, the Company 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 during the years ended December 31, 2004 or 2003 that require bifurcation. In the future, the Company may, with appropriate Board approval, engage in hedging transactions utilizing derivative instruments.

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

Assets. The Bank's largest single asset type is the adjustable-rate 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. Approximately 85% of multifamily residential loans originated during the twelve months ended December 31, 2004 were adjustable rate, with repricing typically occurring after five or seven years, compared to approximately 80% during the twelve months ended December 31, 2003. 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, 2004, adjustable-rate real estate and consumer loans totaled \$2.00 billion, or 59.4% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled \$23.1 million, or 0.7% of total assets. At December 31, 2003, adjustable-rate real estate and consumer loans totaled \$1.67 billion, or 56.1% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled \$44.4 million, or 0.7% 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, 2004, were \$1.25 billion, or 56.5% of total deposits. The balance of CDs as of December 31, 2004 was \$960.0 million, or 43.5% of total deposits, of which \$734.8 million, or 76.6%, were to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2004 was 9.0 months compared to 11.7 months at December 31, 2003. While the Bank generally prices its CDs in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year, the decline in the average maturity of CDS during the year ended December 31, 2004 reflected customers recognition that short-term interest rates were at historically low levels and were increasing during the period.

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Wholesale Funds. The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to \$993.5 million at December 31, 2004. The Bank borrows from the FHLBNY for various purposes. At December 31, 2004, the Bank had outstanding Advances of \$506.5 million with the FHLBNY.

The Bank has authority to accept brokered deposits as a source of funds. The Bank had no outstanding brokered deposits at either December 31, 2004 or December 31, 2003.

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 interest income.

The table presented on the next page sets forth the amounts of the Company's consolidated interest-earning assets and interest-bearing liabilities outstanding at December 31, 2004 which are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown repricing or maturing during a particular period reflect the earlier of term to repricing or maturity of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at December 31, 2004 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For purposes of presentation in the table, the Bank utilized its historical deposit attrition experience ("Deposit Decay Rate") for savings accounts, which it believes to be the most accurate measure. For NOW, Super NOW and money market accounts, it utilized the Deposit Decay Rates published by the OTS. All amounts calculated in the table for both loans and MBS reflect principal balances expected to reprice as a result of anticipated principal repayments (inclusive of early repayments) or as a result of contractual interest rate adjustments.

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

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At December 31, 2004	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	\$87,601	\$87,600	\$175,202	\$693,891	\$693,891	\$763,620	-	\$2,501,805
Investment securities	23,210	-	10,993	4,057	10,210	6,955	-	55,425
Mortgage-backed securities (2)	34,652	34,652	69,304	164,285	93,050	123,942	-	519,885
Other short-term investments	103,291	-	-	-	-	-	-	103,291
FHLBNY capital stock	25,325	-	-	-	-	-	-	25,325
Total interest- earning assets	274,079	122,252	255,499	862,233	797,151	894,517	-	3,205,731
Less:								
Allowance for loan losses	-	-	-	-	-	-	\$(15,543)	(15,543)
Net interest-earning assets	274,079	122,252	255,499	862,233	797,151	894,517	(15,543)	3,190,188
Non-interest-earning assets	-	-	-	-	-	-	187,078	187,078
Total assets	\$274,079	\$122,252	\$255,499	\$862,233	\$797,151	\$894,517	\$171,535	\$3,377,266
Interest-Bearing Liabilities								
Savings accounts	\$12,573	\$12,146	\$23,068	\$76,808	\$58,072	\$179,989	-	\$362,656
NOW and Super NOW accounts	4,179	3,792	6,565	14,916	4,616	11,110	-	45,178
Money market accounts	147,935	118,718	171,727	147,724	77,479	85,457	-	749,040
Certificates of deposit	330,763	288,769	115,314	190,353	34,752	-	-	959,951
Borrowed funds	185,000	-	60,000	230,000	90,584	146,500	-	712,084
Subordinated notes	-	-	-	-	-	25,000	-	25,000
Trust preferred securities	-	-	-	-	-	72,165	-	72,165
Interest-bearing escrow	-	-	-	-	-	1,800	-	1,800
Total interest- bearing liabilities	680,450	423,425	376,674	659,801	265,503	522,021	-	2,927,874
Checking accounts	-	-	-	-	-	-	\$93,224	93,224
Other non-interest bearing liabilities	-	-	-	-	-	-	74,447	74,447
Stockholders' equity	-	-	-	-	-	-	281,721	281,721
Total liabilities and stockholders' equity	\$680,450	\$423,425	\$376,674	\$659,801	\$265,503	\$522,021	\$449,392	\$3,377,266
Positive (Negative) interest sensitivity GAP per period	\$(406,371)	\$(301,173)	\$(121,175)	\$202,432	\$531,648	\$372,496	-	
Positive (Negative) cumulative interest sensitivity GAP	\$(406,371)	\$(707,544)	\$(828,719)	\$(626,287)	\$(94,639)	\$277,857	-	
Cumulative interest sensitivity GAP as a percent of total assets	(12.03)%	(20.95)%	(24.54)%	(18.54)%	(2.80)%	8.23%	-	
Cumulative total interest-earning assets as a percent of cumulative total interest-bearing liabilities	40.28%	35.90%	44.03%	70.74%	96.07%	109.49%	-	

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

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

The Company's consolidated balance sheet is composed primarily of assets that mature or reprice within five years, with a significant portion maturing or repricing within one year. In addition, the Bank's deposit base is composed primarily of savings accounts, money market accounts and CDs with maturities of two years or less. At December 31, 2004, interest-bearing liabilities estimated to mature or reprice within one year totaled \$1.48 billion, while interest-earning assets estimated to mature or reprice within one year totaled \$651.8 million, resulting in a negative one-year interest sensitivity GAP of \$828.7 million, or negative 24.5% of total assets. In comparison, at December 31, 2003, the Company's consolidated one-year interest sensitivity GAP was negative \$327.7 million, or negative 11.0% of total assets. The increase in the magnitude of the one-year negative interest sensitivity GAP resulted from a decline in the level of real estate loans and MBS maturing or repricing in one year or less reflecting declines in expected repayment levels of these assets during 2005 due to increases in interest rates that occurred during the second half of 2004, coupled with an increase in CDs repricing during 2005, reflecting new CDs added during 2004 that will mature in 2005.

Under interest rate scenarios other than that which existed on December 31, 2004, 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 loan origination commitments or purchases of securities.

Generally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. Increases in interest rates could thus result in decreases in the fair value of interest-earning assets, which could adversely affect the Company's consolidated results of operations if they were to be sold, or, in the case of interest-earning assets classified as available for sale, reduce the Company's consolidated stockholders' equity, if retained. The changes in the value of assets and liabilities due to fluctuations in interest rates reflect the interest rate sensitivity of those assets and liabilities. Under GAAP, changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale are reflected in stockholders' equity through other comprehensive income. As of December 31, 2004, the Company's consolidated securities portfolio included \$574.3 million in securities classified as available for sale, which possessed a gross unrealized loss of \$5.9 million. Neither the Holding Company nor the Bank owned any trading assets as of December 31, 2004 or 2003.

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

Interest Rate Scenario	At December 31, 2004					At December 31, 2003		
	Net Portfolio Value			NPV Ratio	Basis Point Change in NPV Ratio	NPV Ratio	Basis Point Change in NPV Ratio	Board Approved NPV Limit
	Dollar Amount	Dollar Change	Percentage Change					
+ 200 Basis Points	\$291,494	\$(96,643)	(24.90)%	8.94%	(250)	9.49%	(157)	6.0%
+ 100 Basis Points	340,277	(47,860)	(12.33)	10.23	(121)	10.59	(47)	7.0
Pre-Shock	388,137	-	-	11.44	-	11.06	-	8.0
- 100 Basis Points	419,152	31,015	7.99	12.17	73	10.71	(35)	8.0
- 200 Basis Points	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.0

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

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

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

The NPV Ratio at December 31, 2004 was 11.44% in the Pre-Shock Scenario, a slight increase from the Pre-Shock Scenario NPV Ratio of 11.06% at December 31, 2003. The NPV Ratio was 8.94% in the +200 basis point Rate Shock Scenario at December 31, 2004, a decline from the NPV Ratio of 9.49% in the +200 basis point Rate Shock Scenario at December 31, 2003. At December 31, 2004, the measured sensitivity in the +200 basis point Rate Shock Scenario was 250 basis points, compared to a measured sensitivity of 157 basis points in the + 200 basis point Rate Shock Scenario at December 31, 2003, reflecting increased sensitivity year-over-year.

The increase in the Pre-Shock Scenario NPV and Pre-Shock Scenario NPV Ratio resulted primarily from several factors, including a significant increase in the intangible value ascribed to the Bank's core deposits; a strong increase in the Bank's balance of retained earnings, particularly in comparison to the more modest proportionate increase in the Bank's total assets; and a greater rate of decline in the value of the Bank's liabilities than that of its assets, which is beneficial to the Bank's NPV.

The Bank's core deposits at December 31, 2004 were slightly higher in both balance and weighted average rate than at December 31, 2003. In addition, at December 31, 2004, the Bank's balance of borrowings, generally of a short to medium term, increased by over \$150 million from its balance at December 31, 2003, while the weighted average rate declined by approximately 20 basis points over the same period.

During 2004, short term market interest rates increased by well over 100 basis points, while medium to longer term rates increased by substantially lesser amounts. These asymmetrical rate movements, essentially a flattening of the term structure of interest rates, had the effect of markedly reducing the value of the Bank's liabilities, which tend to have short to medium term durations, while having a proportionately lesser impact on the value of the Bank's assets, which derive a fair amount of their value from longer term cash flows. In addition, the intangible value given to the Bank's core deposits, which benefits the Bank's NPV calculation, increased by over 30%, even as the balance of deposit liabilities increased by only 8%.

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The +200 basis point Rate Shock Scenario NPV was lower at December 31, 2004 than at December 31, 2003. This outcome was primarily the result of two factors. Initially, the Bank's primary interest-earning assets, its portfolio of multifamily residential and commercial real estate loans, increased in duration over the course of 2004 as new and refinanced loans were added to the portfolio. The longer duration resulted in the portfolio showing a greater percentage decline in market value in the December 31, 2004 +200 basis point Rate Shock Scenario NPV than in the December 31, 2003 +200 basis point Rate Shock Scenario NPV. In addition, the duration of the Bank's portfolio of time deposits and borrowings was shorter at December 31, 2004 than at December 31, 2003. The shorter duration resulted in the portfolio of time deposits and borrowings showing a smaller percentage decline in market value in the December 31, 2004 +200 basis point Rate Shock Scenario NPV than in the December 31, 2003 +200 basis point Rate Shock Scenario NPV .

Finally, the Bank's measured sensitivity for the +200 basis point Rate Shock Scenario NPV Ratio at December 31, 2004 was 250 basis points, compared to 157 basis points at December 31, 2003. The increased sensitivity was a reflection of both the increased duration of the Bank's multifamily residential and commercial real estate loan portfolio and the shortened duration of the Bank's time deposit and borrowings portfolio at December 31, 2004 compared to December 31, 2003.

Item 8. Financial Statements and Supplementary Data

For the Company's consolidated financial statements, see index on [page 69](#).

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, as of December 31, 2004, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer each found that the Company's disclosure controls and procedures were effective to ensure 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There was no change in the Company's internal control over financial reporting during the Company's last quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. A company's internal control over financial reporting is defined as a process designed by, or under the supervision of, a company's principal executive and principal financial officers, and effected by its 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 ("GAAP"). The 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 GAAP, 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.

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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, 2004, 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, 2004, the Company's internal control over financial reporting is effective.

Deloitte & Touche LLP, the independent registered public accounting firm, has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, as stated in their report, which is included below and which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report of Internal Control Over Financial Reporting, that Dime Community Bancshares, Inc. and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in

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our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, 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 statements of financial condition as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income and cash flows for each of the years ended December 31, 2004 and 2003, the six-month period ended December 31, 2002 and the year ended June 30, 2002 of the Company and our report dated March 11, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

New York, NY
March 11, 2005

Item 10. Directors and Executive Officers of the Company.

Information regarding directors and executive officers of the Holding Company is presented under the headings "Proposal 1 - Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers" in the Holding Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 19, 2005 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2004, and is incorporated herein by reference.

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

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

Item 11. Executive Compensation

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

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

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

The following table presents equity compensation plan information as of December 31, 2004:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)] (c)
Equity compensation plans approved by the Company's shareholders	2,679,435	\$11.87	1,851,256(1)
Equity compensation plans not approved by the Company's shareholders	-	-	-

(1) Amount composed of 292,478 shares held by the RRP that remained available for issuance to individual employees, officers or Outside Directors of the Company as of December 31, 2004, and 62,478 stock options that remain available for future issuance under the Stock Option Plans and 1,496,300 stock options that remain available for future issuance under the 2004 Stock Incentive Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc. (the "2004 Stock Incentive Plan"). Substantially all of the stock options remaining available for future issuance are available under the 2004 Stock Incentive Plan.

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Item 13. Certain Relationships and Related Transactions

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

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services 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

(2) **Financial Statement Schedules**

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

(3) **Exhibits Required by Item 601 of the SEC Regulation S-K**

[See Index of Exhibits on pages 112 and 113.](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant certifies that it has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 14, 2005.

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 14, 2005 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	Executive Vice President and Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ ANTHONY BERGAMO</u> Anthony Bergamo	Director
<u>/s/ GEORGE L. CLARK, JR.</u> George L. Clark, Jr.	Director
<u>/s/ STEVEN D. COHN</u> Steven D. Cohn	Director
<u>/s/ PATRICK E. CURTIN</u> Patrick E. Curtin	Director
<u>/s/ JOSEPH H. FARRELL</u> Joseph H. Farrell	Director
<u>/s/ FRED P. FEHRENBACH</u> Fred P. Fehrenbach	Director

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

	December 31, 2004	December 31, 2003
ASSETS:		
Cash and due from banks	\$26,581	\$24,073
Federal funds sold and short-term investments	103,291	95,286
Encumbered investment securities held-to-maturity (estimated fair value of \$589 and \$718 at December 31, 2004 and 2003, respectively) (Note 3):	585	710
Unencumbered investment securities available-for-sale (Note 3)	54,840	37,107
Mortgage-backed securities held-to-maturity (estimated fair value of \$485 and \$822 at December 31, 2004 and 2003, respectively) (Note 4):		
Encumbered	166	267
Unencumbered	299	503
	465	770
Mortgage-backed securities available-for-sale (Note 4):		
Encumbered	235,401	38,692
Unencumbered	284,019	423,275
	519,420	461,967
Loans (Note 5):		
Real estate	2,493,398	2,186,518
Other loans	2,916	4,072
Less allowance for loan losses (Note 6)	(15,543)	(15,018)
Total loans, net	2,480,771	2,175,572
Loans held for sale	5,491	2,050
Premises and fixed assets, net (Note 8)	16,652	16,118
Federal Home Loan Bank of New York capital stock (Note 9)	25,325	26,700
Goodwill (Note 1)	55,638	55,638
Other assets (Notes 7, 14 and 15)	88,207	75,670
Total Assets	\$3,377,266	\$2,971,661
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors (Note 10):		
Interest bearing deposits	\$2,116,825	\$1,949,372
Non-interest bearing deposits	93,224	92,306
Total deposits	\$2,210,049	\$2,041,678
Escrow and other deposits (Note 7)	48,284	39,941
Securities sold under agreements to repurchase (Note 11)	205,584	12,675
Federal Home Loan Bank of New York advances (Note 12)	506,500	534,000
Subordinated notes payable (Note 13)	25,000	25,000
Trust Preferred securities payable (Note 13)	72,165	-
Other liabilities (Note 14 and 15)	27,963	34,448
Total Liabilities	3,095,545	2,687,742
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2004 and 2003)	-	-
Common stock (\$0.01 par, 125,000,000 shares authorized, 50,111,988 shares and 49,160,657 shares issued at December 31, 2004 and 2003, respectively, and 37,165,740 shares and 38,115,111 shares outstanding at December 31, 2004 and 2003, respectively)	501	492
Additional paid-in capital	198,183	185,991
Retained earnings (Note 2)	258,237	231,771
Accumulated other comprehensive loss, net of deferred taxes	(3,228)	(846)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP") (Note 15)	(4,749)	(5,202)
Unearned and unallocated common stock of Recognition and Retention Plan ("RRP") (Note 15)	(2,612)	(2,617)
Common stock held by Benefit Maintenance Plan ("BMP") (Note 15)	(7,348)	(5,584)
Treasury stock, at cost (12,946,248 shares and 11,045,546 shares at December 31, 2004 and 2003, respectively) (Note 18)	(157,263)	(120,086)
Total Stockholders' Equity	281,721	283,919
Total Liabilities And Stockholders' Equity	\$3,377,266	\$2,971,661

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

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Interest income:				
Loans secured by real estate	\$138,720	\$145,704	\$78,275	\$153,970
Other loans	235	273	141	311
Mortgage-backed securities	21,091	17,984	7,895	21,049
Investment securities	1,745	2,361	2,455	5,227
Other	1,830	2,793	1,703	4,024
Total interest income	163,621	169,115	90,469	184,581
Interest expense:				
Deposits and escrow	37,873	38,221	21,631	49,008
Borrowed funds	29,903	32,842	21,647	53,236
Total interest expense	67,776	71,063	43,278	102,244
Net interest income	95,845	98,052	47,191	82,337
Provision for loan losses	280	288	120	240
Net interest income after provision for loan losses	95,565	97,764	47,071	82,097
Non-interest income:				
Service charges and other fees	6,296	6,518	2,687	4,699
Net gain on sales of loans	336	1,594	2,033	20
Net gain (loss) on sales and redemptions of securities, deposits and other assets	377	(1,897)	(21)	2,146
Income from Bank owned life insurance	1,957	2,118	1,122	2,201
Prepayment fee income	9,797	15,432	4,270	4,610
Other	1,750	1,357	674	1,161
Total non-interest income	20,513	25,122	10,765	14,837
Non-interest expense:				
Salaries and employee benefits	19,880	20,371	10,549	17,061
ESOP and RRP compensation expense	3,573	2,542	1,216	2,990
Occupancy and equipment	5,213	5,054	2,221	4,099
Data processing costs	3,459	2,694	1,149	2,139
Federal deposit insurance premiums	343	330	151	276
Other	9,939	9,818	5,082	8,866
Total non-interest expense	42,407	40,809	20,368	35,431
Income before income taxes	73,671	82,077	37,468	61,503
Income tax expense	27,449	30,801	14,008	22,826
Net income	\$46,222	\$51,276	\$23,460	\$38,677
Earnings per Share:				
Basic	\$1.31	\$1.43	\$0.65	\$1.08
Diluted	\$1.28	\$1.37	\$0.62	\$1.03

[See notes to consolidated financial statements.](#)

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

	Fiscal Year Ended December 31		Six Months Ended December 31,	Fiscal Year Ended June 30
	2004	2003	2002	2002

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Common Stock (Par Value \$0.01):

Balance at beginning of period	\$492	\$479	\$473	\$458
Shares issued in exercise of options	9	13	6	15
Balance at end of period	501	492	479	473

Additional Paid-in Capital:

Balance at beginning of period	185,991	172,301	162,004	151,081
Cash paid for fractional shares and adjustment from cash dividend	(12)	(2)	(2)	(17)
Stock options exercised	4,007	5,316	2,439	6,689
Release of treasury stock for shares acquired by BMP	742	-	-	-
Tax benefit of RRP shares and stock options exercised	5,212	6,382	6,977	2,822
Amortization of excess fair value over cost - ESOP stock	2,243	1,998	882	1,429
Balance at end of period	198,183	185,991	172,300	162,004

Retained earnings:

Balance at beginning of period	231,771	196,309	179,060	150,264
Net income for the period	46,222	51,276	23,460	38,677
Cash dividends declared and paid	(19,756)	(15,814)	(6,211)	(9,881)
Balance at end of period	258,237	231,771	196,309	179,060

Accumulated other comprehensive (loss) income:

Balance at beginning of period	(846)	2,076	2,166	4,030
Change in other comprehensive (loss) income during the period, net of deferred taxes	(2,382)	(2,922)	(90)	(1,864)
Balance at end of period	(3,228)	(846)	2,076	2,166

Employee Stock Ownership Plan:

Balance at beginning of period	(5,202)	(5,661)	(5,895)	(6,365)
Amortization of earned portion of ESOP stock	453	459	234	470
Balance at end of period	(4,749)	(5,202)	(5,661)	(5,895)

Recognition and Retention Plan:

Balance at beginning of period	(2,617)	(2,641)	(2,711)	(2,899)
Common stock acquired by RRP	(103)	(84)	(73)	(964)
Amortization of earned portion of RRP stock	108	108	143	1,152
Balance at end of period	(2,612)	(2,617)	(2,641)	(2,711)

Common Stock Held by BMP:

Balance at beginning of period	(5,584)	(3,867)	(3,867)	(2,659)
Common stock acquired	(1,764)	(1,717)	-	(1,208)
Balance at end of period	(7,348)	(5,584)	(3,867)	(3,867)

Treasury Stock:

Balance at beginning of period	(120,086)	(93,258)	(81,489)	(66,799)
Release of treasury stock for shares acquired by BMP	1,021	-	-	-
Purchase of treasury shares, at cost	(38,198)	(26,828)	(11,769)	(14,690)
Balance at end of period	(157,263)	(120,086)	(93,258)	(81,489)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Net Income	\$46,222	\$51,276	\$23,460	\$38,677
Minimum pension liability, net of (tax) benefit of \$(1,604) during the six months ended December 31, 2002 and \$1,604 during the fiscal year ended June 30, 2002	-	-	1,908	(1,908)
Reclassification adjustment for securities sold, net of (taxes) benefit of \$(173) and \$799 during the years ended December 31, 2004 and 2003, respectively, \$8 during the six months ended December 31, 2002 and \$(929) during the year ended June 30, 2002	(203)	937	10	(1,090)
Net unrealized securities (losses) gains arising during the period, net of benefit (taxes) of \$1,856 and \$3,288 during the years ended December 31, 2004 and 2003, respectively, \$1,710 during the six months ended December 31, 2002, and \$(965) during the year ended June 30, 2002	(2,179)	(3,859)	(2,008)	1,134
Comprehensive Income	\$43,480	\$48,354	\$23,370	\$36,813

[See notes to consolidated financial statements.](#)

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

	Fiscal Year Ended December 31,	Six Months Ended December 31,	Fiscal Year Ended June 30,
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	2004	2003	2002	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
		(Dollars In thousands)		
Net Income	\$46,222	\$51,276	\$23,460	\$38,677
Adjustments to reconcile net income to net cash provided by operating activities				
Net gain on investment and mortgage backed securities called	-	-	-	(11)
Net (gain) loss on investment and mortgage backed securities sold	(377)	1,736	18	(2,018)
Net gain on sale of loans held for sale	(336)	(1,594)	(2,033)	(20)
Net loss (gain) on sales and disposals of other assets	-	161	3	(117)
Net depreciation and amortization	4,411	5,408	1,832	1,556
ESOP and RRP compensation expense	2,645	2,565	1,259	3,051
Provision for loan losses	280	288	120	240
Originations of loans sold during the period	(170,564)	(99,987)	(81,158)	(2,538)
Proceeds from sales of loans	167,458	104,117	78,800	4,325
Decrease (Increase) in cash surrender value of Bank Owned Life Insurance	2,043	(2,118)	(1,122)	(2,201)
(Increase) Decrease in net deferred income tax asset	(4,444)	(8,669)	(5,927)	(431)
(Increase) Decrease in other assets and other real estate owned	(8,461)	19,201	(5,596)	2,797
(Decrease) Increase in other liabilities	(6,485)	(6,795)	6,216	3,748
Net cash provided by Operating Activities	32,392	65,589	15,872	47,058
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net (increase) decrease in federal funds sold and short-term investments	(8,005)	18,769	(37,796)	(39,855)
Proceeds from maturities of investment securities held-to-maturity	125	115	50	755
Proceeds from maturities of investment securities available-for-sale	5,000	49,746	8,875	7,045
Proceeds from calls of investment securities held-to-maturity	-	-	-	2,155
Proceeds from calls of investment securities available-for-sale	-	18,000	32,030	25,211
Proceeds from sales of investment securities available-for-sale	7,959	-	988	8,589
Proceeds from sales and calls of mortgage backed securities available-for-sale	127,107	55,904	-	5,005
Purchases of investment securities available-for-sale	(30,074)	(292)	(9,281)	(87,082)
Purchases of mortgage backed securities available-for-sale	(398,210)	(531,029)	(224,579)	(42,218)
Principal collected on mortgage backed securities held-to-maturity	305	1,479	1,026	4,885
Principal collected on mortgage backed securities available-for-sale	206,150	362,729	148,530	179,950
Net increase in loans	(305,479)	(25,827)	(45,464)	(161,989)
Purchases of fixed assets, net	(1,742)	(1,950)	(1,323)	(1,593)
Sale (purchase) of Federal Home Loan Bank of New York capital stock	1,375	8,190	(525)	10,017
Net cash used in Investing Activities	(395,489)	(44,166)	(127,469)	(89,125)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase in due to depositors	168,371	114,503	147,141	351,602
Net increase (decrease) in escrow and other deposits	8,342	3,263	(9,028)	5,746
Increase (Decrease) in securities sold under agreements to repurchase	192,909	(82,866)	(2,176)	(330,071)
(Repayments of) Proceeds from Federal Home Loan Bank of New York advances	(27,500)	(21,000)	(20,000)	32,500
Proceeds from Trust Preferred borrowings	72,165	-	-	-
Common stock issued for exercise of stock options and tax benefits of RRP	9,388	11,706	9,420	9,511
Purchase of common stock by the RRP and BMP	(103)	(1,801)	(73)	(2,172)
Cash dividends paid to stockholders and cash disbursed in payment of stock dividends	(19,769)	(15,814)	(6,211)	(9,898)
Purchase of treasury stock	(38,198)	(26,828)	(11,769)	(14,690)
Net cash provided by (used in) Financing Activities	365,605	(18,837)	107,304	42,528
INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	2,508	2,586	(4,293)	461
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	24,073	21,487	25,780	25,319
CASH AND DUE FROM BANKS, END OF PERIOD	\$26,581	\$24,073	\$21,487	\$25,780
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	\$32,239	\$28,907	\$5,216	\$16,748
Cash paid for interest	\$66,629	\$71,843	\$44,893	\$104,606
Transfer of loans to other real estate owned	\$-	\$-	\$-	\$134
Change in accumulated other comprehensive income, net of taxes	\$(2,382)	\$(2,922)	\$(90)	\$(1,864)
Change in minimum pension liability, net of deferred taxes	\$-	\$-	\$1,908	\$(1,908)

See notes to consolidated financial statements.

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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" or "DCB") is a Delaware corporation organized by The Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on June 26, 1996. Presently, the significant assets of the Holding Company are the capital stock of the Bank, the Holding Company's loan to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Affiliates ("ESOP"), investments retained by the Holding Company, and an investment real estate property owned by the Holding Company's wholly-owned subsidiary, 842 Manhattan Avenue Corporation. The liabilities of the Holding Company are composed primarily of a \$25.0 million subordinated note payable maturing in May 2010 and \$72.2

million 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, and intends to remain, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York. The Bank has twenty retail banking offices located throughout the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County in New York.

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

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

Stock Dividends - All capital accounts, share and per share data included in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the 50% common stock dividends paid on August 21, 2001, April 24, 2002 and March 16, 2004.

Principles of Consolidation - The accompanying 2004, 2003 and 2002 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 owns and manages a real estate property which 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. All financial statements presented also include the accounts of the Bank's five wholly-owned subsidiaries, Havemeyer Equities Corp. ("HEC"), Boulevard Funding Corp. ("BFC"), Havemeyer Investments, Inc., DSBW Residential Preferred Funding Corp. ("DRPFC") and Dime Reinvestment Company ("DRC"). DRPFC, established in March, 1998, invests in real estate loans and is intended to qualify as a real estate investment trust for federal tax purposes. BFC was established in order to invest in real estate joint ventures and other real estate assets. BFC had no investments in real estate at December 31, 2004 and 2003, and is currently inactive. HEC was also originally established in order to invest in real estate joint ventures and other real estate assets. In June, 1998, HEC assumed direct ownership of DSBW Preferred Funding Corp. ("DPFC"). DPFC, established as a direct subsidiary of the Bank in March, 1998, invests in real estate loans and is intended to qualify as a real estate investment trust for federal tax purposes. 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. DRC is currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Debt and equity securities that have readily determinable fair values are carried at fair value unless they are held-to-maturity. Debt securities are classified as held-to-maturity and carried at amortized cost only if the Company has a positive intent and ability to hold 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 are excluded from net income and reported net of income taxes as other comprehensive income. At December 31, 2004 and 2003, all equity securities were classified as available-for-sale.

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Neither the Holding Company nor the Bank has acquired securities for the purpose of engaging in trading activities.

The Company conducts a periodic review and evaluation of its securities portfolio taking into account the severity, duration and intent with regard to the securities in order to determine if the 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 valuation allowance.

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

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

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

A reserve is also recorded related to multifamily loans sold with recourse under an agreement with the Federal National Mortgage Agency ("FNMA"). This reserve, which is included in other liabilities, is determined in a similar manner to the Company's allowance for loan losses related to loans held in portfolio.

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

direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms.

Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. Any interest accrued to income in the year that interest accruals are discontinued is reversed. Payments on nonaccrual loans are generally applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of collateral is sufficient to cover the principal balance (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 three months.

Mortgage Servicing Rights - The cost of mortgage loans sold with servicing rights retained is allocated between the loans and the servicing rights based on their estimated fair values at the time of loan sale. Servicing assets are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, net servicing income. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that the Company believes market participants would use for similar assets. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans for the purpose of evaluating impairment. A valuation allowance is then established in the event the recorded value of an individual stratum exceeds fair value. A third party valuation of the loan servicing asset was performed as of both December 31, 2004 and 2003, and will be performed on an ongoing basis at least quarterly.

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Other Real Estate Owned, Net - Properties acquired as a result of foreclosure on a mortgage loan are classified as other real estate owned ("OREO") and are recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses and any disposition expenses charged to the valuation allowance for possible losses on OREO. Subsequent write downs are charged directly to operating expenses. The Company had no OREO properties as of December 31, 2004 and 2003.

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

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

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

Earnings Per Share ("EPS") - EPS are calculated and reported in accordance with SFAS 128, "Earnings Per Share." SFAS 128 requires disclosure of basic earnings per share 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 (weighted average common shares are adjusted to include vested RRP shares and allocated ESOP shares). Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if unvested RRP shares became vested and if stock options were exercised and converted into common stock.

The following is a reconciliation of the numerator and denominator of basic EPS and diluted EPS for the years ended December 31, 2004 and 2003, the six-month period ended December 31, 2002, and the year ended June 30, 2002:

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Numerator:				
Net Income per the Consolidated Statement of Operations	\$46,222	\$51,276	\$23,460	\$38,677
Denominator:				
Average shares outstanding utilized in the calculation of basic EPS	35,318,858	35,922,777	36,287,111	35,865,035
Unvested shares of RRP	29,766	44,754	64,564	211,156
Common stock equivalents resulting from the dilutive effect of "in-the-money" stock options	863,376	1,382,726	1,512,513	1,493,262
Average shares outstanding utilized in the calculation of diluted EPS	36,212,000	37,350,257	37,864,188	37,569,453

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

Accounting for Goodwill and Core Deposit Intangible - SFAS 142 "Goodwill and Other Intangible Assets," established new 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 six months from the date of adoption and at least annually thereafter. As of the date of adoption of SFAS 142, the Company had goodwill totaling \$55.6 million. Prior to adoption of SFAS 142, annual goodwill amortization expense totaled \$4.6 million.

Prior to December 31, 2001, the Company completed the transitional impairment test for goodwill as of July 1, 2001, and concluded that no potential impairment existed. The Company subsequently designated the last day of its fiscal year as its annual date for impairment testing, and completed a second impairment test as of June 30, 2002. This test also concluded that no potential impairment of goodwill existed. Due to its change in fiscal year end, the Company performed another impairment test as of December 31, 2002, and subsequently has

performed impairment tests as of both December 31, 2003 and December 31, 2004. In each instance, the Company concluded that no potential impairment of goodwill existed. No events have occurred or circumstances have changed subsequent to December 31, 2004 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require an immediate impairment test to be performed in accordance with SFAS 142.

There was no amortization expense recorded related to goodwill during the years ended December 31, 2004 and 2003, the six months ended December 31, 2002 and the year ended June 30, 2002.

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

<i>Goodwill:</i>	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Original Amount	\$73,107	\$73,107	\$73,107	\$73,107
Accumulated Amortization	(17,469)	(17,469)	(17,469)	(17,469)
Net Carrying Value	\$55,638	\$55,638	\$55,638	\$55,638

<i>Core Deposit Intangible:</i>	Fiscal Year Ended December 31		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Original Amount	\$4,950	\$4,950	\$4,950	\$4,950
Accumulated Amortization	(4,902)	(4,077)	(3,252)	(2,840)
Net Carrying Value	\$48	\$873	\$1,698	\$2,110

In conjunction with the adoption of SFAS 142, the Company also re-assessed the useful lives and classification of its identifiable intangible assets and determined that they remained appropriate. Aggregate amortization expense related to the core deposit intangible was \$825 for the fiscal years ended December 31, 2004 and 2003, \$412 for the six-month period ended December 31, 2002, and \$825 for the fiscal year ended June 30, 2002. Estimated future amortization expense related to the core deposit intangible is as follows:

For the Fiscal Year Ending December 31:

2005	48
	\$48

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

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

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

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

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

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

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

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

	Fiscal Year		Six Months Ended	Fiscal Year Ended
	Ended December 31, 2004	2003	December 31, 2002	June 30, 2002
Net income, as reported	\$46,222	\$51,276	\$23,460	\$38,677
Less: Excess stock-based compensation expense determined under the fair value method over the stock-based compensation recorded for all plans, net of applicable taxes	(1,603)	(1,453)	(560)	(745)
Pro forma net income	\$44,619	\$49,823	\$22,900	\$37,932
Earnings per share				
Basic, as reported	\$1.31	\$1.43	\$0.65	\$1.08
Basic, pro forma	1.26	1.39	0.63	1.06
Diluted, as reported	1.28	\$1.37	\$0.62	\$1.03
Diluted, pro forma	1.23	1.33	0.61	1.01

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

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In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment", ("SFAS 123R"), that addresses the accounting for share-based payment transactions (e.g., stock options and awards of restricted stock) in which an employer receives employee services in exchange for equity securities of the company or liabilities that are based on the fair value of the company's equity securities. The proposed statement, if adopted as proposed, would eliminate APB 25 and would generally require that such transactions be accounted for using a fair-value-based method and the recording of compensation expense rather than optional pro forma disclosure. Adoption of SFAS 123R is required for quarterly periods beginning after June 15, 2005. Management of the Company is still evaluating the impact of adoption of SFAS 123R upon its consolidated financial position and results of operations.

Derivative Instruments - In June, 1998, the FASB issued SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" as amended in June 1999 by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and in June 2000 by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively "SFAS 133"). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133, an entity may designate a derivative as a hedge of exposure to changes in either: (a) the fair value of a recognized asset, liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any fluctuations in the fair value of the derivative instrument are either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not receiving hedge accounting recognition are recorded in current year earnings.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amended SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis.

During the years ended December 31, 2004 and 2003, the six month period ended December 31, 2002 and the fiscal year ended June 30, 2002, neither the Holding Company nor the Bank held any derivative instruments or any embedded derivative instruments that required bifurcation.

Comprehensive Income - Comprehensive income for the years ended December 31, 2004 and 2003, six months ended December 31, 2002, and the fiscal year ended June 30, 2002 was determined in accordance with SFAS 130, "Reporting Comprehensive Income." Comprehensive income includes revenues, expenses, minimum pension liability and gains and losses which, under GAAP, bypass net income and are typically reported as a component of stockholders' equity.

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

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

For the years ended December 31, 2004 and 2003, six months ended December 31, 2002, and the year ended June 30, 2002, there was no customer that accounted for more than 10% of the Company's consolidated revenue.

Recently Issued Accounting Standards

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). EITF 03-1 provides guidance for determining when an investment is other-than-temporarily impaired—including whether an investor has the ability and intent to hold an investment until recovery. In addition, EITF 03-1 contains disclosure requirements regarding impairments that have not been recognized as other than temporary. Except as discussed in the following paragraph, the guidance for evaluating whether an investment is other-than-temporarily impaired was to be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosures were effective in annual financial statements for fiscal years ending after December 15, 2003 for investments accounted for under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." For all other investments within the scope of this Issue, the disclosures are effective in annual financial statements for fiscal years ending after June 15, 2004. The additional disclosures for cost method investments are effective for fiscal years ending after June 15, 2004. Comparative information for periods prior to initial application is not required.

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In October 2004, the FASB issued proposed staff position EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.'" This proposed staff position is expected to provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of EITF 03-1. As a result of the proposed position statement, the FASB has indefinitely delayed the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. Additionally, the FASB issued proposed staff position EITF Issue No. 03-1-1, which indefinitely delayed the effective date of measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. Management will evaluate the impact of adopting the application of the guidance for evaluating an other-than-temporary impairment upon issuance of the guidance.

In November 2004, the EITF issued EITF No. 04-5, "Investors' Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights" ("EITF 04-5"). EITF 04-5 provides a framework for addressing the question of when a sole general partner, as defined in EITF 04-5, should consolidate a limited partner. In response to EITF 04-5, the FASB issued Statement of Position 78-9-a ("SOP 78-9-a"), which will amend Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures" ("SOP 78-9"), in order to provide consistency between participation rights and consolidation of partnership interests defined in SOP 78-9 and EITF 04-5. Management does not expect that the adoption of either EITF 04-5 or SOP 78-9-a will have a material impact upon the Company's consolidated statement of financial condition or results of operations .

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," ("SFAS 152"). SFAS 152 amends SFAS 66 to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in American Institute of Certified Public Accountants ("AICPA") Statement of Position 04-2, "Accounting for Real Estate Time-Sharing Transactions" ("SOP 04-2"). SFAS 152 also amends SFAS 67 to state that the guidance for both incidental operations and the costs incurred to sell the real estate projects does not apply to real estate time-sharing transactions. Under SFAS 152, guidance for operations and costs associated with time-sharing transactions will be provided by SOP 04-2. The provisions of SFAS 152 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 152 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 153 "Exchanges of Nonmonetary Assets- an amendment of APB Opinion No. 29," ("SFAS 153"). SFAS 153 amends APB Opinion No. 29 by eliminating the specific exception for nonmonetary exchanges of similar productive assets, and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's consolidated statement of financial condition or results of operations .

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

Reclassification - Certain amounts as of December 31, 2003 and for the six months ended December 31, 2002 and the year ended June 30, 2002 have been reclassified to conform to their presentation as of and for the year ended December 31, 2004.

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

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prospectus. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases in deposits will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

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

The 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 Company may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements, the amount required for the liquidation account, or if such declaration and payment would otherwise violate regulatory requirements.

As of December 31, 2004, under applicable regulations of the Office of Thrift Supervision ("OTS"), the Bank is eligible to distribute up to \$36,794 of dividends to the Holding Company without receiving written approval from the OTS.

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

The amortized cost, gross unrealized gains and losses and estimated fair value of investment securities held-to-maturity at December 31, 2004 were as follows:

	Investment Securities Held-to-maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt Securities:				
Obligations of state and political subdivisions, maturities of one-to-five years	\$585	\$4	-	\$589

The amortized/historical cost, gross unrealized gains and losses and estimated fair value of investment securities available-for-sale at December 31, 2004 were as follows:

	Investment Securities Available-for-sale			
	Amortized/Historical Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$12,999	\$-	\$(43)	\$12,956
Corporate securities	36,487	102	(635)	35,954
Total debt securities	49,486	102	(678)	48,910
Equity securities	5,071	1,005	(146)	5,930
	\$54,557	\$1,107	\$(824)	\$54,840

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The amortized cost and estimated fair value of the debt securities component of investment securities available-for-sale at December 31, 2004, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment fees.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$11,036	\$10,993
Due after one year through five years	3,997	3,982
Due after five years through ten years	1,000	1,025
Due after ten years	33,453	32,910
	\$49,486	\$48,910

The following summarizes the gross unrealized losses and fair value, aggregated by investment category and the length of time that these securities have been in a continuous unrealized loss position, of investment securities available-for-sale as of December 31, 2004:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses
Debt securities:						
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$12,956	\$43	-	-	\$12,956	\$43
Corporate securities	21,558	486	\$2,823	\$149	24,381	635
Equity securities	2,832	146	-	-	2,832	146
	\$37,346	\$675	\$2,823	\$149	\$40,169	\$824

Management does not believe that any of the unrealized losses that have existed for 12 consecutive months or more as shown in the above table qualified as other-than temporary losses at December 31, 2004. In making this determination, management considered the severity and duration of the loss, as well as management's intent to hold the security until the loss is recovered. Management also has no current intention to dispose of these investments.

During the fiscal year ended December 31, 2004, proceeds from the sales of investment securities available-for-sale totaled \$7,959. A net gain of \$259 was recorded on these sales.

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

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

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

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

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

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

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

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses
Debt securities:						
Corporate securities	1,990	\$10	\$6,595	\$338	\$8,585	\$348
Equity securities	-	-	2,693	132	2,693	132
	\$1,990	\$10	\$9,288	\$470	\$11,278	\$480

Management does not believe that any of the unrealized losses that have existed for 12 consecutive months or more as shown in the above table qualified as other-than temporary losses at December 31, 2003. In making this determination, management considered the severity and duration of the loss, as well as management's intent to hold the security until the loss is recovered. Management also has no current intention to dispose of these investments.

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

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

The amortized cost, gross unrealized gains and losses and estimated fair value of mortgage-backed securities held-to-maturity at December 31, 2004 were as follows:

	Mortgage-Backed Securities Held-to-maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
GNMA pass-through certificates	\$465	\$20	-	\$485

The amortized cost, gross unrealized gains and losses and estimated fair value of mortgage-backed securities available-for-sale at December 31, 2004 were as follows:

	Mortgage-Backed Securities Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Collateralized mortgage obligations	\$480,865	\$33	\$(6,439)	\$474,459
GNMA pass-through certificates	14,040	303	-	14,343
FHLMC pass-through certificates	1,454	39	-	1,493
FNMA pass-through certificates	29,250	95	(220)	29,125
	\$525,609	\$470	\$(6,659)	\$519,420

Proceeds from the sale of mortgage-backed securities available-for-sale totaled \$127,107 during the fiscal year ended December 31, 2004. A gain of \$118 was recorded on these sales.

The following summarizes the gross unrealized losses and fair value, aggregated by investment category and the length of time that these available-for-sale mortgage-backed securities have been in a continuous unrealized loss position as of December 31, 2004:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses
Debt securities:						
Collateralized mortgage obligations	\$359,253	\$4,595	\$113,371	\$1,844	\$472,624	6,439
FNMA pass-through certificates	26,430	220	-	-	26,430	220
	\$385,683	\$4,815	\$113,371	\$1,844	\$499,054	\$6,659

Management does not believe that any of the unrealized losses that have existed for 12 consecutive months or more as shown in the above table qualified as other-than temporary losses at December 31, 2004. In making this determination, management considered the severity and duration of the loss, as well as management's intent to hold the security until the loss is recovered. Management also has no current intention to dispose of these investments.

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

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

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

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

As of December 31, 2003, there were collateralized mortgage obligations with a cumulative fair value of \$306,936 that had unrealized losses totaling \$3,448. At December 31, 2003, no individual available-for-sale collateralized mortgage obligation that possessed an unrealized loss had additionally possessed continuous unrealized losses for 12 months or more.

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

5. LOANS

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

	December 31, 2004	December 31, 2003
One- to four-family	\$126,225	\$124,047
Multifamily residential	1,911,956	1,732,854
Commercial real estate	424,060	309,810

Construction and land acquisition	15,558	2,880
F.H.A. and V. A. insured mortgage loans	4,209	4,646
Cooperative apartment unit loans	11,853	13,798
	2,493,861	2,188,035
Net unearned (fees) costs	(463)	(1,517)
	\$2,493,398	\$2,186,518

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The Bank originates both adjustable and fixed interest rate real estate loans. At December 31, 2004, the approximate composition of these loans was as follows:

Period to Maturity	Fixed Rate	Earlier Period to Maturity or Next Repricing	Variable Rate
	Book Value		Book Value
1 year or less	\$14,612	1 year or less	\$81,952
> 1 year-3 years	24,283	> 1 year-3 years	197,753
> 3 years-5 years	39,839	> 3 years-5 years	1,016,766
> 5 years-10 years	240,589	> 5 years-10 years	704,220
> 10 years	170,061	> 10 years	3,785
	\$489,384		\$2,004,476

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

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

	December 31, 2004	December 31, 2003
Student loans	\$61	\$295
Passbook loans (secured by savings and time deposits)	1,318	1,429
Consumer installment and other loans	1,537	2,348
	\$2,916	\$4,072

Loans on which the accrual of interest has been discontinued were \$1,459 and \$525 at December 31, 2004 and 2003, respectively. Interest income foregone on nonaccrual loans was not material during the years ended December 31, 2004 and 2003, the six months ended December 31, 2002, and the fiscal year ended June 30, 2002.

The Bank had no loans considered troubled-debt restructurings at December 31, 2004 and 2003.

At December 31, 2004, there were two loans totaling \$830 for which impairment was recognized under the guidance of SFAS 114. There were no loans for which impairment was recognized under the guidance of SFAS 114 at December 31, 2003. The average balance of impaired loans was approximately \$608 during the year ended December 31, 2004, \$314 during the year ended December 31, 2003, \$684 during the six months ended December 31, 2002, and \$3,166 for the year ended June 30, 2002. Write-downs on impaired loans were not material during the years ended December 31, 2004 and 2003, the six months ended December 31, 2002, and the year ended June 30, 2002. At December 31, 2004, reserves allocated within the allowance for loan losses for impaired loans totaled \$83. There were no reserves allocated within the allowance for loan losses for impaired loans at December 31, 2003. During the year ended June 30, 2002, the Bank received full repayment of principal totaling \$2,924 and interest totaling \$414 on an impaired loan. Net principal and interest received on impaired loans during the years ended December 31, 2004 and 2003, the six months ended December 31, 2002 and the year ended June 30, 2002 was not material.

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

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

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Loans Evaluated for Impairment - All non-homogeneous loans greater than \$1,000 are individually evaluated for potential impairment. Additionally, individual one- to four-family residential and cooperative apartment unit mortgage loans exceeding \$334 and delinquent in excess of 60 days are evaluated for impairment. A loan is considered impaired when it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. A loan is not deemed to be impaired if a delay in receipt of payment is expected to be less than 30 days or if, during a longer period of delay, the Bank expects to collect all amounts due, including interest accrued at the contractual rate during the period of the delay. At December 31, 2003, there were no impaired loans. At December 31, 2004, all impaired loans were on nonaccrual status. In addition, at December 31, 2004 and December 31, 2003, approximately \$629 and \$525, respectively, of one- to four-family residential cooperative apartment loans with a balance of less than \$334 and consumer loans were on nonaccrual status. These loans are considered as a homogeneous loan pool not subject to the provisions of SFAS 114.

Reserves and Charge-Offs - The Bank allocates a portion of its total allowance for loan losses to loans deemed impaired under SFAS 114. All charge-offs on impaired loans are recorded as a reduction in both loan principal and the allowance for loan losses. Management evaluates the adequacy of its allowance for loan losses on a regular basis. Management believes that its allowance at December 31, 2004 for impaired loans was adequate. There was no allowance for impaired loans at December 31, 2003.

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

Income Recognition - Accrual of interest is discontinued on loans identified as impaired and past due ninety days. Cash payments received on impaired loans subsequent to discontinuation of interest accruals are applied initially to eliminate the recorded accrued interest at the time of discontinuation. Additional cash payments received beyond this level are recorded as regular principal and interest payments.

6. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	Fiscal Year Ended December 31,		Six Months Ended December 31	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Balance at beginning of period	\$15,018	\$15,458	\$15,370	\$15,459
Provision charged to operations	280	288	120	240
Loans charged off	(158)	(63)	(44)	(349)
Recoveries	25	34	12	20
Transfer from (to) of reserves on loan commitments	378	(699)	-	-
Balance at end of period	\$15,543	\$15,018	\$15,458	\$15,370

7. MORTGAGE SERVICING ACTIVITIES

At December 31, 2004, 2003 and 2002 the Bank was servicing loans for others having principal amounts outstanding of approximately \$325,324, \$191,445, and \$108,067, respectively, and at June 30, 2002, the Bank was servicing loans for others having principal amounts outstanding of approximately \$35,752. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. The deferred servicing rights related to these loans totaled \$2,500 and \$2,277 at December 31, 2004 and 2003, respectively, including the servicing rights associated with the multifamily loans sold to FNMA discussed below totaling \$2,226 and \$1,995 at December 31, 2004 and 2003. MSR recognized from loan sales were \$731 and \$955 during the years ended December 31, 2004 and 2003, respectively. Amortization of servicing rights was \$508 and \$409 during the years ended December 31, 2004 and 2003. Amortization of servicing rights was immaterial during the six months ended December 31, 2002 and the year ended June 30, 2002. Servicing assets are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, net servicing income. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates that the Company believes market participants would use for similar assets. In connection with these loans serviced for others, the Bank held borrowers' escrow balances of approximately \$4,764 and \$2,131 at December 31, 2004 and 2003, respectively.

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Multifamily Loans Sold To FNMA - 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 underwrites these loans using either its customary underwriting standards, funds the loans, and sells them to FNMA at agreed upon pricing. At December 31, 2004 and 2003, the Company serviced \$295,800 and \$157,774 of loans sold pursuant to this program with corresponding loan servicing assets of \$2,226 and \$1,995, respectively. Amortization of these servicing rights was \$441 and \$364 during the years ended December 31, 2004 and 2003, respectively. Amortization of this loan servicing asset was immaterial during the six months ended December 31, 2002. Under the terms of the sales program, the Company retains a portion of the associated credit risk. At December 31, 2004 and 2003, the Company's maximum potential exposure related to secondary market sales to FNMA with respect to this specific program was \$13,124 and \$6,529, respectively. The Company retains this level of exposure until the portfolio of loans are paid in entirety or the Company funds claims by FNMA for the maximum loss exposure. As of December 31, 2004 and 2003, the Company had not realized any losses related to these loans. Reserves of \$1,543 and \$761 were established as of December 31, 2004 and 2003, respectively, related to this exposure. The reserve recorded relating to this exposure was included in the calculation of the gain on the sale of the loans. No additional provisions relating to this exposure were recorded during the years ended December 31, 2004 and 2003, and the six months ended December 31, 2002.

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

	At December 31, 2004	At December 31, 2003	At December 31, 2002
Fair value of the servicing asset	\$2,460	\$1,995	\$1,579
Weighted average life (in years)	7.25	7.25	7.5
Prepayment speed assumptions (annual rate)	152 PSA	159 PSA	200 PSA
Impact on fair value of 10% adverse change	\$(55)	\$(54)	\$(37)
Impact on fair value of 20% adverse change	\$(108)	\$(105)	\$(72)
Expected credit losses (annual rate)	\$341	\$105	\$47
Impact on fair value of 10% adverse change	\$(306)	\$(10)	\$(4)
Impact on fair value of 20% adverse change	\$(609)	\$(19)	\$(9)
Residual cash flows discount rate (annual rate)	10.50%	9.75%	9.75%
Impact on fair value of 10% adverse change	\$(52)	\$(61)	\$(38)
Impact on fair value of 20% adverse change	\$(101)	\$(119)	\$(76)
Average interest rate on adjustable rate loans	5.40%	5.72%	6.02%
Impact on fair value of 10% adverse change	-	-	-

8. PREMISES AND FIXED ASSETS

The following is a summary of premises and fixed assets:

	December 31, 2004	December 31, 2003
Land	\$2,308	\$2,308
Buildings	10,102	9,856
Leasehold improvements	12,736	11,925
Furniture, fixtures and equipment	11,785	10,830
	36,931	34,919
Less: accumulated depreciation and amortization	(20,279)	(18,801)
	\$16,652	\$16,118

Depreciation and amortization expense amounted to approximately \$1,490 and \$1,412 during the years ended December 31, 2004 and 2003, respectively, \$610 during the six months ended December 31, 2002, and \$1,097 for the year ended June 30, 2002.

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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 253,250 shares and 267,000 shares at December 31, 2004 and 2003. The bank recorded dividends on the FHLBNY capital stock of \$488 and \$1,299 during the years ended December 31, 2004 and 2003, respectively, \$774 during the six months ended December 31, 2002, and \$2,065 during the year ended June 30, 2002. During the fourth quarter of 2003, the FHLBNY significantly reduced its quarterly dividend payment on the capital stock, which resulted in a decline in income received by the Company during 2004.

10. DUE TO DEPOSITORS

Deposits are summarized as follows:

	At December 31, 2004		At December 31, 2003	
	Effective Cost	Liability	Effective Cost	Liability
Savings accounts	0.56%	\$362,656	0.55%	\$366,592
Certificates of deposit	2.52	959,951	2.64	800,350
Money market accounts	1.40	749,040	1.35	745,387
NOW and Super NOW accounts	1.08	45,178	1.02	37,043
Non-interest bearing checking accounts	-	93,224	-	92,306
	1.68%	\$2,210,049	1.65%	\$2,041,678

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

	At December 31, 2004	At December 31, 2003
Maturity in one year or less	\$734,844	\$552,924
Over one year through three years	190,354	178,220
Over three years to five years	34,741	69,203
Over five years	12	3
Total certificates of deposit	\$959,951	\$800,350

The aggregate amount of certificates of deposit with a minimum denomination of one-hundred thousand dollars was approximately \$263,205 and \$175,711 at December 31, 2004 and 2003, respectively.

11. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	At or for the Fiscal Year Ended December 31,	
	2004	2003
Balance outstanding at end of period	\$205,584	\$12,675
Average interest cost at end of period	2.48%	4.96%
Average balance outstanding during the period	\$129,426	\$71,302
Average interest cost during the period (1)	2.34%	8.86%
Carrying value of underlying collateral at end of period	\$219,311	\$12,967
Estimated fair value of underlying collateral	\$216,754	\$13,045
Maximum balance outstanding at month end during the year	\$220,649	\$86,020

(1) Amount includes prepayment expenses of \$2,555 recorded during the year ended December 31, 2003, which increased the average interest cost by 3.27% during the period. There were no prepayments of securities sold under agreements to repurchase during the year ended December 31, 2004.

12. FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

The Bank had borrowings ("Advances") from the FHLB NY totaling \$506,500 and \$534,000 at December 31, 2004 and 2003, respectively. The average interest cost of FHLB NY Advances was 4.00% and 4.26% during the years ended December 31, 2004 and 2003, respectively, 6.18% during the six months ended December 31, 2002, and 6.94% during the fiscal year ended June 30, 2002. The average interest rate on outstanding FHLB NY Advances was 4.21% and 3.85% at December 31, 2004 and 2003, respectively. At December 31, 2004, in accordance with its Advances, Collateral Pledge and Security Agreement with the FHLB NY, the Bank maintained the requisite qualifying collateral with the FHLB NY (principally real estate loans), as defined by the FHLB NY, to secure such Advances. During the year ended December 31, 2003, the six months ended December 31, 2002 and the fiscal year ended June 30, 2002, prepayment expenses were paid on FHLB NY Advances totaling \$1,589, \$3,642, and \$5,848, respectively, and were recorded as interest expense on FHLB NY Advances.

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, 2004 and 2003, \$1,198 during the six months ended December 31, 2002, and \$2,396 during the fiscal year ended June 30, 2002.

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.

During the year ended December 31, 2004, interest expense recorded on the trust preferred securities totaled \$4,016. Of this total interest payment, \$118 was paid to the Holding Company related to its \$2,165 investment in the securities. The \$118 of income 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:

	Fiscal Year Ended December 31,					
	2004			2003		
	Federal	State and City	Total	Federal	State and City	Total
Current	\$24,353	\$3,629	\$27,982	\$30,202	\$4,285	\$34,487
Deferred	(348)	(185)	(533)	(3,439)	(247)	(3,686)
	\$24,005	\$3,444	\$27,449	\$26,763	\$4,038	\$30,801

	Six Months Ended December 31,			Fiscal Year Ended June 30,		
	2002			2002		
	Federal	State and City	Total	Federal	State and City	Total
Current	\$17,318	\$817	\$18,135	\$19,194	\$2,532	\$21,726
Deferred	(4,800)	673	(4,127)	710	390	1,100
	\$12,518	\$1,490	\$14,008	\$19,904	\$2,922	\$22,826

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

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

	Fiscal Year Ended December 31,		Six Months Ended	Fiscal Year Ended
	2004	2003	December 31,	June 30,
	2004	2003	2002	2002
Tax at Federal statutory rate	\$25,785	\$28,727	\$13,114	\$21,526
State and local taxes, net of Federal income tax benefit	2,227	2,625	969	1,899
Benefit plan differences	288	419	202	282
Adjustments for prior period tax returns	(115)	(114)	-	-
Investment in Bank Owned Life Insurance	(685)	(741)	(393)	(770)
Other, net	(51)	(115)	116	(111)
	\$27,449	\$30,801	\$14,008	\$22,826
Effective tax rate	37.26%	37.53%	37.39%	37.11%

In accordance with SFAS 109, deferred tax assets and liabilities are recorded for temporary differences between the book and tax bases of assets and liabilities.

The components of Federal and net State and City deferred income tax assets and liabilities were as follows:

	At December 31,	
	2004	2003
Deferred tax assets:		
Excess book bad debt over tax bad debt reserve (a)	\$6,836	\$6,688
Employee benefit plans (a)	3,776	3,336
Tax effect of other comprehensive income on securities available-for-sale (b)	2,678	723
Other (a)	422	51
Total deferred tax assets	13,712	10,798
Deferred tax liabilities:		
Difference in book and tax carrying value of fixed assets (b)	614	31
Tax effect of purchase accounting fair value adjustments (a)	515	686
Other (a)	140	126
Total deferred tax liabilities	\$1,269	\$843
Net deferred tax asset	\$12,443	\$9,955

(a) Recorded in other assets.

(b) Portions of this component of deferred taxes are recorded in other assets and other liabilities.

At December 31, 2004, the Bank had approximately \$60,000 of bad debt reserves for New York State income tax purposes for which no provision for income tax was required to be recorded. However, these bad debt reserves could be subject to recapture into taxable income under certain circumstances. Approximately \$15,000 of the Bank's previously accumulated bad debt deductions were similarly subject to potential recapture for federal income tax purposes at December 31, 2004. A New York State and Federal recapture liability could be triggered by certain actions, including a distribution of these bad debt benefits to the Holding Company or the failure of the Bank to qualify as a bank for federal or New York tax purposes.

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

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

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The Company is subject to regular examination by various tax authorities in jurisdictions that the Company has significant business operations. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from ongoing assessments. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available or in the event that an event requiring change in the reserve occurs.

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

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Interest cost	1,067	\$1,081	\$550	\$1,084
Actual return on plan assets	(1,589)	(1,504)	(603)	(1,316)
Net amortization and deferral	584	634	99	38
Net periodic cost (credit)	\$62	\$211	\$46	\$(194)

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

Period Ended	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Discount rate	6.25%	6.625%	7.50%	7.50%

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

Period Ended	December 31, 2004	December 31, 2003
Accumulated benefit obligation at end of period	\$17,970	\$17,597
Reconciliation of Projected benefit obligation:		
Projected benefit obligation at beginning of period	\$17,597	\$16,753

Interest cost	1,067	1,081
Actuarial loss	371	827
Benefit payments	(1,058)	(1,057)
Settlements	(7)	(7)
Projected benefit obligation at end of period	17,970	17,597
Plan assets at fair value (investments in trust funds managed by trustee)		
Balance at beginning of period	18,185	17,236
Return on plan assets	1,747	2,013
Contributions	-	-
Benefit payments	(1,058)	(1,057)
Settlements	(7)	(7)
Balance at end of period	18,867	18,185

Funded status:

Excess of plan assets over projected benefit obligation	897	588
Unrecognized loss from experience different from that assumed	7,272	7,643
Prepaid retirement expense included in other assets	\$8,169	\$8,231

The Bank uses October 1st as its measurement date for the Employee Retirement Plan. The Bank does not anticipate making any contributions to the Employee Retirement Plan in 2005.

Major assumptions utilized to determine the benefit obligations at December 31, 2004 and 2003 were as follows:

Period Ended	December 31, 2004	December 31, 2003
Discount rate	6.125%	6.25%
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, investment strategies and risks, as detailed in the Trust's prospectus. The Trust has been given discretion by the 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 plan is underfunded under the Guidelines, the bond fund portion will be temporarily increased to 50% 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 made when the investment mix varies more than 5% from the target (*i.e.* a 10% target range).

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.

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

Asset Category	At December 31,	
	2004	2003
Equity securities	69%	67%
Debt securities (bond mutual funds)	31	33
Total	100%	100%

These allocations as of December 31, 2004 and 2003 are consistent with future planned allocation percentages as of December 31, 2004.

The expected long-term rate of return on Employee Retirement Plan assets assumptions 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 are applied to the plan's target allocation, the expected rate of return is 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 expected to be made as follows:

Year Ending December 31,	
2005	\$1,155
2006	1,158
2007	1,167
2008	1,184
2009	1,174
2010 to 2014	6,040

BMP and Retirement Plan for Board Members of Dime Community Bancshares, Inc. ("Directors' Retirement Plan") - The Holding Company and Bank maintain the BMP, which exists in order to compensate executive officers for any curtailments in benefits due to the statutory limitations on benefit plans. As of December

31, 2004 and 2003, the BMP had an investment in the Holding Company's common stock of \$12,421 and \$5,584, respectively. Benefit accruals under the defined benefit portion of the BMP were suspended on April 1, 2000, when they were suspended under the Employee Retirement Plan.

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

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

	Fiscal Year Ended December 31,		Six Months Ended December 31	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Service cost	\$30	\$25	\$9	\$17
Interest cost	289	310	152	291
Net amortization and deferral	123	130	52	105
	\$442	\$465	\$213	\$413

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Major assumptions utilized to determine the net periodic cost (credit) for the BMP were as follows:

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Discount rate	6.25%	6.625%	7.50%	7.50%

Major assumptions utilized to determine the net periodic cost (credit) for the Directors Retirement Plan were as follows:

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Discount rate	6.25%	6.50%	6.50%	7.00%
Rate of increase in fee compensation levels	4.0	4.0	4.0	4.0

The defined contribution costs incurred by the Company related to the BMP were \$404 and \$1,975 respectively, for the years ended December 31, 2004 and 2003, \$2,169 for the six months ended December 31, 2002 and \$1,264 for the fiscal year ended June 30, 2002. 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 portion of the BMP and Directors' Retirement Plan was as follows:

Period Ended	December 31,	December 31,
	2004	2003
Accumulated benefit obligation at end of period	\$4,530	\$4,226
Reconciliation of Projected benefit obligation:		
Projected benefit obligation at beginning of period	\$4,645	\$4,735
Service cost	30	25
Interest cost	289	310
Benefit payments	(31)	(10)
Actuarial (gain) loss	(16)	(415)
Projected benefit obligation at end of period	4,917	4,645
Plan assets at fair value:		
Balance at beginning of period	-	-
Contributions	31	10
Benefit payments	(31)	(10)
Balance at end of period	-	-
Funded status:		
Deficiency of plan assets over projected benefit obligation	(4,917)	(4,645)
Contributions by employer	8	8
Unrecognized loss from experience different from that assumed	(201)	181
Unrecognized net past service liability	619	376
Accrued expense included in other liabilities	\$(4,491)	\$(4,080)

Amount recognized in statement of financial condition consists of:

Accrued liability	\$ (4,491)	\$ (4,080)
Net amount recognized	\$ (4,491)	\$ (4,080)

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Major assumptions utilized to determine the benefit obligations at December 31, 2004 and 2003 were as follows:

Period Ended	December 31, 2004		December 31, 2003	
	Directors' Retirement Plan		Directors' Retirement Plan	
	BMP		BMP	
Discount rate	6.125%	6.00%	6.25%	6.25%
Rate of increase in compensation levels	-	4.00	-	4.00

The Bank uses October 1st as its measurement date for both the BMP and Directors' Retirement Plan. Both the BMP and the 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 the Directors' Retirement Plan are expected to be used immediately to pay benefits that come due.

The Bank does not expect to make any contributions to the BMP during the year ending December 31, 2005. The Bank expects to contribute \$80 to the Directors' Retirement Plan during the year ending December 31, 2005 in order to pay benefits due under the plan.

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

Year Ending December 31,	
2005	\$80
2006	325
2007	330
2008	338
2009	346
2010 to 2014	2,019

401(k) Plan - The Bank also maintains the 401(k) Plan which covers substantially all employees. The 401(k) Plan annually receives the proceeds from a 100% vested cash contribution to all participants in the ESOP in the amount of 3% of "covered compensation" [defined as total W-2 compensation including amounts deducted from W-2 compensation for pre-tax benefits such as health insurance premiums and contributions to the 401(k) Plan] up to applicable Internal Revenue Service limits. Effective March 1, 2004, any compensation resulting from either the grant or vesting of restricted stock or the exercise of stock options is excluded from "covered compensation." Previously, these amounts had been included. The participants have the ability to invest this contribution in any of the investment options offered under the 401(k) Plan. Otherwise, the Bank makes no other contributions to the 401(k) Plan. Expenses associated with this contribution totaled \$457 and \$393 during the years ended December 31, 2004 and 2003, respectively, \$180 during the six months ended December 31, 2002, and \$300 during the fiscal year ended June 30, 2002.

401(k) Plan - The Bank also maintains the 401(k) Plan which covers substantially all employees. The 401(k) Plan annually receives the proceeds from a 100% vested cash contribution to all participants in the ESOP in the amount of 3% of "covered compensation" [defined as total W-2 compensation including amounts deducted from W-2 compensation for pre-tax benefits such as health insurance premiums and contributions to the 401(k) Plan] up to applicable Internal Revenue Service limits. Effective March 1, 2004, any compensation resulting from either the grant or vesting of restricted stock or the exercise of stock options is excluded from "covered compensation." Previously, these amounts had been included. The participants have the ability to invest this contribution in any of the investment options offered under the 401(k) Plan. Otherwise, the Bank makes no other contributions to the 401(k) Plan. Expenses associated with this contribution totaled \$457 and \$393 during the years ended December 31, 2004 and 2003, respectively, \$180 during the six months ended December 31, 2002, and \$300 during the fiscal year ended June 30, 2002.

The 401(k) plan owns participant investments in the Holding Company's common stock for the accounts of participants which totaled \$10,147 and \$12,917 at December 31, 2004 and 2003, respectively.

Postretirement Benefit Plan - The Bank offers the Postretirement Benefit Plan to its retired employees who have 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 until their death at no cost to such retirees;

(2) Qualified employees retiring 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 commence collecting retirement benefits immediately upon termination of service from the Bank. The Bank reserves the right at any time, to the extent permitted by law, to change, terminate or discontinue any of the group benefits, and can exercise the maximum discretion permitted by

law, in administering, interpreting, modifying or taking any other action with respect to the plans or benefits.

The Postretirement Benefit Plan cost includes the following components:

Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
2004	2003	2002	2002

Service cost	\$57	\$57	\$21	\$36
Interest cost	230	242	120	183
Unrecognized past service liability	(28)	(28)	(14)	(28)
Amortization of unrealized gain/loss	33	41	-	-
	\$292	\$312	\$127	\$191

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

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Discount rate	6.25%	6.625%	7.50%	7.25%
Rate of increase in compensation levels	3.50	4.00	4.75	4.75

An escalation in the assumed medical care cost trend rates by 1% in each year would increase the net periodic cost by approximately \$8. 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 \$7.

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

	At December 31, 2004	At December 31, 2003
Accumulated benefit obligation at end of period	\$4,271	\$3,779
Reconciliation of Projected benefit obligation:		
Projected benefit obligation at beginning of period	\$3,779	\$3,758
Service cost	57	57
Interest cost	230	242
Actuarial loss	367	(94)
Benefit payments	(162)	(184)
Projected benefit obligation at end of period	4,271	3,779
Plan assets at fair value:		
Balance at beginning of period	-	-
Contributions	162	184
Benefit payments	(162)	(184)
Balance at end of period	-	-
Funded status:		
(Deficiency) of plan assets over projected benefit obligation	(4,271)	(3,779)
Unrecognized loss from experience different from that assumed	1,239	913
Unrecognized net past service liability	(112)	(140)
Accrued expense included in other liabilities	\$(3,114)	\$(3,006)

The Bank uses 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 10.0% in 2004 and was assumed to decrease gradually to 4.25% in 2011 and remain at that level thereafter. An escalation in the assumed medical care cost

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trend rates by 1% in each year would increase the accumulated Postretirement Benefit Plan obligation by approximately \$234. 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 \$205. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at December 31, 2004 were 6.125% and 3.25%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at December 31, 2003 were 6.25% and 3.5%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at December 31, 2002 were 6.625% and 4.0%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated Postretirement Benefit Plan obligation at June 30, 2002 were 7.50% and 4.75%, respectively.

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

In May 2004, the FASB issued FASB Statement Position No. 106-2 ("FSP 106-2") 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 supersedes FSP 106-1. FSP 106-2 applies only to sponsors of single-employer defined benefit postretirement health care plans for which (1) the employer has concluded that prescription drug benefits available under the plan to some or all participants, for some or all future years, are "actuarially equivalent" to Medicare Part D and thus qualify for the subsidy provided by the Act, and (2) the expected subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. 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. Since the Company is currently assessing whether the benefits provided by the Postretirement Benefit Plan are actuarially equivalent to Medicare Part D under the Act, the measure of the APBO or net periodic postretirement benefit cost disclosed in the consolidated financial statements did not reflect any amount associated with the subsidy.

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 \$187 to the Postretirement Benefit Plan during the year ending December 31, 2005 in order to pay benefits due under the plan.

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,	
2005	\$187
2006	187
2007	187
2008	182
2009	182
2010 to 2014	997

ESOP - - The Holding Company adopted the ESOP in connection with the Bank's 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, which included the

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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 \$4,749 and \$5,202 at December 31, 2004 and December 31, 2003, 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. Contributions to the ESOP and shares released from the 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 149,219 shares, 149,219 shares, 149,217 shares and 149,217 shares during the years ended December 31, 2004 and 2003, the six months ended December 31, 2002, and the year ended June 30, 2002, respectively. The ESOP benefit expense recorded in accordance with Statement of Position No. 93-6 for allocated shares totaled \$2,475, \$2,434, \$1,073, and \$1,838, respectively, for the years ended December 31, 2004 and 2003, the six months ended December 31, 2002, and the year ended June 30, 2002.

As indicated previously, effective July 1, 2000, the Holding Company or the 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 is guaranteed until December 31, 2006 (unless the ESOP is terminated prior thereto) and will be discretionary after that date. This annual contribution is 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 Benefit Plans

RRP - In December 1996, the Holding Company's shareholders approved the RRP, which is designed to retain key officers and directors of the Holding Company and Bank, as well as to provide these persons with a proprietary interest in the Company. On February 1, 1997, the Holding Company allocated 1,963,913 shares of stock to employees and outside directors. These shares vested in equal installments on February 1, 1998, 1999, 2000, 2001, and 2002. On each vesting date, the RRP re-acquired shares that were sold by RRP participants in order to fund income tax obligations associated with their individual vesting of shares. In addition, during the period February 1, 1997 through February 1, 2002 the RRP re-acquired shares that were forfeited by participants. The shares re-acquired by the RRP during the period February 1, 1997 through February 1, 2002, either through the repurchase or forfeiture of previously allocated shares, totaled 343,797. On May 17, 2002, a grant of 67,500 RRP shares was made to certain officers of the Bank. These shares vest as follows: 20% on November 25, 2002, and 20% each on April 25, 2003, 2004, 2005 and 2006. The RRP has re-acquired 16,181 shares of common stock that were sold by RRP participants in order to fund income tax obligations associated with their individual vesting of shares under the May 17, 2002 grant. At December 31, 2004, 292,478 shares held by the RRP remained eligible for future allocation. The Company continues to account for compensation expense under the RRP pursuant to Accounting Principles Board No. 25, measuring compensation cost based upon the average acquisition value of the RRP shares.

The following is a summary of activity related to the RRP for the years ended December 31, 2004 and 2003, the six months ended December 31, 2002 and the year ended June 30, 2002:

	At or for the Fiscal Year Ended December 31,		At or for the Six-Months Ended December 31,	At or for the Fiscal Year Ended June 30
	2004	2003	2002	2002
Shares acquired (a)	5,493	5,403	5,285	75,339
Shares vested	13,500	13,500	13,500	349,164
Shares allocated	-	-	-	67,500
Unallocated shares - end of period	292,478	286,985	281,582	276,297
Unvested allocated shares - end of period	27,000	40,500	54,000	67,500
Compensation recorded to expense	\$108	\$108	\$143	\$1,152

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

Stock Option Plans

1996 Stock Option Plan - In November 1996, the Holding Company adopted the 1996 Stock Option Plan, which permits the Company to grant up to 4,909,781 incentive or non-qualified stock options to outside directors, 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 authorizes all option grants.

On December 26, 1996, 4,702,796 stock options were granted to outside directors, officers and certain employees under the 1996 Stock Option Plan, all of which are fully exercisable at December 31, 2004. On January 20, 2000, 224,435 stock options remaining under the 1996 Stock Option Plan were granted to officers and certain employees. All of these stock options expire on January 20, 2010. One-fifth of the shares granted to participants under this grant were exercisable by participants 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 (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, 2004.

2001 Stock Option Plan - In September 2001, the Holding Company adopted the 2001 Stock Option Plan, which permits 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 administers the 2001 Stock Option Plan and authorizes all option grants.

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

On February 1, 2003, 604,041 stock options under the 2001 Stock Option Plan were granted to officers and certain employees. All of these stock options expire on February 1, 2013. One-fourth of the options under this grant become exercisable by participants on February 1, 2004, 2005, 2006 and 2007, respectively. On February 1, 2003, 75,000 stock options under the 2001 Stock Option Plan were granted to outside directors. All of these stock options expire on February 1, 2013 and became exercisable by the respective directors on February 1, 2004.

On January 27, 2004, 632,874 stock options under the 2001 Stock Option Plan were granted to officers and certain employees. All of these stock options expire on January 27, 2014. One-fourth of the options under this grant become exercisable by participants on January 27, 2005, 2006, 2007 and 2008, respectively. On January 27, 2004, 81,000 stock options under the 2001 Stock Option Plan were granted to outside directors. All of these stock options expire on January 27, 2014 and became exercisable by the respective directors on January 27, 2005.

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Combined activity related to the Stock Plans for the years ended December 31, 2004 and 2003, the six months ended December 31, 2002, and the fiscal year ended June 30, 2002 is as follows:

	At or for the Year Ended December 31,		At or for the Six Months Ended December 31	At or for the Year Ended June 30,
	2004	2003	2002	2002
Options outstanding - beginning of period	2,939,286	3,530,568	4,108,917	5,115,373
Options granted	713,873	679,041	-	607,947
Weighted average exercise price of grants	\$19.90	\$13.15	-	\$10.91
Options exercised	971,052	1,263,244	574,074	1,610,803
Weighted average exercise price of exercised options	\$4.52	\$4.29	\$4.25	\$4.21
Options forfeited	2,672	7,079	4,275	3,600
Weighted average exercise price of forfeited options	\$14.10	\$12.75	\$7.90	\$8.53
Options outstanding - end of period	2,679,435	2,939,286	3,530,568	4,108,917
Weighted average exercise price of outstanding options - end of period	\$11.87	\$7.49	\$5.27	\$5.13
Remaining options available for grant under the Stock Plans	62,478	774,649	1,446,621	1,442,346
Exercisable options at end of period	1,342,518	1,913,196	3,000,000	3,372,607
Weighted average exercise price on exercisable options - end of period	\$7.50	\$5.15	\$4.55	\$4.11

Information regarding the range of exercise prices and weighted average remaining contractual life of both options outstanding and options exercisable as of December 31, 2004 is summarized as follows:

Range of Exercise Prices	Outstanding as of December 31, 2004	Exercisable as of December 31, 2004	Weighted Average Exercise Price	Weighted Average Contractual Years Remaining
\$2.00 - \$2.50	15,000	15,000	\$2.32	1.8
\$2.51 - \$3.00	144,478	144,478	2.81	2.4

\$4.00 - \$4.50	538,141	538,141	4.30	2.0
\$4.51 - \$5.00	70,311	27,447	4.56	5.1
\$10.50 - \$11.00	547,483	414,175	10.91	6.9
\$13.00-\$13.50	650,710	203,277	13.16	8.1
\$19.50-\$20.00	713,312	-	19.90	9.1

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

	Granted Options(a)	FIBC Converted Options
Estimated fair value on date of grant/conversion		
		\$2.48
		\$4.09
Pricing methodology utilized	Binomial Option/ Black- Scholes	Binomial Option
Expected life (in years)	6.4	7.5
Interest rate	5.22%	5.25%
Volatility	26.76	22.78
Dividend yield	1.93	2.00

(a) Represents weighted average values of stock options granted on December 26, 1996, January 20, 2000, November 21, 2001, February 1, 2003 and January 27, 2004.

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 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

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eligible for grant under the 2004 Stock Incentive Plan, only up to 374,075 shares 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. As of December 31, 2004, no equity grants were issued to employees or outside Directors of the Company under the 2004 Stock Incentive Plan.

16. COMMITMENTS AND CONTINGENCIES

Mortgage Loan Commitments and Lines of Credit - At December 31, 2004 and 2003, the Bank had outstanding commitments to make real estate loans aggregating approximately \$57,407 and \$94,500, respectively.

At December 31, 2004, commitments to originate fixed-rate and adjustable-rate real estate loans were \$7,372 and \$50,035 respectively. Interest rates on fixed-rate commitments ranged between 4.50% and 7.50%. Substantially all of the Bank's commitments will expire within three months of their acceptance by the prospective borrower. A concentration risk exists with these commitments as virtually all of them involve multifamily and underlying cooperative properties located within the New York City metropolitan area.

At December 31, 2004, unused lines of credit offered on one- to four-family residential, multifamily residential and commercial real estate loans totaled \$33,730. At December 31, 2004, unused commitments to extend credit related construction loans and overdraft checking accounts totaled \$11,830 and \$5,308, respectively.

The Bank had available at December 31, 2004 unused lines of credit with the FHLBNY totaling \$100,000 expiring on September 13, 2005.

Lease Commitments - At December 31, 2004, aggregate minimum annual rental commitments on leases were as follows:

Year Ending December 31,	Amount
2005	1,004
2006	1,021
2007	1,002
2008	832
2009	821
Thereafter	3,269
Total	\$7,949

Rental expense for the years ended December 31, 2004 and 2003, the six months ended December 31, 2002 and the year ended June 30, 2002 approximated \$1,190, \$1,117, \$533, \$906, respectively.

Litigation - - The Company and its subsidiaries are subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or in instances in which the legal proceedings are in their early stages. The Company cannot predict with certainty the actual loss or range of loss related to such legal proceedings, how or when they will be resolved, or what the ultimate settlement may be. Consequently, the Company cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possibility 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 No. 5 "Accounting for Contingencies." As of December 31, 2004 and 2003, there were no reserves provided for potential losses related to litigation matters.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not

necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

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

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

MSR - The fair value of the MSR is measured by the discounted cash flows through contractual maturity.

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

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

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

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

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

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

Commitments to Extend Credit - The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

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The estimated fair values of the Company's consolidated financial instruments at December 31, 2004 and December 31, 2003 were as follows:

December 31, 2004	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$26,581	\$26,581
Investment securities held-to-maturity	585	589
Investment securities available-for-sale	54,840	54,840
Mortgage-backed securities held-to-maturity	465	485
Mortgage-backed securities available-for-sale	519,420	519,420
Loans, net	2,480,771	2,512,881
Loans held for sale	5,491	5,491
MSR	2,226	2,460
Federal funds sold and short-term investments	103,291	103,291
Accrued interest receivable	12,969	12,969
FHLBNY capital stock	25,325	25,325
Liabilities:		
Savings, money market, NOW, Super NOW and checking accounts	1,250,098	1,250,098
Certificates of deposit	959,951	959,211
Escrow and other deposits	48,284	48,284
Borrowed funds	809,249	818,484
Accrued interest payable	3,996	3,996
Off Balance Sheet		
Commitments to extend credit	-	(357)

December 31, 2003	Carrying Amount	Fair Value
Assets:		
Cash and due from banks	\$24,073	\$24,073

Investment securities held-to-maturity	710	718
Investment securities available-for-sale	37,107	37,107
Mortgage-backed securities held-to-maturity	770	822
Mortgage-backed securities available-for-sale	461,967	461,967
Loans, net	2,175,572	2,223,654
Loans held for sale	2,050	2,050
MSR	1,995	1,995
Federal funds sold and short-term investments	95,286	95,286
Accrued interest receivable	12,030	12,030
FHLBNY capital stock	26,700	26,700
Liabilities:		
Savings, money market, NOW, Super NOW and checking accounts	1,241,328	1,241,328
Certificates of deposit	800,350	806,565
Escrow and other deposits	39,941	39,941
Borrowed funds	571,675	591,380
Accrued interest payable	2,850	2,850
Off Balance Sheet		
Commitments to extend credit	-	(717)

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18. TREASURY STOCK

The Holding Company purchased 1,987,529 shares, 1,612,500 shares, 818,250 shares, and 1,125,786 shares of its common stock into treasury during the years ended December 31, 2004 and 2003, the six months ended December 31, 2002 and the year ended June 30, 2002, respectively. All shares were purchased in accordance with applicable regulations of the OTS and the Securities and Exchange Commission.

19. REGULATORY MATTERS

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

Quantitative measures that have been established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below). The Bank's primary regulatory agency, the OTS, requires that the Bank maintain minimum ratios of tangible capital (as defined in the regulations) of 1.5%, and total risk-based capital (as defined in the regulations) of 8%. In addition, insured institutions in the strongest financial and managerial condition, with a rating of one (the highest rating of the OTS under the Uniform Financial Institutions Rating System) are required to maintain a Leverage Capital Ratio (the "Leverage Capital Ratio") of not less than 3.0% of total assets. For all other banks, the minimum Leverage Capital Ratio requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the institution. The Bank is also subject to prompt corrective action requirement regulations promulgated by the Federal Deposit Insurance Corporation. These regulations require the Bank to maintain a minimum of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). As of December 31, 2004, the Bank satisfied all capital adequacy requirements to which it is subject.

As of December 31, 2004 and 2003, the Bank satisfied all criteria necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables:

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004						
Tangible capital	\$256,955	7.88%	\$48,937	1.5%	N/A	N/A
Leverage capital	256,955	7.88	130,498	4.0%	N/A	N/A
Total risk-based capital (to risk weighted assets)	261,835	12.83	163,247	8.0%	\$204,058	10.00%
Tier I risk-based capital (to risk weighted assets)	246,292	12.07	N/A	N/A	122,435	6.00
Tier I leverage capital (to average assets)	256,955	7.82	N/A	N/A	163,123	5.00

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	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003						
Tangible capital	\$231,096	7.97%	\$43,492	1.5%	N/A	N/A
Leverage capital	231,096	7.97	115,979	4.0	N/A	N/A
Total risk-based capital (to risk weighted assets)						

	240,809	15.03	128,144	8.0	\$160,180	10.00%
Tier I risk-based capital (to risk weighted assets)	225,791	14.43	N/A	N/A	96,108	6.00
Tier I leverage capital (to average assets)	231,096	7.55	N/A	N/A	152,980	5.00

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

	At December 31, 2004			At December 31, 2003		
	Tangible Capital	Leverage Capital	Risk-Based Capital	Tangible Capital	Leverage Capital	Risk-Based Capital
GAAP capital	\$309,190	\$309,190	\$309,190	\$286,620	\$286,620	\$286,620
Non-allowable assets:						
Core deposit intangible	(48)	(48)	(48)	(873)	(873)	(873)
Loan servicing asset	(250)	(250)	(250)	(227)	(227)	(227)
Accumulated other comprehensive income	3,701	3,701	3,701	1,214	1,214	1,214
Goodwill	(55,638)	(55,638)	(55,638)	(55,638)	(55,638)	(55,638)
Adjustment for recourse provision on loans sold	-	-	(10,663)	-	-	(5,305)
Tier 1 risk-based capital	256,955	256,955	246,292	231,096	231,096	225,791
General valuation allowance	-	-	15,543	-	-	15,018
Total risk-based capital	256,955	256,955	261,835	231,096	231,096	240,809
Minimum capital requirement	48,937	130,498	163,247	43,492	115,979	128,144
Regulatory capital excess	\$208,018	\$126,457	\$98,588	\$187,604	\$115,117	\$112,665

20. CHANGE IN FISCAL YEAR END

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

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The following table presents certain financial information for the fiscal years ended December 31, 2004 and 2003, the unaudited year ended December 31, 2002, information for the six month transition period ended December 31, 2002, and the unaudited six-months ended December 31, 2001.

	Year Ended December 31,			Six Months Ended December 31,	
	2004	2003	2002 (Unaudited)	2002	2001 (Unaudited)
Total interest income	\$163,621	\$169,115	\$181,914	\$90,469	\$93,136
Total interest expense	67,776	71,063	91,790	43,278	53,732
Net interest income	95,845	98,052	90,124	47,191	39,404
Provision for loan losses	280	288	240	120	120
Total non-interest income	20,513	25,122	19,999	10,765	5,603
Total non-interest expense	42,407	40,809	38,696	20,368	17,103
Income before income taxes	73,671	82,077	71,187	37,468	27,784
Income tax expense	27,449	30,801	26,565	14,008	10,269
Net income	\$46,222	\$51,276	\$44,622	\$23,460	\$17,515
Earnings per Share:					
Basic	\$1.31	\$1.43	\$1.23	\$0.65	\$0.49
Diluted	1.28	1.37	1.17	0.62	0.47
Weighted average basic shares outstanding	35,318,858	35,922,777	36,312,153	36,287,111	35,397,116
Weighted average diluted shares outstanding	36,212,000	37,350,257	38,008,592	37,864,188	37,426,050
Dividends declared per common share	\$0.55	\$0.41	\$0.29	\$0.16	\$0.12

21. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following represents the unaudited consolidated results of operations for each of the quarters during the fiscal years ended December 31, 2004 and 2003, the six months ended December 31, 2002, and the fiscal year ended June 30, 2002.

	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
For the three months ended				
Net interest income	\$24,116	\$23,874	\$24,053	\$23,802
Provision for loan losses	60	60	60	100
Net interest income after provision for loan losses	24,056	23,814	23,993	23,702
Non-interest income	5,617	6,732	4,498	3,666
Non-interest expense	10,365	10,552	10,490	11,000
Income before income taxes	19,308	19,994	18,001	16,368

Income tax expense	6,968	7,588	6,755	6,138
Net income	\$12,340	\$12,406	\$11,246	\$10,230

Earnings per share (1):

Basic	\$0.35	\$0.35	\$0.32	\$0.29
Diluted	\$0.33	\$0.34	\$0.31	\$0.29

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

Earnings per share (1):

Basic	\$0.38	\$0.35	\$0.43	\$0.27
Diluted	\$0.37	\$0.34	\$0.41	\$0.27

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

Earnings per share (1):

Basic	\$0.30	\$0.35
Diluted	\$0.29	\$0.33

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

Earnings per share (1):

Basic	\$0.23	\$0.26	\$0.28	\$0.30
Diluted	\$0.22	\$0.25	\$0.27	\$0.29

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

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22. CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following statements of condition as of December 31, 2004 and 2003, and the related statements of operations and cash flows for the years ended December 31, 2004 and 2003, the six months ended December 31, 2002 and the year ended June 30, 2002, reflect the Holding Company's investment in its wholly-owned subsidiaries, the Bank and 842 Manhattan Avenue Corp., using the equity method of accounting:

DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF FINANCIAL CONDITION

	At December 31, 2004	At December 31, 2003
ASSETS:		
Cash and due from banks	\$962	\$896

Investment securities available-for-sale	18,886	7,936
Mortgage-backed securities available-for-sale	3,341	5,166
Federal funds sold and short term investments	36,951	3,753
ESOP loan to subsidiary	4,749	5,202
Investment in subsidiaries	309,492	286,913
Other assets	6,818	587
Total assets	\$381,199	\$310,453

LIABILITIES AND STOCKHOLDERS' EQUITY:

Subordinated notes payable	\$25,000	\$25,000
Trust Preferred securities payable	72,165	-
Other liabilities	2,313	1,534
Stockholders' equity	281,721	283,919
Total liabilities and stockholders' equity	\$381,199	\$310,453

DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF OPERATIONS

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Net interest loss	\$(5,054)	\$(1,308)	\$(473)	\$(654)
Dividends received from Bank	30,000	35,000	15,000	13,500
Non-interest income	377	1	-	2,015
Non-interest expense	(638)	(701)	(528)	(741)
Income before income taxes and equity in undistributed earnings of direct subsidiaries	24,685	32,992	13,999	14,120
Income tax credit (expense)	2,373	697	458	(240)
Income before equity in undistributed earnings of direct subsidiaries	27,058	33,689	14,457	13,880
Equity in undistributed earnings of subsidiaries	19,164	17,587	9,003	24,797
Net income	\$46,222	\$51,276	\$23,460	\$38,677

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DIME COMMUNITY BANCSHARES, INC.
CONDENSED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended December 31,		Six Months Ended December 31,	Fiscal Year Ended June 30,
	2004	2003	2002	2002
Cash flows from Operating Activities:				
Net income	\$46,222	\$51,276	\$23,460	\$38,677
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in undistributed earnings of direct subsidiaries	(19,164)	(17,587)	(9,003)	(24,797)
Gain on sale of assets	(258)	-	-	(2,004)
Net (amortization) accretion of (premium) discount on securities available-for-sale	(432)	6	15	91
Decrease (Increase) in other assets	(6,231)	585	(137)	151
Increase (Decrease) in other liabilities	700	584	224	(19)
Net cash provided by operating activities	20,837	34,864	14,559	12,099
Cash flows from Investing Activities:				
(Increase) Decrease in federal funds sold and short-term investments	(33,198)	(996)	(868)	9,156
Proceeds from sale of investment securities available-for-sale	2,959	-	-	4,582
Proceeds from transfer of securities	-	270	243	-
Purchases of investment securities available-for-sale	(12,999)	(323)	(319)	(1,196)
Principal repayments on mortgage-backed securities available-for-sale	1,790	3,873	2,775	12,726
Principal repayments on ESOP loan	453	459	467	474
Net cash (used in) provided by investing activities	(40,995)	3,283	2,298	25,742
Cash flows from Financing Activities:				
Issuance of common stock	9	8	4	10
Cash disbursed in payment of stock dividend	(12)	-	-	(17)
Decrease in securities sold under agreement to repurchase	-	-	(2,000)	(19,325)

Proceeds from issuance of trust preferred securities	72,165	-	-	-
Common stock issued for exercise of stock options and tax benefits of RRP shares	4,007	5,316	2,439	6,689
Cash dividends paid to stockholders	(19,743)	(15,801)	(6,205)	(9,867)
Purchase of treasury stock	(38,198)	(26,828)	(11,769)	(14,690)
Benefit plan payments reimbursed by Subsidiary	1,996	-	-	-
Net cash provided by (used in) financing activities	20,224	(37,305)	(17,531)	(37,200)
Net increase (decrease) in cash and due from banks	66	842	(674)	641
Cash and due from banks, beginning of period	896	54	728	87
Cash and due from banks, end of period	\$962	\$896	\$54	\$728

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EXHIBITS

Exhibit Number

3(i)	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1)
3(ii)	Amended and Restated Bylaws of Dime Community Bancshares, Inc. (1)
4.1	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto]
4.2	Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto]
4.3	Draft Stock Certificate of Dime Community Bancshares, Inc. (2)
4.4	Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock (3)
4.5	Rights Agreement, dated as of April 9, 1998, between Dime Community Bancorp, Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (3)
4.6	Form of Rights Certificate (3)
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 (8)
4.8	Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (8)
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 (8)
10.1	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (4)
10.2	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (4)
10.3	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (4)
10.4	Employment Agreement between Dime Community Bancorp, Inc. and Vincent F. Palagiano (9)
10.5	Employment Agreement between Dime Community Bancorp, Inc. and Michael P. Devine (9)
10.6	Employment Agreement between Dime Community Bancorp, Inc. and Kenneth J. Mahon (9)
10.7	Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (4)
10.8	The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (5)
10.9	Severance Pay Plan of The Dime Savings Bank of Williamsburgh (4)
10.10	Retirement Plan for Board Members of Dime Community Bancorp, Inc. (5)
10.11	Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees, as amended by amendments number 1 and 2 (5)
10.12	Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (5)
10.13	Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees. (5)
10.14	Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees (5)
10.15	Form of award notice for outside directors under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)
10.16	Form of award notice for officers and employees under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)
10.17	Financial Federal Savings Bank Incentive Savings Plan in RSI Retirement Trust (6)
10.18	Financial Federal Savings Bank Employee Stock Ownership Plan (6)
10.19	Option Conversion Certificates between Dime Community Bancshares, Inc. and each of Messrs: Russo, Segrete, Calamari, 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. (6)
10.20	Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (7)
10.21	Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees
14	Code of Business Ethics
21	Subsidiaries of the Registrant
31.1	Certification of Chief Executive Officer Pursuant to 17 CFR 240.13a-14(a)

31.2	Certification of Chief Financial Officer Pursuant to 17 CFR 240.13a-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

- (1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.
- (2) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.
- (3) Incorporated by reference to the registrant's Current Report on Form 8-K dated April 9, 1998 and filed on April 16, 1998.
- (4) Incorporated by reference to Exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997.
- (5) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997.
- (6) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.
- (7) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003.
- (8) Incorporated by reference to Exhibits to the registrant's Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.
- (9) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed on March 15, 2004.

Dime Community Bancshares, Inc.

2004 Stock Incentive Plan

**Adopted March 18, 2004
Effective as of May 20, 2004**

**DIME COMMUNITY BANCSHARES, INC.
2004 STOCK INCENTIVE PLAN**

Article I

Purpose

Section 1.1 **General Purpose of the Plan.** The purpose of the Plan is to promote the growth and profitability of Dime Community Bancshares, Inc., by providing certain directors, key officers and employees of Dime Community Bancshares, Inc. and its Parents and Subsidiaries with an incentive to achieve corporate objectives and by attracting and retaining individuals of outstanding competence through a participation interest in the performance of Common Stock of Dime Community Bancshares, Inc.

Article II

Definitions

The following definitions shall apply for the purposes of this Plan, unless a different meaning is plainly indicated by the context:

Section 2.1 **Award Notice** means, with respect to a particular Restricted Stock Award, a written instrument evidencing the Restricted Stock Award and establishing the terms and conditions thereof.

Section 2.2 **Bank** means The Dime Savings Bank of Williamsburgh, a federally chartered savings institution, and any successor thereto.

Section 2.3 **Beneficiary** means the Person designated by an Eligible Individual to receive any Shares subject to a Restricted Stock Award made to such Eligible Individual that become distributable, or to have the right to exercise any Options or Stock Appreciation Rights granted to such Eligible Individual that are exercisable, following the Eligible Individual's death.

Section 2.4 **Board** means the Board of Directors of the Company.

Section 2.5 **Career Service Award** means, in the case of any Recipient, a Restricted Stock Award described in section 6.4.

Section 2.6 **Change in Control** means any of the following events:

(a) the occurrence of any event (other than an event described in section 2.6(c)(i)) upon which any "person" (as such term is used in sections 13(d) and 14(d) of the 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) any group constituting a person in which employees of the Company 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 Company representing 25% or more of the combined voting power of all of the Company's then outstanding securities; or

(b) 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 Company'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 Company; or

(c) the shareholders of the Company approve either:

(i) 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:

(A) 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 of the resulting institution then outstanding in substantially the same proportions as their ownership of voting securities of the Company immediately 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 Company's obligations under the Plan; or

(ii) 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

(d) any event that would be described in section 2.6(a), (b) or (c) if the "Bank" were substituted for the "Company" therein.

Section 2.7 Code means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

Section 2.8 Committee means the Committee described in section 4.1.

Section 2.9 Company means Dime Community Bancshares, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

Section 2.10 Covered Employee means, for any taxable year of the Company, a person who is, or who the Committee determines is reasonably likely to be, a "covered employee" (within the meaning of section 162(m) of the Code).

Section 2.11 Disability means a condition of incapacity, mental or physical, for the performance of services which the Committee determines, on the basis of competent medical evidence, is likely to be permanent, to continue for an indefinite period of at least one hundred eighty (180) days, or to result in death.

Section 2.12 Disinterested Board Member means a member of the Board who: (a) is not a current employee of the Company or a subsidiary, (b) is not a former employee of the Company who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, (c) has not been an officer of the Company, (d) does not receive remuneration from the Company or a subsidiary, either directly or indirectly, in any capacity other than as a director except in an amount for which disclosure would not be required pursuant to Item 404(a) of the proxy solicitation rules of the Securities and Exchange Commission and (e) does not possess an interest in any other transaction, and is not engaged in a business relationship, for which disclosure would be required pursuant to Items 404(a) or (b) of the proxy solicitation rules of the Securities and Exchange Commission. The term Disinterested Board Member shall be interpreted in such manner as shall be necessary to conform to the requirements of section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act and the corporate governance standards imposed on compensation committees under the listing requirements imposed by any national securities exchange on which the Company lists or seeks to list Shares.

Section 2.13 Early Retirement means, in the case of any Recipient, termination of all Service for the Employers at or after attainment of age 55 and the completion of at least ten consecutive years of Service to the Employers.

Section 2.14 Earliest Exercise Date means, with respect to an Option, the earliest date on which the Option may be exercised. The Earliest Exercise Date may, but need not, be the same as the Option's Vesting Date.

Section 2.15 Effective Date means May 20, 2004.

Section 2.16 Eligible Employee means any employee of the Company, or of a Parent or Subsidiary, whom the Committee may determine to be a key officer or employee and select to receive a Restricted Stock Award or a grant of an Option or Stock Appreciation Right pursuant to the Plan.

Section 2.17 Eligible Individual means: (a) any Eligible Employee; and (b) any non-employee director of the Company or a Parent or Subsidiary.

Section 2.18 Employer means the Company, the Bank and any successor thereto and, with the prior approval of the Board, and subject to such terms and conditions as may be imposed by the Board, any other savings bank, savings and loan association, bank, corporation, financial institution or other business organization or institution. With respect to any Eligible Individual, the Employer shall mean the entity which employs such person or upon whose board of directors such person serves.

Section 2.19 Exchange Act means the Securities Exchange Act of 1934, as amended.

Section 2.20 Exercise Period means the period during which an Option or Stock Appreciation Right may be exercised.

Section 2.21 Exercise Price means the price per Share at which Shares subject to an Option may be purchased upon exercise of the Option and on the basis of which the cash payment due upon exercise of a Stock Appreciation Right is computed.

Section 2.22 Fair Market Value 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, as of the close of the market in New York City and without regard to after-hours trading activity; 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, as of the close of the market in New York City and without regard to after-hours trading activity, 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 2.22(a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

Section 2.23 Family Member means, with respect to any Eligible Individual: (a) any of the Eligible Individual's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouses, former spouses, siblings, nieces, nephews, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law or sisters-in-law, including relationships created by adoption; (b) any natural person sharing the Eligible Individual's household (other than as a tenant or employee, directly or indirectly, of the Eligible Individual); (c) a trust in which any combination of the Eligible Individual and Persons described in section 2.23(a) and (b) own more than fifty percent (50%) of the beneficial interests; (d) a foundation in which any combination of the Eligible Individual and Persons described in sections 2.23(a) and (b) control management of the assets; or (e) any other corporation, partnership, limited liability company or other entity in which any combination of the Eligible Individual and Persons described in sections 2.23(a) and (b) control more than fifty percent (50%) of the voting interests.

Section 2.24 Incentive Stock Option means a right to purchase Shares that is granted to an Eligible Employee pursuant to section 5.1, that is designated by the Committee to be an Incentive Stock Option and that is intended to satisfy the requirements of section 422 of the Code.

Section 2.25 Non-Qualified Stock Option means a right to purchase Shares that is either (a) granted to an Eligible Individual who is not an Eligible Employee or (b) granted to an Eligible Employee and either (i) is not designated by the Committee to be an Incentive Stock Option, or (ii) does not satisfy the requirements of section 422 of the Code.

Section 2.26 Option means either an Incentive Stock Option or a Non-Qualified Stock Option.

Section 2.27 Option Agreement means a written instrument evidencing an Option granted under the Plan.

Section 2.28 Option Holder means, at any relevant time with respect to an Option, the person having the right to exercise the Option.

Section 2.29 Parent means any entity, whether or not incorporated, in an unbroken chain of entities ending with the Company where each entity other than the first entity in the unbroken chain owns stock or other equity interests in one of the other entities in the unbroken chain possessing fifty percent (50%) or more of the combined voting power of all of the other entity's outstanding stock or other interests that vote generally in the election of the other entity's directors or other governing body.

Section 2.30 Performance Goal means, with respect to any Performance-Based Restricted Stock Award, the performance goal or performance goal(s) established pursuant to section 6.3(a), the attainment of which is a condition of vesting of the Performance-Based Restricted Stock Award.

Section 2.31 Performance Measurement Period means, with respect to any Performance Goal, the period of time over which attainment of the Performance Goal is measured.

Section 2.32 Performance-Based Restricted Stock Award means a Restricted Stock Award to which section 6.3 is applicable.

Section 2.33 Permitted Transferee means, with respect any Recipient, a Family Member of the Recipient to whom an Option has been transferred in accordance with section 5.8.

Section 2.34 Person means an individual, a corporation, a partnership, a limited liability company, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization or institution.

Section 2.35 Plan means the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan, as amended from time to time.

Section 2.36 Recipient means the person to whom an Option or Stock Appreciation Right is granted or a Restricted Stock Award is made.

Section 2.37 Restricted Stock Award means an award of Shares pursuant to Article VI.

Section 2.38 Retirement means: (a) termination of Service with the Employer in all capacities at or after attaining age 65 or (b) Early Retirement. No termination of Service shall be deemed a Retirement unless the terminating individual enters into a retirement agreement with the Employer, in

form and substance satisfactory to the Committee, pursuant to which he agrees to provide limited transition services to the Employer on a consulting basis and/or abide by non-competition, confidentiality, non-derogation and non-disturbance covenants prescribed by the Committee for a fixed period specified by the Committee not to exceed two years.

Section 2.39 **SAR Agreement** means a written instrument evidencing a Stock Appreciation Right granted under the Plan.

Section 2.40 **Service** means, unless the Committee provides otherwise in an Option Agreement or SAR Agreement or Restricted Stock Award Notice, service in any capacity as a common-law employee, consultant or non-employee director to the Company or a Parent or Subsidiary.

Section 2.41 **Share** means a share of Common Stock, par value \$.01 per share, of the Dime Community Bancshares, Inc.

Section 2.42 **Stock Appreciation Right** means the right upon exercise to receive, in cash or Shares, the amount equal to the excess (if any) of (a) the Fair Market Value of a Share on the date of exercise over (b) the Exercise Price.

Section 2.43 **Subsidiary** means any entity, whether or not incorporated, in an unbroken chain of entities beginning with the Company where each entity other than the last entity in the unbroken chain owns stock or other equity interests in one of the other entities in the unbroken chain possessing fifty percent (50%) or more of the combined voting power of all of the other entity's outstanding stock or other interests that vote generally in the election of the other entity's directors or other governing body.

Section 2.44 **Termination for Cause** means one of the following:

(a) for an Eligible Individual who is not an officer or employee of any bank or savings institution regulated by the Office of Thrift Supervision, termination of employment with the Employer upon the occurrence of any of the following:

(i) the employee intentionally engages in dishonest conduct in connection with his performance of services for the Employer resulting in his conviction of or plea of guilty or nolo contendere to a felony;

(ii) the employee is convicted of, or pleads guilty or nolo contendere to, a felony or any crime involving moral turpitude;

(iii) the employee willfully fails or refuses to perform his duties under any employment or retention agreement and fails to cure such breach within sixty (60) days following written notice thereof from the Employer;

(iv) the employee breaches his fiduciary duties to the Employer for personal profit; or

(v) the employee's willful breach or violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease and desist order in connection with his performance of services for the Employer;

(b) for an Eligible Individual who is an officer or employee of a bank or savings institution regulated by the Office of Thrift Supervision, termination of employment for 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 for any reason constituting cause for termination under any written employment agreement between the Employer and such Eligible Employee, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that such individual 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, which notice shall be given to such individual not later than five (5) business days after the board of directors of the Employer adopts, and shall be accompanied by, a resolution duly approved by affirmative vote of a majority of the entire board of directors of the Employer at a meeting called and held for such purpose (which meeting shall be held not less than fifteen (15) days nor more than thirty (30) days after notice to the individual), at which meeting there shall be a reasonable opportunity for the individual to make oral and written presentations to the members of the board of directors of the Employer, 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 of directors of the Employer grounds exist for discharging the individual for cause;

(c) for an Eligible Individual who is a non-employee director, removal for cause under the terms of the laws or any law rule or regulation applicable to the entity upon whose board of directors the individual serves as a non-employee director.

Section 2.45 **Vesting Date** means the date on which an Option, Stock Appreciation Right, Restricted Stock Award, or Shares acquired upon exercise of an Option cease to be forfeitable upon termination of the Recipient's Service.

Article III

Available Shares

Section 3.1 **Shares Available under the Plan.**

Subject to section 9.3, the maximum aggregate number of Shares which may be issued for Restricted Stock Awards and upon the exercise of Options and Stock Appreciation Rights shall be 1,496,300 Shares.

Section 3.2 **Shares Available for Options.**

Subject to section 9.3, the maximum aggregate number of Shares which may be issued upon exercise of Options shall be 1,496,300 shares, and the maximum aggregate number of Options which may be granted to any one individual in any calendar year shall be 250,000 Options.

Section 3.3 **Shares Available for Restricted Stock Awards.**

Subject to section 9.3, the maximum number of Shares which may be issued as Restricted Stock Awards under the Plan shall be 374,075 Shares and the maximum aggregate number of Shares which may be granted as Restricted Stock Awards to any one individual in any calendar year shall be 60,000 Shares.

Section 3.4 **Shares Available for Stock Appreciation Right**

Subject to section 9.3, the maximum aggregate number of Shares which may be issued upon exercise of Stock Appreciation Rights shall be 1,496,300 and the maximum aggregate number of Stock Appreciation Rights which may be granted under the Plan and to any one individual in any calendar year shall be 250,000 Stock Appreciation Rights.

Article IV

Administration

Section 4.1 **Committee.**

(a) Subject to section 4.1(b), the Plan shall be administered by the members of the Compensation Committee of Dime Community Bancshares, Inc. who are Disinterested Board Members. If the Committee consists of fewer than two Disinterested Board Members, then the Board shall appoint to the Committee such additional Disinterested Board Members as shall be necessary to provide for a Committee consisting of at least two Disinterested Board Members.

(b) The Board may, in its discretion, take any action and exercise any power, privilege or discretion conferred on the Committee under the Plan with the same force and effect under the Plan as if done or exercised by the Committee.

(c) No member of the Committee on the Board shall participate in any action taken by such body under the Plan if he or she is personally affected thereby, unless all members of the Committee or Board, as applicable, are similarly affected.

Section 4.2 **Committee Action.**

The Committee shall hold such meetings, and may make such administrative rules and regulations, as it may deem proper. A majority of the members of the Committee shall constitute a quorum, and the action of a majority of the members of the Committee present at a meeting at which a quorum is present, as well as actions taken pursuant to the unanimous written consent of all of the members of the Committee without holding a meeting, shall be deemed to be actions of the Committee. All actions of the Committee shall be final and conclusive and shall be binding upon the Company and all other interested parties. Any Person dealing with the Committee shall be fully protected in relying upon any written notice, instruction, direction or other communication signed by the Secretary of the Committee and one member of the Committee, by two members of the Committee or by a representative of the Committee authorized to sign the same in its behalf.

Section 4.3 **Committee Responsibilities.**

Subject to the terms and conditions of the Plan and such limitations as may be imposed by the Board, the Committee shall be responsible for the overall management and administration of the Plan and shall have such authority as shall be necessary or appropriate in order to carry out its responsibilities, including, without limitation, the authority:

(a) to interpret and construe the Plan, and to determine all questions that may arise under the Plan as to eligibility for participation in the Plan, the number of Shares subject to the Restricted Stock Awards, Stock Appreciation Rights or Options, if any, to be granted, and the terms and conditions thereof;

(b) with the consent of the Recipient or Beneficiary, as applicable, amend or modify the terms of any outstanding Option, Stock Appreciation Right or Restricted Stock Award or accelerate or defer the Vesting Date or Earliest Exercise Date thereof;

(c) to adopt rules and regulations and to prescribe forms for the operation and administration of the Plan; and

(d) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

All decisions, determinations and other actions of the Committee made or taken in accordance with the terms of the Plan shall be final and conclusive and binding upon all parties having an interest therein.

Article V

Stock Options

Section 5.1 **Grant of Options.**

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual an Option to purchase Shares. An Option for an Eligible Employee must be designated as either an Incentive Stock Option or a Non-Qualified Stock Option and, if not designated as either, shall be a Non-Qualified Stock Option. An Option for an Eligible Individual who is not an Eligible Employee shall be a Non-Qualified Stock Option.

(b) Any Option granted under this section 5.1 shall be evidenced by a written agreement which shall:

(i) specify the number of Shares covered by the Option determined in accordance with section 5.2;

(ii) specify the Exercise Price, determined in accordance with section 5.3, for the Shares subject to the Option;

(iii) specify the Earliest Exercise Date and the Exercise Period determined in accordance with section 5.4;

(iv) specify the Vesting Date determined in accordance with section 5.5;

(v) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

(vi) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Option granted to an Eligible Individual.

Section 5.2 Size of Option.

Subject to section 3.2 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted Options shall be determined by the Committee, in its discretion.

Section 5.3 Exercise Price.

The price per Share at which an Option may be exercised shall be determined by the Committee, in its discretion, *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 5.4 Exercise Period; Earliest Exercise Date.

(a) Subject to section 5.4(b), the Exercise Period during which an Option may be exercised shall commence on the Earliest Exercise Date specified by the Committee in the Option Agreement (or, if no Earliest Exercise Date is specified in the Option Agreement, on the Vesting Date). It shall expire on the date specified in the Option Agreement (and in any event no later than the tenth anniversary of the date of grant) or, if no date is specified, on the earliest of:

(i) the date and time when the Recipient terminates Service for any reason other than the Recipient's death, Disability or discharge that is not a Termination for Cause; and

(ii) the last day of the three-month period that begins on the date and time when the Recipient terminates Service due to discharge that is not a Termination for Cause;

(iii) the last day of the one-year period that begins on the date and time when the Recipient terminates Service due to the Recipient's death or Disability; and

(iv) the last day of the five-year period commencing on the date on which the Option was granted.

A Recipient's termination of Service prior to the Earliest Exercise Date of an Option shall, unless otherwise provided in the Option Agreement, result in the Option being canceled without consideration at the close of business on the last day of Service. An Option that remains unexercised at the close of business on the last day of the Exercise Period (including but not limited to an Option whose Earliest Exercise Date has not occurred) shall be canceled without consideration at the close of business on the last day of the Exercise Period.

(b) Unless otherwise determined by the Committee and specified in the Option Agreement:

(i) if a Change in Control occurs while an Option is outstanding and on or before its scheduled expiration date, then for purposes of exercising vested Options, the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) tenth (10th) anniversary of the date the Option was granted; and (B) the third (3rd) anniversary of the date of the Change in Control; or any later date determined under section 5.4(b)(ii) or (iii);

(ii) if a Change in Control occurs while an Option is outstanding and on or before its Earliest Exercise Date, then solely for the purpose of measuring the Exercise Period (but not for purposes of vesting), the Recipient of the Option shall be deemed to continue in Service through the applicable Earliest Exercise Date, and the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) the tenth (10th) anniversary of the date the Option was granted; (B) the third (3rd) anniversary of the date of the Change in Control; and (C) ninety (90) days after the Earliest Exercise Date; or any later date determined under section 5.4(b)(i) or (iii);

(iii) if, on the date an Option is otherwise scheduled to expire, the holder of the Option may not then exercise the Option or sell Shares on a national securities exchange without violating applicable federal, state or local securities laws or the terms of a securities trading

blackout (including but not limited to a blackout period established under the Company's securities trading policy or a contractual lockup in connection with a securities offering or other transaction involving the Company), the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) the tenth (10th) anniversary of the date the Option was granted; and (B) ninety (90) days after the last day of the securities trading blackout; or any later date determined under section 5.4(b)(i) or (ii); and

(iv) the Earliest Exercise Date (but not the Vesting Date) of any Option outstanding on the date of the Recipient's termination of Service due to death or Disability shall be accelerated to the date of such termination of Service provided that the Recipient of such Option remained in continuous Service during the period beginning on the date the Option is granted and ending on the date of termination of Service.

Section 5.5 **Vesting Date.**

(a) Subject to section 5.5(b), the Vesting Date for each Option granted under the Plan shall be the date determined by the Committee and specified in the Option Agreement. If no provision for vesting is made in the Option Agreement, the Vesting Date shall be:

- (i) the first anniversary of the date of grant, as to 25% of the Shares subject to the Option as of the date of grant;
- (ii) the second anniversary of the date of grant, as to an additional 25% of the Shares subject to the Option as of the date of grant;
- (iii) the third anniversary of the date of grant, as to an additional 25% of the Shares subject to the Option as of the date of grant;
- (iv) the fourth anniversary of the date of grant, as to any remaining balance of the Shares subject to the Option as of the date of grant;
- (vi) in the event of the Recipient's termination of Service due to the Recipient's Death or Disability, the date of termination of Service, as to any Options otherwise scheduled to vest during the period of six months beginning on the date of termination.

Failure of a Recipient to remain in continuous Service during the period beginning on the date an Option is granted and ending on the Option's Vesting Date shall result in a cancellation of the Option without consideration at the earliest date and time at which the Recipient is not in continuous Service.

(b) Except to the extent that an applicable Option Agreement expressly provides otherwise, each Option granted to an Eligible Employee that is outstanding under the Plan on the date on which a Change of Control occurs shall, on such date, be 100% vested and exercisable.

Section 5.6 **Additional Restrictions on Incentive Stock Options.**

An Option granted to an Eligible Employee designated by the Committee to be an Incentive Stock Option shall be subject to the following provisions:

(a) If, for any calendar year, the sum of (i) plus (ii) exceeds \$100,000, where (i) equals the Fair Market Value (determined as of the date of the grant) of Shares subject to an Option intended to be an Incentive Stock Option which first become available for purchase during such calendar year, and (ii) equals the Fair Market Value (determined as of the date of grant) of Shares subject to any other options intended to be Incentive Stock Options and previously granted to the same Eligible Employee which first become exercisable in such calendar year, then that number of Shares optioned which causes the sum of (i) and (ii) to exceed \$100,000 shall be deemed to be Shares optioned pursuant to a Non-Qualified Stock Option or Non-Qualified Stock Options, with the same terms as the Option or Options intended to be an Incentive Stock Option;

(b) The Exercise Price of an Incentive Stock Option granted to an Eligible Employee who, at the time the Option is granted, owns Shares comprising more than 10% of the total combined voting power of all classes of stock of the Company shall not be less than 110% of the Fair Market Value of a Share, and if an Option designated as an Incentive Stock Option shall be granted at an Exercise Price that does not satisfy this requirement, the designated Exercise Price shall be observed and the Option shall be treated as a Non-Qualified Stock Option;

(c) The Exercise Period of an Incentive Stock Option granted to an Eligible Employee who, at the time the Option is granted, owns Shares comprising more than 10% of the total combined voting power of all classes of stock of the Company, shall expire no later than the fifth anniversary of the date on which the Option was granted, and if an Option designated as an Incentive Stock Option shall be granted for an Exercise Period that does not satisfy this requirement, the designated Exercise Period shall be observed and the Option shall be treated as a Non-Qualified Stock Option;

(d) An Incentive Stock Option that is exercised during its designated Exercise Period but more than:

- (i) three (3) months after the termination of employment with the Company and all of its Parents and Subsidiaries (other than on account of disability within the meaning of section 22(e)(3) of the Code or death of the Eligible Employee to whom it was granted); or
- (ii) one (1) year after such individual's termination of employment with the Company, a parent or a subsidiary due to disability (within the meaning of section 22(e)(3) of the Code) or death;

may be exercised in accordance with the terms of the Option but shall at the time of exercise be treated as a Non-Qualified Stock Option; and

(e) Except with the prior written approval of the Committee, no individual shall dispose of Shares acquired pursuant to the exercise of an Incentive Stock Option until after the later of (i) the second anniversary of the date on which the Incentive Stock Option was granted, or (ii) the first anniversary of the date on which the Shares were acquired.

Section 5.7 **Method of Exercise.**

(a) Subject to the limitations of the Plan and the Option Agreement, an Option Holder may, at any time after the Earliest Exercise Date and during the Exercise Period, exercise his or her right to purchase all or any part of the Shares to which the Option relates; *provided, however*, that the minimum number of Shares which may be purchased at any time shall be 100, or, if less, the total number of Shares relating to the Option which remain unpurchased. An Option Holder shall exercise an Option to purchase Shares by:

(i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Option;

(ii) delivering to the Committee full payment, consistent with section 5.7(b), for the Shares as to which the Option is to be exercised; and

(iii) satisfying such other conditions as may be prescribed in the Option Agreement.

(b) The Exercise Price of Shares to be purchased upon exercise of any Option shall be paid in full:

(i) in cash (by certified or bank check or such other instrument as the Company may accept); or

(ii) if and to the extent permitted by the Committee, in the form of Shares already owned by the Option holder for a period of more than six (6) months as of the exercise date and having an aggregate Fair Market Value on the date the Option is exercised equal to the aggregate Exercise Price to be paid; or

(iii) by a combination thereof.

If permitted by the Committee, payment for any Shares to be purchased upon exercise of an Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price and applicable tax withholding amounts (if any), in which event the Shares acquired shall be delivered to the broker promptly following receipt of payment.

(c) When the requirements of section 5.7(a) and (b) have been satisfied, the Committee shall take such action as is necessary to cause the issuance of a stock certificate evidencing the Option holder's ownership of such Shares. The Person exercising the Option shall have no right to vote or to receive dividends, nor have any other rights with respect to the Shares, prior to the date as of which such Shares are transferred to such Person on the stock transfer records of the Company, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which such transfer is effected, except as may be required under section 8.3.

Section 5.8 **Limitations on Options**

(a) An Option by its terms shall not be transferable by any Option Holder, except that (i) a Recipient may transfer a Non-Qualified Stock Option to the Recipient's Family Members during his lifetime; and (b) any Option Holder may transfer Options remaining unexercised at his death to a Beneficiary or by will or by the laws of descent and distribution. Any permitted transfer to Family Members shall be effected by written notice to the Company given in such form and manner as the Committee may prescribe and shall be recognized only if such notice is received by the Company prior to the death of the person giving it. Thereafter, the Permitted Transferee shall have, with respect to such Option, all of the rights, privileges and obligations which would attach thereunder to the Recipient except the right to transfer the Option to Family Members. If a privilege of the Option depends on the life, Service, employment or other status of the transferor, such privilege of the Option for the transferee shall continue to depend on the life, Service, employment or other status of the transferor. The Committee shall have full and exclusive authority to interpret and apply the provisions of this Plan to transferees to the extent not specifically described herein.

(b) The Company's obligation to deliver Shares with respect to an Option shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Option holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

(c) An Option holder may designate a Beneficiary to receive any Options that may be exercised after his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Option holder, or in the event that no Beneficiary has been designated, any Options that may be exercised following the Option holder's death shall be transferred to the executor or administrator of the Option holder's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select. If the Option holder and his Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Option holder shall be deemed to have survived the beneficiary.

Article VI

Restricted Stock Awards

Section 6.1 **In General.**

- (a) Each Restricted Stock Award shall be evidenced by an Award Notice issued by the Committee to the Eligible Individual, which notice shall:
- (i) specify the number of Shares covered by the Restricted Stock Award;
 - (ii) specify the amount (if any) which the Recipient shall be required to pay to the Company in consideration for the issuance of such Shares (which shall in no event be less than the minimum amount required for such Shares to be validly issued, fully paid and nonassessable under applicable law);
 - (iii) specify whether the Restricted Stock Award is a Performance-Based Award and, if it is, the applicable Performance Goal or Performance Goals;
 - (iv) specify whether the Restricted Stock Award is a Career Service Award; and
 - (iv) specify the date of grant of the Restricted Stock Award; and
 - (v) specify the Vesting Date for the Restricted Stock Award;

and contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe.

- (b) All Restricted Stock Awards shall be in the form of issued and outstanding Shares that shall be either:
- (i) registered in the name of the Committee or other trustee or custodian for the benefit of the Recipient and held by the Committee pending the vesting or forfeiture of the Restricted Stock Award;
 - (ii) registered in the name of Recipient and held by the Committee, together with a stock power executed by the Recipient in favor of the Committee, pending the vesting or forfeiture of the Restricted Stock Award; or
 - (iii) registered in the name of and delivered to the Recipient.

In any event, the certificates evidencing the Shares shall at all times prior to the applicable Vesting date bear the following legend:

The Common Stock evidenced hereby is subject to the terms of Restricted Stock Award Notice between Dime Community Bancshares, Inc. and [Name of Recipient] dated [Date] made pursuant to the terms of the Dime Community Bancshares, Inc. 2004 Omnibus Stock Incentive Plan, copies of which are on file at the executive offices of Dime Community Bancshares, Inc., and may not be sold, encumbered, hypothecated or otherwise transferred except in accordance with the terms of such Plan and Agreement.

or such other restrictive legend as the Committee, in its discretion, may specify.

- (c) An Award by its terms shall not be transferable by the Eligible Individual other than by will or by the laws of descent and distribution, and the Shares granted pursuant to such Award shall be distributable, during the lifetime of the Recipient, only to the Recipient.

Section 6.2 **Vesting Date.**

- (a) The Vesting Date for each Restricted Stock Award that is not a Career Service Award shall be determined by the Committee and specified in the Award Notice and, if no date is specified in the Award Notice, shall be the first anniversary of the date of grant as to 25% of the Shares; the second anniversary of the date of grant as to an additional 25% of the Shares; the third anniversary of the date of grant as to an additional 25% of the Shares; and the fourth anniversary of the date of grant as to the remaining balance of the Shares.

- (b) Unless otherwise determined by the Committee and specified in the Award Notice for a Restricted Stock Award that is not a Career Service Award:

(i) if the Recipient of a Restricted Stock Award terminates Service prior to the Vesting Date for any reason other than death or Disability, any unvested Shares shall be forfeited without consideration (other than a refund to the Recipient of an amount equal to the lesser of the amount (if any) paid by the Recipient for the Shares being forfeited upon their issuance and the Fair Market Value of such Shares on the date of forfeiture);

(ii) if the Recipient of a Restricted Stock Award terminates Service prior to the Vesting Date on account of death or Disability, any unvested Shares that were scheduled to vest during the six-month period beginning on the date of termination shall become vested on the date of termination of Service; and

(iii) if a Change in Control occurs prior to the Vesting Date of a Restricted Stock Award that is outstanding on the date of the Change in Control, the Vesting Date shall be accelerated to the date of the Change in Control.

Section 6.3 **Performance Based Restricted Stock Awards.**

(a) At the time it grants a Performance-Based Restricted Stock Award, the Committee shall establish one or more Performance Goals, the attainment of which shall be a condition of the Recipient's right to retain the related Shares. The Performance Goals shall be selected from among the following:

- (i) Earnings per common share
- (ii) Net income
- (iii) Return on average equity
- (iv) Return on average assets
- (v) Core earnings
- (vi) Stock price
- (vii) Strategic business objectives, consisting of one or more objectives based upon satisfying specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures
- (viii) Operating income
- (ix) Operating efficiency ratio
- (x) Net interest spread
- (xi) Loan production volumes
- (xii) Non-performing loans
- (xiii) Cash flow
- (xiv) Total shareholder return
- (xv) Net revenue
- (xvi) Gross revenue
- (xvii) Operating expense
- (xviii) Fee income
- (xix) Deposit growth
- (xx) Any other performance criteria established by the Administrative Committee
- (xxi) Any combination of (i) through (xx) above

Performance Goals may be established on the basis of reported earnings or cash earnings, and consolidated results or individual business units and may, in the discretion of the Committee, include or exclude extraordinary items and/or the results of discontinued operations. Each Performance 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 (or individual business units) and/or the past or current performance of other companies.

(b) At the time it grants a Performance-Based Restricted Stock Award, the Committee shall establish a Performance Measurement Period for each Performance Goal. The Performance Measurement Period shall be the period over which the Performance Goal is measured and its attainment is determined. If the Committee establishes a Performance Goal but fails to specify a Performance Measurement Period, the Performance Measurement Period shall be:

(i) if the Performance-Based Restricted Stock Award is granted during the first nine months of the Company's fiscal year, the three-fiscal year period of the Company that begins with the fiscal year in which the Performance-Based Restricted Stock Award is granted; and

(ii) in all other cases, the period of twelve (12) consecutive fiscal quarters of the Company that begins with the fiscal quarter in which the Performance-Based Restricted Stock Award is granted.

(c) As promptly as practicable following the end of each Performance Measurement Period, the Committee shall determine, on the basis of such evidence as it deems appropriate, whether the Performance Goals for such Performance Measurement Period have been attained and, if they have been attained, shall certify such fact in writing.

(d) If the Performance Goals for a Performance-Based Restricted Stock Award have been attained and certified, the Committee shall either:

(i) if the relevant Vesting Date has occurred, cause the ownership of the Shares subject to such Restricted Stock Award, together with all dividends and other distributions with respect thereto that have been accumulated, to be transferred on the stock transfer records of the Company, free of any restrictive legend other than as may be required by applicable law, to the Recipient of the Restricted Stock Award; or

(ii) in all other cases, continue the Shares in their current status pending the occurrence of the relevant Vesting Date or forfeiture of the Shares.

If any one or more of the relevant Performance Goals have not been attained, all of the Shares subject to such Restricted Stock Award shall be forfeited without a consideration (other than a refund to the Recipient or his estate of an amount equal to the lesser of the amount (if any) paid by the Recipient for the Shares being forfeited upon their issuance and the Fair Market Value of such Shares on the date of forfeiture).

(e) If the Performance Goals for any Performance Measurement Period 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 Performance Goals and make payments accordingly under the Plan; provided, however, that any adjustments made in accordance with or for the purposes of this section 6.3(e) shall be disregarded for purposes of calculating the Performance Goals for a Performance-Based Restricted Stock Award to a Covered Employee if and to the extent that such adjustments would have the effect of increasing the amount of a the Restricted Stock Award to such Covered Employee.

(f) If provided by the Committee when a Performance-Based Restricted Stock Award is granted, to the extent that the relevant Performance Goals are achieved prior to the end of the Performance Measurement Period and certified by the Committee, vested a Performance-Based Restricted Stock Award may

be paid at any time following such certification.

Section 6.4 **Career Service Awards.**

The Vesting Date of a Restricted Stock Award that is designated a Career Service Award shall be:

- (a) the date of the Retirement, death or Disability of the Recipient; and
- (b) the fifth anniversary of the date of grant of the Restricted Stock Award or occurrence of such later date as the Committee may determine and specify in the Award Notice

in each case while the Recipient is in the Service of the Employer. If the Vesting Date is prior to the Recipient's 65th birthday (or any later date specified in accordance with section 6.4(b)), the number of Shares subject to the Career Service Award that become vested on the Vesting Date shall be equal to the product (rounded to the nearest whole Share) of (a) the number of Shares subject to the Career Service Award multiplied by (b) a fraction, the numerator of which is the number of calendar months that begin during the period beginning on the date of grant and ending on the Vesting Date and the denominator of which is the number of calendar months that begin during the period beginning on the date of grant and ending on the Recipient's 65th birthday (or later date specified in accordance with section 6.4(b)). If a Recipient terminates Service in all capacities with all Employers prior to the Vesting Date for a Career Service Award, and to the extent that the relevant Vesting Date for a Career Service Award is prior to the Recipient's 65th birthday (or any later date specified in accordance with section 6.4(b)), any Shares subject to the Career Service Award that are not vested shall be forfeited. Any Shares that become vested due to Retirement shall be further subject to forfeiture if and to the extent provided in any retirement agreement between the Recipient and the Employer.

Section 6.5 **Dividend Rights.**

Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Notice, any dividends or distributions declared and paid with respect to Shares subject to the Restricted Stock Award, whether or not in cash, shall be held and accumulated (with investment earnings or losses) pending vesting at the same time and subject to the same terms and conditions as the underlying Shares and, pending vesting, shall be reinvested in additional Shares .

Section 6.6 **Voting Rights.**

Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Notice, voting rights appurtenant to the Shares subject to the Restricted Stock Award, shall be exercised by the Committee in its discretion.

Section 6.7 **Tender Offers.**

Each Recipient to whom a Restricted Stock Award is outstanding shall have the right to respond, or to direct the response, with respect to the related Shares, to any tender offer, exchange offer or other offer made to the holders of Shares. Such a direction for any such Shares shall be given by proxy or ballot (if the Recipient is the beneficial owner of the Shares for voting purposes) or by completing and filing, with the inspector of elections, the Trustee or such other person who shall be independent of the Company as the Committee shall designate in the direction (if the Recipient is not such a beneficial owner), a written direction in the form and manner prescribed by the Committee. If no such direction is given, then the Shares shall not be tendered.

Section 6.8 **Designation of Beneficiary.**

An Eligible Individual who has received a Restricted Stock Award may designate a Beneficiary to receive any unvested Shares that become vested on the date of his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the Beneficiary designated by an Eligible Individual dies prior to the Eligible Individual, or in the event that no Beneficiary has been designated, any vested Shares that become available for distribution on the Eligible Individual's death shall be paid to the executor or administrator of the Eligible Individual's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select.

Section 6.9 **Manner of Distribution of Awards.**

The Company's obligation to deliver Shares with respect to a Restricted Stock Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Eligible Individual or Beneficiary to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

Section 6.10 **Taxes.**

The Company or the Committee shall have the right to require any person entitled to receive Shares pursuant to a Restricted Stock Award to pay the amount of any tax which is required to be withheld with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Article VII

Stock Appreciation Rights

Section 7.1 **Grant of Stock Appreciation Rights.**

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual a Stock Appreciation Right. A Stock Appreciation Right must be designated as either a tandem Stock Appreciation Right or a stand-alone Stock Appreciation Right and, if not so designated, shall be deemed to be a stand-alone Stock Appreciation Right. A tandem Stock Appreciation Right may only be granted at the same time as the Option to which it relates.

(b) Any Stock Appreciation Right granted under this section 7.1 shall be evidenced by a written agreement which shall:

(i) in the case of a tandem Stock Appreciation Right, relate to the same number of Shares; be settled only in Shares; have the same Exercise Price, Exercise Period, Vesting Date and other terms and conditions as the Option to which it relates and provide that the exercise of the related Option shall be deemed to cancel the Stock Appreciation Right for a like number of Shares and that the exercise of the Stock Appreciation Right shall be deemed to cancel the related Option for a like number of Shares;

(ii) in the case of a stand-alone Stock Appreciation Right:

(A) specify the number of Shares covered by the Stock Appreciation Right;

(B) specify the Exercise Price, determined in accordance with section 7.3;

(C) specify the Earliest Exercise Date and the Exercise Period;

(D) specify the Vesting Date;

(E) specify whether the Stock Appreciation will be settled in cash or in Shares;

(F) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

(G) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Stock Appreciation Right granted to an Eligible Individual.

Section 7.2 **Size of Stock Appreciation Right.**

Subject to section 3.4 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted stand-alone Stock Appreciation Rights shall be determined by the Committee, in its discretion; *provided, however*, that a tandem Stock Appreciation Right shall be granted for a number of Shares no greater than the number of Shares subject to the related Option.

Section 7.3 **Exercise Price.**

The price per Share at which a stand-alone Stock Appreciation Right may be exercised shall be determined by the Committee, in its discretion, *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 7.4 **Exercise Period.**

(a) Subject to section 7.4(b), the Exercise Period during which a stand-alone Stock Appreciation Right may be exercised shall commence on the Vesting Date and shall expire on the date specified in the SAR Agreement (and in any event no later than the tenth anniversary of the date of grant) or, if no date is specified, on the earliest of:

(i) the date and time when the Recipient terminates Service for any reason; and

(ii) the last day of the five-year period commencing on the date on which the Option was granted.

A Recipient's termination of Service prior to the Vesting Date of a Stock Appreciation Right shall, unless otherwise provided in the SAR Agreement, result in the Stock Appreciation Right being canceled without consideration at the close of business on the last day of Service. A Stock Appreciation Right that is vested and remains unexercised at the close of business on the last day of the Exercise Period shall be deemed automatically exercised on such date.

Section 7.5 **Vesting Date.**

(a) Subject to section 7.5(b), the Vesting Date for each stand-alone Stock Appreciation Right granted under the Plan shall be the date determined by the Committee and specified in the SAR Agreement or, if no provision for vesting is made in the SAR Agreement, the Vesting Date shall be:

(i) the first anniversary of the date of grant, as to 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;

(ii) the second anniversary of the date of grant, as to an additional 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;

(iii) the third anniversary of the date of grant, as to an additional 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;

(iv) the fourth anniversary of the date of grant, as to any remaining balance of the Shares subject to the Stock Appreciation Right as of the date of grant;

(v) in the event of the Recipient's termination of Service due to the Recipient's Death or Disability, the date of termination of Service, as to any Stock Appreciation Rights otherwise scheduled to vest during the period of six months beginning on the date of termination.

Failure of a Recipient to remain in continuous Service during the period beginning on the date a Stock Appreciation Right is granted and ending on the Stock Appreciation Right's Vesting Date shall result in a cancellation of the Stock Appreciation Right without consideration at the earliest date and time at which the Recipient is not in continuous Service.

(b) Except to the extent that an applicable SAR Agreement expressly provides otherwise, each Stock Appreciation Right that is outstanding under the Plan on the date on which a Change of Control occurs shall, on such date, be 100% vested and exercisable.

Section 7.6 Method of Exercise.

(a) Subject to the limitations of the Plan and the SAR Agreement, a Recipient may, at any time after the Vesting Date and during the Exercise Period, exercise his or her Stock Appreciation Right as to all or any part of the Shares to which the Stock Appreciation Right relates; *provided, however*, that the minimum number of Shares as to which a Stock Appreciation Right may be exercised shall be 100, or, if less, the total number of Shares relating to the Stock Appreciation Right which remain unexercised. A Recipient shall exercise a Stock Appreciation Right by:

(i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Stock Appreciation Right; and

(ii) satisfying such other conditions as may be prescribed in the SAR Agreement.

Any stand-alone Stock Appreciation Rights that are vested and remain unexercised at the expiration date of the relevant Exercise Period shall be deemed automatically exercised on such date without the requirement of notice or any other action on the part of the Recipient.

(b) When the requirements of section 7.6(a) have been satisfied, the Committee shall take such action as is necessary to cause the remittance to the Recipient (or, in the event of his death, his Beneficiary) of a payment in an amount per Share equal to the excess (if any) of (i) the Fair Market Value of a Share on the date of exercise over (ii) the Exercise Price per Share, or, if applicable Shares with an aggregate Fair Market Value of a like amount.

Section 7.7 Beneficiaries.

The Recipient of a stand-alone Stock Appreciation Right may designate a Beneficiary to receive any payment in respect of outstanding stand-alone Stock Appreciation Rights that may be made after his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Recipient, or in the event that no Beneficiary has been designated, the executor or administrator of the Recipient's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select, shall be deemed the Beneficiary. If the Recipient and his Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Recipient shall be deemed to have survived the beneficiary.

Article VIII

Special Tax Provisions

Section 8.1 Tax Withholding Rights.

The Company shall have the right to deduct from all amounts paid by the Company in cash with respect to an Option or Stock Appreciation Right under the Plan any taxes required by law to be withheld with respect to such Option or Stock Appreciation Right. Where any Person is entitled to receive Shares, the Company shall have the right to require such Person to pay to the Company the amount of any tax which the Company is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the minimum amount required to be withheld. To the extent determined by the Committee and specified in the Option Agreement, an Option Holder shall have the right to direct the Company to satisfy the minimum required federal, state and local tax withholding by reducing the number of Shares subject to the Option (without issuance of such Shares to the Option holder) by a number equal to the quotient of (a) the total minimum amount of required tax withholding divided by (b) the excess of the Fair Market Value of a Share on the Option Exercise Date over the Option Exercise Price per Share.

Section 8.2 Code Section 83(b) Elections.

If and to the extent permitted by the Committee and specified in an Option Agreement for a Non-Qualified Stock Option or a Restricted Stock Award Agreement for a Restricted Stock Award other than a Performance-Based Restricted Stock Award, a Recipient may be permitted or required to make an election under section 83(b) of the Code to include the compensation related thereto in income for federal income tax purposes at the time of issuance of the Shares to such Recipient instead of at a subsequent Vesting Date. In such event, the Shares issued prior to their Vesting Date shall be issued in certificated form only, and the certificates therefor shall bear the legend set forth in section 6.1(b) or such other restrictive legend as the Committee, in its discretion, may specify. In the event of the Recipient's termination of Service prior to the relevant Vesting Date or forfeiture of the Shares for any other reason, the Recipient shall be required to return all forfeited Shares to the Company without consideration therefor (other than a refund to the Recipient or his estate of an amount equal to the lesser of the amount paid by the Recipient for the Shares upon their issuance or the Fair Market Value of the Shares on the date of forfeiture).

Section 8.3 Election to Defer Income Tax Liability Pursuant to Deferred Compensation Program.

To the extent permitted by the Committee, the Recipient of a Non-Qualified Stock Option, Stock Appreciation Right or Restricted Stock Award may elect to defer the income tax liability associated therewith pursuant to the terms of a non-qualified deferred compensation plan in which the Recipient is eligible to participate.

Article IX

Amendment and Termination

Section 9.1 **Termination.**

The Board may suspend or terminate the Plan in whole or in part at any time prior to the tenth anniversary of the Effective Date by giving written notice of such suspension or termination to the Committee. Unless sooner terminated, the Plan shall terminate automatically on the day preceding the tenth anniversary of the Effective Date. In the event of any suspension or termination of the Plan, all Options, Stock Appreciation Rights and Restricted Stock Awards theretofore granted under the Plan that are outstanding on the date of such suspension or termination of the Plan shall remain outstanding and exercisable for the period and on the terms and conditions set forth in the Option and Stock Appreciation Right agreements and the Award Notices evidencing such Options, Stock Appreciation Rights and Restricted Stock Awards.

Section 9.2 **Amendment.**

The Board may amend or revise the Plan in whole or in part at any time; *provided, however*, that, to the extent required to comply with section 162(m) of the Code or the corporate governance standards imposed under the listing requirements imposed by any national securities exchange on which the Company lists or seeks to list Shares, no such amendment or revision shall be effective if it amends a material term of the Plan unless approved by the holders of a majority of the votes cast on a proposal to approve such amendment or revision.

Section 9.3 **Adjustments in the Event of Business Reorganization.**

(a) In the event any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Shares or other securities, stock dividend or other special and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution, or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Recipients under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of securities deemed to be available thereafter for grants of Options, Stock Appreciation Rights and Restricted Stock Awards in the aggregate to all Eligible Individuals and individually to any one Eligible Individual, (ii) the number and kind of securities that may be delivered or deliverable in respect of outstanding Options, Stock Appreciation Rights and Restricted Stock Awards, and (iii) the Exercise Price of Options and Stock Appreciation Rights. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Options, Stock Appreciation Rights or Restricted Stock Awards (including, without limitation, cancellation of Options, Stock Appreciation Rights and Restricted Stock Awards in exchange for the in-the-money value, if any, of the vested portion thereof, or substitution of Options, Stock Appreciation Rights or Restricted Stock Awards using stock of a successor or other entity) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Parent or Subsidiary or the financial statements of the Company or any Parent or Subsidiary, or in response to changes in applicable laws, regulations, or account principles; *provided, however*, that any such adjustment to an Option, Stock Appreciation Right or Performance-Based Restricted Stock Award granted to a Recipient who is a Covered Employee shall conform to the requirements of section 162(m) of the Code and the regulations thereunder then in effect.

(b) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change in Control) in which the Company is not the surviving entity, any Options or Stock Appreciation Rights granted under the Plan which remain outstanding shall be converted into options to purchase voting common equity securities of the business entity which survives such merger, consolidation or other business reorganization or stock appreciation rights having substantially the same terms and conditions as the outstanding Options under this Plan and reflecting the same economic benefit (as measured by the difference between the aggregate exercise price and the value exchanged for outstanding Shares in such merger, consolidation or other business reorganization), all as determined by the Committee prior to the consummation of such merger; *provided, however*, that the Committee may, at any time prior to the consummation of such merger, consolidation or other business reorganization, direct that all, but not less than all, outstanding Options and Stock Appreciation Rights be canceled as of the effective date of such merger, consolidation or other business reorganization in exchange for a cash payment per Share equal to the excess (if any) of the value exchanged for an outstanding Share in such merger, consolidation or other business reorganization over the Exercise Price of the Option or Stock Appreciation Right being canceled.

(c) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change in Control) in which the Company is not the surviving entity, any Restricted Stock Award shall be adjusted by allocating to the Recipient the amount of money, stock, securities or other property to be received by the other shareholders of record, and such money, stock, securities or other property shall be subject to the same terms and conditions of the Restricted Stock Award that applied to the Shares for which it has been exchanged.

Article X

Miscellaneous

Section 10.1 **Status as an Employee Benefit Plan.**

This Plan is not intended to satisfy the requirements for qualification under section 401(a) of the Code or to satisfy the definitional requirements for an "employee benefit plan" under section 3(3) of the Employee Retirement Income Security Act of 1974, as amended. It is intended to be a non-qualified incentive compensation program that is exempt from the regulatory requirements of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be construed and administered so as to effectuate this intent.

Section 10.2 **No Right to Continued Employment.**

Neither the establishment of the Plan nor any provisions of the Plan nor any action of the Board or the Committee with respect to the Plan shall be held or construed to confer upon any Eligible Individual any right to a continuation of his or her position as a director or employee of the Company. The Employers reserve the right to remove any participating member of the Board or dismiss any Eligible Employee or otherwise deal with any Eligible Individual to the same extent as though the Plan had not been adopted.

Section 10.3 **Construction of Language.**

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 words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to an Article or section number shall refer to an Article or section of this Plan unless otherwise indicated.

Section 10.4 **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 federal law. The federal and state courts located in the County of New York shall have exclusive jurisdiction over any claim, action, complaint or lawsuit brought under the terms of the Plan. By accepting any Restricted Stock Award, Stock Appreciation Right or Option granted under this Plan, the Eligible Individual, and any other person claiming any rights under the Plan, agrees to submit himself, and any such legal action as he shall bring under the Plan, to the sole jurisdiction of such courts for the adjudication and resolution of any such disputes.

Section 10.5 **Headings.**

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 Plan, the text shall control.

Section 10.6 **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, engagements or torts.

Section 10.7 **Notices.**

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 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:

(a) If to the Committee:

Dime Community Bancshares, Inc.
c/o The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211

Attention: Corporate Secretary

(b) If to a Recipient, Beneficiary or Option Holder, to the Recipient's, Beneficiary's or Option Holder's address as shown in the Employer's records.

Section 10.8 **Approval of Shareholders.**

The Plan shall be subject to approval by the Company's shareholders within twelve (12) months before or after the Effective Date. Any Option, Stock Appreciation Right or Restricted Stock Award granted prior to the date such approval is obtained shall be granted contingent on such approval and shall be void *ab initio* in the event such approval is not obtained. No Performance-Based Restricted Stock Awards shall be granted after the fifth (5th) anniversary of the Effective Date unless, prior to such date, the listing of permissible Performance Goals set forth in section 6.3 shall have been re-approved by the stockholders of the Company in the manner required by section 162(m) of the Code and the regulations thereunder.

**DIME COMMUNITY BANCSHARES, INC.
2004 STOCK INCENTIVE PLAN**

Article I

Purpose

Section 1.1 **General Purpose of the Plan.** The purpose of the Plan is to promote the growth and profitability of Dime Community Bancshares, Inc., by providing certain directors, key officers and employees of Dime Community Bancshares, Inc. and its Parents and Subsidiaries with an incentive to achieve corporate objectives and by attracting and retaining individuals of outstanding competence through a participation interest in the performance of Common Stock of Dime Community Bancshares, Inc.

Article II

Definitions

The following definitions shall apply for the purposes of this Plan, unless a different meaning is plainly indicated by the context:

Section 2.1 **Award Notice** means, with respect to a particular Restricted Stock Award, a written instrument evidencing the Restricted Stock Award and establishing the terms and conditions thereof.

Section 2.2 **Bank** means The Dime Savings Bank of Williamsburgh, a federally chartered savings institution, and any successor thereto.

Section 2.3 **Beneficiary** means the Person designated by an Eligible Individual to receive any Shares subject to a Restricted Stock Award made to such Eligible Individual that become distributable, or to have the right to exercise any Options or Stock Appreciation Rights granted to such Eligible Individual that are exercisable, following the Eligible Individual's death.

Section 2.4 **Board** means the Board of Directors of the Company.

Section 2.5 **Career Service Award** means, in the case of any Recipient, a Restricted Stock Award described in section 6.4.

Section 2.6 **Change in Control** means any of the following events:

(a) the occurrence of any event (other than an event described in section 2.6(c)(i)) upon which any "person" (as such term is used in sections 13(d) and 14(d) of the 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) any group constituting a person in which employees of the Company 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 Company representing 25% or more of the combined voting power of all of the Company's then outstanding securities; or

(b) 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 Company'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 Company; or

(c) the shareholders of the Company approve either:

(i) 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:

(A) 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 of the resulting institution then outstanding in substantially the same proportions as their ownership of voting securities of the Company immediately 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 Company's obligations under the Plan; or

(ii) 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

(d) any event that would be described in section 2.6(a), (b) or (c) if the "Bank" were substituted for the "Company" therein.

Section 2.7 **Code** means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

Section 2.8 **Committee** means the Committee described in section 4.1.

Section 2.9 **Company** means Dime Community Bancshares, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

Section 2.10 **Covered Employee** means, for any taxable year of the Company, a person who is, or who the Committee determines is reasonably likely to be, a "covered employee" (within the meaning of section 162(m) of the Code).

Section 2.11 **Disability** means a condition of incapacity, mental or physical, for the performance of services which the Committee determines, on the basis of competent medical evidence, is likely to be permanent, to continue for an indefinite period of at least one hundred eighty (180) days, or to result in death.

Section 2.12 **Disinterested Board Member** means a member of the Board who: (a) is not a current employee of the Company or a subsidiary, (b) is not a former employee of the Company who receives compensation for prior services (other than benefits under a tax-qualified retirement plan)

during the taxable year, (c) has not been an officer of the Company, (d) does not receive remuneration from the Company or a subsidiary, either directly or indirectly, in any capacity other than as a director except in an amount for which disclosure would not be required pursuant to Item 404(a) of the proxy solicitation rules of the Securities and Exchange Commission and (e) does not possess an interest in any other transaction, and is not engaged in a business relationship, for which disclosure would be required pursuant to Items 404(a) or (b) of the proxy solicitation rules of the Securities and Exchange Commission. The term Disinterested Board Member shall be interpreted in such manner as shall be necessary to conform to the requirements of section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act and the corporate governance standards imposed on compensation committees under the listing requirements imposed by any national securities exchange on which the Company lists or seeks to list Shares.

Section 2.13 Early Retirement means, in the case of any Recipient, termination of all Service for the Employers at or after attainment of age 55 and the completion of at least ten consecutive years of Service to the Employers.

Section 2.14 Earliest Exercise Date means, with respect to an Option, the earliest date on which the Option may be exercised. The Earliest Exercise Date may, but need not, be the same as the Option's Vesting Date.

Section 2.15 Effective Date means May 20, 2004.

Section 2.16 Eligible Employee means any employee of the Company, or of a Parent or Subsidiary, whom the Committee may determine to be a key officer or employee and select to receive a Restricted Stock Award or a grant of an Option or Stock Appreciation Right pursuant to the Plan.

Section 2.17 Eligible Individual means: (a) any Eligible Employee; and (b) any non-employee director of the Company or a Parent or Subsidiary.

Section 2.18 Employer means the Company, the Bank and any successor thereto and, with the prior approval of the Board, and subject to such terms and conditions as may be imposed by the Board, any other savings bank, savings and loan association, bank, corporation, financial institution or other business organization or institution. With respect to any Eligible Individual, the Employer shall mean the entity which employs such person or upon whose board of directors such person serves.

Section 2.19 Exchange Act means the Securities Exchange Act of 1934, as amended.

Section 2.20 Exercise Period means the period during which an Option or Stock Appreciation Right may be exercised.

Section 2.21 Exercise Price means the price per Share at which Shares subject to an Option may be purchased upon exercise of the Option and on the basis of which the cash payment due upon exercise of a Stock Appreciation Right is computed.

Section 2.22 Fair Market Value 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, as of the close of the market in New York City and without regard to after-hours trading activity; 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, as of the close of the market in New York City and without regard to after-hours trading activity, 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 2.22(a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

Section 2.23 Family Member means, with respect to any Eligible Individual: (a) any of the Eligible Individual's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouses, former spouses, siblings, nieces, nephews, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law or sisters-in-law, including relationships created by adoption; (b) any natural person sharing the Eligible Individual's household (other than as a tenant or employee, directly or indirectly, of the Eligible Individual); (c) a trust in which any combination of the Eligible Individual and Persons described in section 2.23(a) and (b) own more than fifty percent (50%) of the beneficial interests; (d) a foundation in which any combination of the Eligible Individual and Persons described in sections 2.23(a) and (b) control management of the assets; or (e) any other corporation, partnership, limited liability company or other entity in which any combination of the Eligible Individual and Persons described in sections 2.23(a) and (b) control more than fifty percent (50%) of the voting interests.

Section 2.24 Incentive Stock Option means a right to purchase Shares that is granted to an Eligible Employee pursuant to section 5.1, that is designated by the Committee to be an Incentive Stock Option and that is intended to satisfy the requirements of section 422 of the Code.

Section 2.25 Non-Qualified Stock Option means a right to purchase Shares that is either (a) granted to an Eligible Individual who is not an Eligible Employee or (b) granted to an Eligible Employee and either (i) is not designated by the Committee to be an Incentive Stock Option, or (ii) does not satisfy the requirements of section 422 of the Code.

Section 2.26 Option means either an Incentive Stock Option or a Non-Qualified Stock Option.

Section 2.27 Option Agreement means a written instrument evidencing an Option granted under the Plan.

Section 2.28 **Option Holder** means, at any relevant time with respect to an Option, the person having the right to exercise the Option.

Section 2.29 **Parent** means any entity, whether or not incorporated, in an unbroken chain of entities ending with the Company where each entity other than the first entity in the unbroken chain owns stock or other equity interests in one of the other entities in the unbroken chain possessing fifty percent (50%) or more of the combined voting power of all of the other entity's outstanding stock or other interests that vote generally in the election of the other entity's directors or other governing body.

Section 2.30 **Performance Goal** means, with respect to any Performance-Based Restricted Stock Award, the performance goal or performance goal(s) established pursuant to section 6.3(a), the attainment of which is a condition of vesting of the Performance-Based Restricted Stock Award.

Section 2.31 **Performance Measurement Period** means, with respect to any Performance Goal, the period of time over which attainment of the Performance Goal is measured.

Section 2.32 **Performance-Based Restricted Stock Award** means a Restricted Stock Award to which section 6.3 is applicable.

Section 2.33 **Permitted Transferee** means, with respect any Recipient, a Family Member of the Recipient to whom an Option has been transferred in accordance with section 5.8.

Section 2.34 **Person** means an individual, a corporation, a partnership, a limited liability company, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization or institution.

Section 2.35 **Plan** means the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan, as amended from time to time.

Section 2.36 **Recipient** means the person to whom an Option or Stock Appreciation Right is granted or a Restricted Stock Award is made.

Section 2.37 **Restricted Stock Award** means an award of Shares pursuant to Article VI.

Section 2.38 **Retirement** means: (a) termination of Service with the Employer in all capacities at or after attaining age 65 or (b) Early Retirement. No termination of Service shall be deemed a Retirement unless the terminating individual enters into a retirement agreement with the Employer, in form and substance satisfactory to the Committee, pursuant to which he agrees to provide limited transition services to the Employer on a consulting basis and/or abide by non-competition, confidentiality, non-derogation and non-disturbance covenants prescribed by the Committee for a fixed period specified by the Committee not to exceed two years.

Section 2.39 **SAR Agreement** means a written instrument evidencing a Stock Appreciation Right granted under the Plan.

Section 2.40 **Service** means, unless the Committee provides otherwise in an Option Agreement or SAR Agreement or Restricted Stock Award Notice, service in any capacity as a common-law employee, consultant or non-employee director to the Company or a Parent or Subsidiary.

Section 2.41 **Share** means a share of Common Stock, par value \$.01 per share, of the Dime Community Bancshares, Inc.

Section 2.42 **Stock Appreciation Right** means the right upon exercise to receive, in cash or Shares, the amount equal to the excess (if any) of (a) the Fair Market Value of a Share on the date of exercise over (b) the Exercise Price.

Section 2.43 **Subsidiary** means any entity, whether or not incorporated, in an unbroken chain of entities beginning with the Company where each entity other than the last entity in the unbroken chain owns stock or other equity interests in one of the other entities in the unbroken chain possessing fifty percent (50%) or more of the combined voting power of all of the other entity's outstanding stock or other interests that vote generally in the election of the other entity's directors or other governing body.

Section 2.44 **Termination for Cause** means one of the following:

(a) for an Eligible Individual who is not an officer or employee of any bank or savings institution regulated by the Office of Thrift Supervision, termination of employment with the Employer upon the occurrence of any of the following:

(i) the employee intentionally engages in dishonest conduct in connection with his performance of services for the Employer resulting in his conviction of or plea of guilty or nolo contendere to a felony;

(ii) the employee is convicted of, or pleads guilty or nolo contendere to, a felony or any crime involving moral turpitude;

(iii) the employee willfully fails or refuses to perform his duties under any employment or retention agreement and fails to cure such breach within sixty (60) days following written notice thereof from the Employer;

(iv) the employee breaches his fiduciary duties to the Employer for personal profit; or

(v) the employee's willful breach or violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease and desist order in connection with his performance of services for the Employer;

(b) for an Eligible Individual who is an officer or employee of a bank or savings institution regulated by the Office of Thrift Supervision, termination of employment for 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 for any reason constituting cause for termination under any written employment agreement between the Employer and such Eligible Employee, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that such individual 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, which notice shall be given to such individual not later than five (5) business days after the board of directors of the Employer adopts, and shall be accompanied by, a resolution duly approved by affirmative vote of a majority of the entire board of directors of the Employer at a meeting called and held for such purpose (which meeting shall be held not less than fifteen (15) days nor more than thirty (30) days after notice to the individual), at which meeting there shall be a reasonable opportunity for the individual to make oral and written presentations to the members of the board of directors of the Employer, 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 of directors of the Employer grounds exist for discharging the individual for cause;

(c) for an Eligible Individual who is a non-employee director, removal for cause under the terms of the laws or any law rule or regulation applicable to the entity upon whose board of directors the individual serves as a non-employee director.

Section 2.45 Vesting Date means the date on which an Option, Stock Appreciation Right, Restricted Stock Award, or Shares acquired upon exercise of an Option cease to be forfeitable upon termination of the Recipient's Service.

Article III

Available Shares

Section 3.1 Shares Available under the Plan.

Subject to section 9.3, the maximum aggregate number of Shares which may be issued for Restricted Stock Awards and upon the exercise of Options and Stock Appreciation Rights shall be 1,496,300 Shares.

Section 3.2 Shares Available for Options.

Subject to section 9.3, the maximum aggregate number of Shares which may be issued upon exercise of Options shall be 1,496,300 shares, and the maximum aggregate number of Options which may be granted to any one individual in any calendar year shall be 250,000 Options.

Section 3.3 Shares Available for Restricted Stock Awards.

Subject to section 9.3, the maximum number of Shares which may be issued as Restricted Stock Awards under the Plan shall be 374,075 Shares and the maximum aggregate number of Shares which may be granted as Restricted Stock Awards to any one individual in any calendar year shall be 60,000 Shares.

Section 3.4 Shares Available for Stock Appreciation Right

Subject to section 9.3, the maximum aggregate number of Shares which may be issued upon exercise of Stock Appreciation Rights shall be 1,496,300 and the maximum aggregate number of Stock Appreciation Rights which may be granted under the Plan and to any one individual in any calendar year shall be 250,000 Stock Appreciation Rights.

Article IV

Administration

Section 4.1 Committee.

(a) Subject to section 4.1(b), the Plan shall be administered by the members of the Compensation Committee of Dime Community Bancshares, Inc. who are Disinterested Board Members. If the Committee consists of fewer than two Disinterested Board Members, then the Board shall appoint to the Committee such additional Disinterested Board Members as shall be necessary to provide for a Committee consisting of at least two Disinterested Board Members.

(b) The Board may, in its discretion, take any action and exercise any power, privilege or discretion conferred on the Committee under the Plan with the same force and effect under the Plan as if done or exercised by the Committee.

(c) No member of the Committee on the Board shall participate in any action taken by such body under the Plan if he or she is personally affected thereby, unless all members of the Committee or Board, as applicable, are similarly affected.

Section 4.2 Committee Action.

The Committee shall hold such meetings, and may make such administrative rules and regulations, as it may deem proper. A majority of the members of the Committee shall constitute a quorum, and the action of a majority of the members of the Committee present at a meeting at which a quorum is present, as well as actions taken pursuant to the unanimous written consent of all of the members of the Committee without holding a meeting, shall be deemed to be actions of the Committee. All actions of the Committee shall be final and conclusive and shall be binding upon the Company and all other interested parties. Any Person dealing with the Committee shall be fully protected in relying upon any written notice, instruction, direction or other communication signed by the Secretary of the Committee and one member of the Committee, by two members of the Committee or by a representative of the Committee authorized to sign the same in its behalf.

Section 4.3 **Committee Responsibilities.**

Subject to the terms and conditions of the Plan and such limitations as may be imposed by the Board, the Committee shall be responsible for the overall management and administration of the Plan and shall have such authority as shall be necessary or appropriate in order to carry out its responsibilities, including, without limitation, the authority:

- (a) to interpret and construe the Plan, and to determine all questions that may arise under the Plan as to eligibility for participation in the Plan, the number of Shares subject to the Restricted Stock Awards, Stock Appreciation Rights or Options, if any, to be granted, and the terms and conditions thereof;
- (b) with the consent of the Recipient or Beneficiary, as applicable, amend or modify the terms of any outstanding Option, Stock Appreciation Right or Restricted Stock Award or accelerate or defer the Vesting Date or Earliest Exercise Date thereof;
- (c) to adopt rules and regulations and to prescribe forms for the operation and administration of the Plan; and
- (d) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

All decisions, determinations and other actions of the Committee made or taken in accordance with the terms of the Plan shall be final and conclusive and binding upon all parties having an interest therein.

Article V

Stock Options

Section 5.1 **Grant of Options.**

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual an Option to purchase Shares. An Option for an Eligible Employee must be designated as either an Incentive Stock Option or a Non-Qualified Stock Option and, if not designated as either, shall be a Non-Qualified Stock Option. An Option for an Eligible Individual who is not an Eligible Employee shall be a Non-Qualified Stock Option.

(b) Any Option granted under this section 5.1 shall be evidenced by a written agreement which shall:

- (i) specify the number of Shares covered by the Option determined in accordance with section 5.2;
- (ii) specify the Exercise Price, determined in accordance with section 5.3, for the Shares subject to the Option;
- (iii) specify the Earliest Exercise Date and the Exercise Period determined in accordance with section 5.4;
- (iv) specify the Vesting Date determined in accordance with section 5.5;
- (v) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

(vi) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Option granted to an Eligible Individual.

Section 5.2 **Size of Option.**

Subject to section 3.2 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted Options shall be determined by the Committee, in its discretion.

Section 5.3 **Exercise Price.**

The price per Share at which an Option may be exercised shall be determined by the Committee, in its discretion, *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 5.4 **Exercise Period; Earliest Exercise Date.**

(a) Subject to section 5.4(b), the Exercise Period during which an Option may be exercised shall commence on the Earliest Exercise Date specified by the Committee in the Option Agreement (or, if no Earliest Exercise Date is specified in the Option Agreement, on the Vesting Date). It shall expire

on the date specified in the Option Agreement (and in any event no later than the tenth anniversary of the date of grant) or, if no date is specified, on the earliest of:

- (i) the date and time when the Recipient terminates Service for any reason other than the Recipient's death, Disability or discharge that is not a Termination for Cause; and
- (ii) the last day of the three-month period that begins on the date and time when the Recipient terminates Service due to discharge that is not a Termination for Cause;
- (iii) the last day of the one-year period that begins on the date and time when the Recipient terminates Service due to the Recipient's death or Disability; and
- (iv) the last day of the five-year period commencing on the date on which the Option was granted.

A Recipient's termination of Service prior to the Earliest Exercise Date of an Option shall, unless otherwise provided in the Option Agreement, result in the Option being canceled without consideration at the close of business on the last day of Service. An Option that remains unexercised at the close of business on the last day of the Exercise Period (including but not limited to an Option whose Earliest Exercise Date has not occurred) shall be canceled without consideration at the close of business on the last day of the Exercise Period.

(b) Unless otherwise determined by the Committee and specified in the Option Agreement:

(i) if a Change in Control occurs while an Option is outstanding and on or before its scheduled expiration date, then for purposes of exercising vested Options, the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) tenth (10th) anniversary of the date the Option was granted; and (B) the third (3rd) anniversary of the date of the Change in Control; or any later date determined under section 5.4(b)(ii) or (iii);

(ii) if a Change in Control occurs while an Option is outstanding and on or before its Earliest Exercise Date, then solely for the purpose of measuring the Exercise Period (but not for purposes of vesting), the Recipient of the Option shall be deemed to continue in Service through the applicable Earliest Exercise Date, and the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) the tenth (10th) anniversary of the date the Option was granted; (B) the third (3rd) anniversary of the date of the Change in Control; and (C) ninety (90) days after the Earliest Exercise Date; or any later date determined under section 5.4(b)(i) or (iii);

(iii) if, on the date an Option is otherwise scheduled to expire, the holder of the Option may not then exercise the Option or sell Shares on a national securities exchange without violating applicable federal, state or local securities laws or the terms of a securities trading blackout (including but not limited to a blackout period established under the Company's securities trading policy or a contractual lockup in connection with a securities offering or other transaction involving the Company), the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) the tenth (10th) anniversary of the date the Option was granted; and (B) ninety (90) days after the last day of the securities trading blackout; or any later date determined under section 5.4(b)(i) or (ii); and

(iv) the Earliest Exercise Date (but not the Vesting Date) of any Option outstanding on the date of the Recipient's termination of Service due to death or Disability shall be accelerated to the date of such termination of Service provided that the Recipient of such Option remained in continuous Service during the period beginning on the date the Option is granted and ending on the date of termination of Service.

Section 5.5 **Vesting Date.**

(a) Subject to section 5.5(b), the Vesting Date for each Option granted under the Plan shall be the date determined by the Committee and specified in the Option Agreement. If no provision for vesting is made in the Option Agreement, the Vesting Date shall be:

- (i) the first anniversary of the date of grant, as to 25% of the Shares subject to the Option as of the date of grant;
- (ii) the second anniversary of the date of grant, as to an additional 25% of the Shares subject to the Option as of the date of grant;
- (iii) the third anniversary of the date of grant, as to an additional 25% of the Shares subject to the Option as of the date of grant;
- (iv) the fourth anniversary of the date of grant, as to any remaining balance of the Shares subject to the Option as of the date of grant;
- (vi) in the event of the Recipient's termination of Service due to the Recipient's Death or Disability, the date of termination of Service, as to any Options otherwise scheduled to vest during the period of six months beginning on the date of termination.

Failure of a Recipient to remain in continuous Service during the period beginning on the date an Option is granted and ending on the Option's Vesting Date shall result in a cancellation of the Option without consideration at the earliest date and time at which the Recipient is not in continuous Service.

(b) Except to the extent that an applicable Option Agreement expressly provides otherwise, each Option granted to an Eligible Employee that is outstanding under the Plan on the date on which a Change of Control occurs shall, on such date, be 100% vested and exercisable.

Section 5.6 **Additional Restrictions on Incentive Stock Options.**

An Option granted to an Eligible Employee designated by the Committee to be an Incentive Stock Option shall be subject to the following provisions:

(a) If, for any calendar year, the sum of (i) plus (ii) exceeds \$100,000, where (i) equals the Fair Market Value (determined as of the date of the grant) of Shares subject to an Option intended to be an Incentive Stock Option which first become available for purchase during such calendar year, and (ii) equals the Fair Market Value (determined as of the date of grant) of Shares subject to any other options intended to be Incentive Stock Options and previously granted to the same Eligible Employee which first become exercisable in such calendar year, then that number of Shares optioned which causes the sum of (i) and (ii) to exceed \$100,000 shall be deemed to be Shares optioned pursuant to a Non-Qualified Stock Option or Non-Qualified Stock Options, with the same terms as the Option or Options intended to be an Incentive Stock Option;

(b) The Exercise Price of an Incentive Stock Option granted to an Eligible Employee who, at the time the Option is granted, owns Shares comprising more than 10% of the total combined voting power of all classes of stock of the Company shall not be less than 110% of the Fair Market Value of a Share, and if an Option designated as an Incentive Stock Option shall be granted at an Exercise Price that does not satisfy this requirement, the designated Exercise Price shall be observed and the Option shall be treated as a Non-Qualified Stock Option;

(c) The Exercise Period of an Incentive Stock Option granted to an Eligible Employee who, at the time the Option is granted, owns Shares comprising more than 10% of the total combined voting power of all classes of stock of the Company, shall expire no later than the fifth anniversary of the date on which the Option was granted, and if an Option designated as an Incentive Stock Option shall be granted for an Exercise Period that does not satisfy this requirement, the designated Exercise Period shall be observed and the Option shall be treated as a Non-Qualified Stock Option;

(d) An Incentive Stock Option that is exercised during its designated Exercise Period but more than:

(i) three (3) months after the termination of employment with the Company and all of its Parents and Subsidiaries (other than on account of disability within the meaning of section 22(e)(3) of the Code or death of the Eligible Employee to whom it was granted); or

(ii) one (1) year after such individual's termination of employment with the Company, a parent or a subsidiary due to disability (within the meaning of section 22(e)(3) of the Code) or death;

may be exercised in accordance with the terms of the Option but shall at the time of exercise be treated as a Non-Qualified Stock Option; and

(e) Except with the prior written approval of the Committee, no individual shall dispose of Shares acquired pursuant to the exercise of an Incentive Stock Option until after the later of (i) the second anniversary of the date on which the Incentive Stock Option was granted, or (ii) the first anniversary of the date on which the Shares were acquired.

Section 5.7 **Method of Exercise.**

(a) Subject to the limitations of the Plan and the Option Agreement, an Option Holder may, at any time after the Earliest Exercise Date and during the Exercise Period, exercise his or her right to purchase all or any part of the Shares to which the Option relates; *provided, however*, that the minimum number of Shares which may be purchased at any time shall be 100, or, if less, the total number of Shares relating to the Option which remain unpurchased. An Option Holder shall exercise an Option to purchase Shares by:

(i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Option;

(ii) delivering to the Committee full payment, consistent with section 5.7(b), for the Shares as to which the Option is to be exercised; and

(iii) satisfying such other conditions as may be prescribed in the Option Agreement.

(b) The Exercise Price of Shares to be purchased upon exercise of any Option shall be paid in full:

(i) in cash (by certified or bank check or such other instrument as the Company may accept); or

(ii) if and to the extent permitted by the Committee, in the form of Shares already owned by the Option holder for a period of more than six (6) months as of the exercise date and having an aggregate Fair Market Value on the date the Option is exercised equal to the aggregate Exercise Price to be paid; or

(iii) by a combination thereof.

If permitted by the Committee, payment for any Shares to be purchased upon exercise of an Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price and applicable tax withholding amounts (if any), in which event the Shares acquired shall be delivered to the broker promptly following receipt of payment.

(c) When the requirements of section 5.7(a) and (b) have been satisfied, the Committee shall take such action as is necessary to cause the issuance of a stock certificate evidencing the Option holder's ownership of such Shares. The Person exercising the Option shall have no right to vote or to receive dividends, nor have any other rights with respect to the Shares, prior to the date as of which such Shares are transferred to such Person on the stock transfer records of the Company, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which such transfer is effected, except as may be required under section 8.3.

Section 5.8 **Limitations on Options**

(a) An Option by its terms shall not be transferable by any Option Holder, except that (i) a Recipient may transfer a Non-Qualified Stock Option to the Recipient's Family Members during his lifetime; and (b) any Option Holder may transfer Options remaining unexercised at his death to a Beneficiary or by will or by the laws of descent and distribution. Any permitted transfer to Family Members shall be effected by written notice to the Company given in such form and manner as the Committee may prescribe and shall be recognized only if such notice is received by the Company prior to the death of the person giving it. Thereafter, the Permitted Transferee shall have, with respect to such Option, all of the rights, privileges and obligations which would attach thereunder to the Recipient except the right to transfer the Option to Family Members. If a privilege of the Option depends on the life, Service, employment or other status of the transferor, such privilege of the Option for the transferee shall continue to depend on the life, Service, employment or other status of the transferor. The Committee shall have full and exclusive authority to interpret and apply the provisions of this Plan to transferees to the extent not specifically described herein.

(b) The Company's obligation to deliver Shares with respect to an Option shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Option holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

(c) An Option holder may designate a Beneficiary to receive any Options that may be exercised after his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Option holder, or in the event that no Beneficiary has been designated, any Options that may be exercised following the Option holder's death shall be transferred to the executor or administrator of the Option holder's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select. If the Option holder and his Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Option holder shall be deemed to have survived the beneficiary.

Article VI

Restricted Stock Awards

Section 6.1 **In General.**

(a) Each Restricted Stock Award shall be evidenced by an Award Notice issued by the Committee to the Eligible Individual, which notice shall:

(i) specify the number of Shares covered by the Restricted Stock Award;

(ii) specify the amount (if any) which the Recipient shall be required to pay to the Company in consideration for the issuance of such Shares (which shall in no event be less than the minimum amount required for such Shares to be validly issued, fully paid and nonassessable under applicable law);

(iii) specify whether the Restricted Stock Award is a Performance-Based Award and, if it is, the applicable Performance Goal or Performance Goals;

(iv) specify whether the Restricted Stock Award is a Career Service Award; and

(iv) specify the date of grant of the Restricted Stock Award; and

(v) specify the Vesting Date for the Restricted Stock Award;

and contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe.

(b) All Restricted Stock Awards shall be in the form of issued and outstanding Shares that shall be either:

(i) registered in the name of the Committee or other trustee or custodian for the benefit of the Recipient and held by the Committee pending the vesting or forfeiture of the Restricted Stock Award;

(ii) registered in the name of Recipient and held by the Committee, together with a stock power executed by the Recipient in favor of the Committee, pending the vesting or forfeiture of the Restricted Stock Award; or

(iii) registered in the name of and delivered to the Recipient.

In any event, the certificates evidencing the Shares shall at all times prior to the applicable Vesting date bear the following legend:

The Common Stock evidenced hereby is subject to the terms of Restricted Stock Award Notice between Dime Community Bancshares, Inc. and [Name of Recipient] dated [Date] made pursuant to the terms of the Dime Community Bancshares, Inc. 2004 Omnibus Stock Incentive Plan, copies of which are on file at the executive offices of Dime Community Bancshares, Inc., and may not be sold, encumbered, hypothecated or otherwise transferred except in accordance with the terms of such Plan and Agreement.

or such other restrictive legend as the Committee, in its discretion, may specify.

(c) An Award by its terms shall not be transferable by the Eligible Individual other than by will or by the laws of descent and distribution, and the Shares granted pursuant to such Award shall be distributable, during the lifetime of the Recipient, only to the Recipient.

Section 6.2 Vesting Date.

(a) The Vesting Date for each Restricted Stock Award that is not a Career Service Award shall be determined by the Committee and specified in the Award Notice and, if no date is specified in the Award Notice, shall be the first anniversary of the date of grant as to 25% of the Shares; the second anniversary of the date of grant as to an additional 25% of the Shares; the third anniversary of the date of grant as to an additional 25% of the Shares; and the fourth anniversary of the date of grant as to the remaining balance of the Shares.

(b) Unless otherwise determined by the Committee and specified in the Award Notice for a Restricted Stock Award that is not a Career Service Award:

(i) if the Recipient of a Restricted Stock Award terminates Service prior to the Vesting Date for any reason other than death or Disability, any unvested Shares shall be forfeited without consideration (other than a refund to the Recipient of an amount equal to the lesser of the amount (if any) paid by the Recipient for the Shares being forfeited upon their issuance and the Fair Market Value of such Shares on the date of forfeiture);

(ii) if the Recipient of a Restricted Stock Award terminates Service prior to the Vesting Date on account of death or Disability, any unvested Shares that were scheduled to vest during the six-month period beginning on the date of termination shall become vested on the date of termination of Service; and

(iii) if a Change in Control occurs prior to the Vesting Date of a Restricted Stock Award that is outstanding on the date of the Change in Control, the Vesting Date shall be accelerated to the date of the Change in Control.

Section 6.3 Performance Based Restricted Stock Awards.

(a) At the time it grants a Performance-Based Restricted Stock Award, the Committee shall establish one or more Performance Goals, the attainment of which shall be a condition of the Recipient's right to retain the related Shares. The Performance Goals shall be selected from among the following:

- (i) Earnings per common share
- (ii) Net income
- (iii) Return on average equity
- (iv) Return on average assets
- (v) Core earnings
- (vi) Stock price
- (vii) Strategic business objectives, consisting of one or more objectives based upon satisfying specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures
- (viii) Operating income
- (ix) Operating efficiency ratio
- (x) Net interest spread
- (xi) Loan production volumes
- (xii) Non-performing loans
- (xiii) Cash flow
- (xiv) Total shareholder return
- (xv) Net revenue
- (xvi) Gross revenue
- (xvii) Operating expense
- (xviii) Fee income
- (xix) Deposit growth
- (xx) Any other performance criteria established by the Administrative Committee
- (xxi) Any combination of (i) through (xx) above

Performance Goals may be established on the basis of reported earnings or cash earnings, and consolidated results or individual business units and may, in the discretion of the Committee, include or exclude extraordinary items and/or the results of discontinued operations. Each Performance 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 (or individual business units) and/or the past or current performance of other companies.

(b) At the time it grants a Performance-Based Restricted Stock Award, the Committee shall establish a Performance Measurement Period for each Performance Goal. The Performance Measurement Period shall be the period over which the Performance Goal is measured and its attainment is determined. If the Committee establishes a Performance Goal but fails to specify a Performance Measurement Period, the Performance Measurement Period shall be:

(i) if the Performance-Based Restricted Stock Award is granted during the first nine months of the Company's fiscal year, the three-fiscal year period of the Company that begins with the fiscal year in which the Performance-Based Restricted Stock Award is granted; and

(ii) in all other cases, the period of twelve (12) consecutive fiscal quarters of the Company that begins with the fiscal quarter in which the Performance-Based Restricted Stock Award is granted.

(c) As promptly as practicable following the end of each Performance Measurement Period, the Committee shall determine, on the basis of such evidence as it deems appropriate, whether the Performance Goals for such Performance Measurement Period have been attained and, if they have been attained, shall certify such fact in writing.

(d) If the Performance Goals for a Performance-Based Restricted Stock Award have been attained and certified, the Committee shall either:

(i) if the relevant Vesting Date has occurred, cause the ownership of the Shares subject to such Restricted Stock Award, together with all dividends and other distributions with respect thereto that have been accumulated, to be transferred on the stock transfer records of the Company, free of any restrictive legend other than as may be required by applicable law, to the Recipient of the Restricted Stock Award; or

(ii) in all other cases, continue the Shares in their current status pending the occurrence of the relevant Vesting Date or forfeiture of the Shares.

If any one or more of the relevant Performance Goals have not been attained, all of the Shares subject to such Restricted Stock Award shall be forfeited without a consideration (other than a refund to the Recipient or his estate of an amount equal to the lesser of the amount (if any) paid by the Recipient for the Shares being forfeited upon their issuance and the Fair Market Value of such Shares on the date of forfeiture).

(e) If the Performance Goals for any Performance Measurement Period 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 Performance Goals and make payments accordingly under the Plan; provided, however, that any adjustments made in accordance with or for the purposes of this section 6.3(e) shall be disregarded for purposes of calculating the Performance Goals for a Performance-Based Restricted Stock Award to a Covered Employee if and to the extent that such adjustments would have the effect of increasing the amount of a the Restricted Stock Award to such Covered Employee.

(f) If provided by the Committee when a Performance-Based Restricted Stock Award is granted, to the extent that the relevant Performance Goals are achieved prior to the end of the Performance Measurement Period and certified by the Committee, vested a Performance-Based Restricted Stock Award may be paid at any time following such certification.

Section 6.4 Career Service Awards.

The Vesting Date of a Restricted Stock Award that is designated a Career Service Award shall be:

(a) the date of the Retirement, death or Disability of the Recipient; and

(b) the fifth anniversary of the date of grant of the Restricted Stock Award or occurrence of such later date as the Committee may determine and specify in the Award Notice

in each case while the Recipient is in the Service of the Employer. If the Vesting Date is prior to the Recipient's 65th birthday (or any later date specified in accordance with section 6.4(b)), the number of Shares subject to the Career Service Award that become vested on the Vesting Date shall be equal to the product (rounded to the nearest whole Share) of (a) the number of Shares subject to the Career Service Award multiplied by (b) a fraction, the numerator of which is the number of calendar months that begin during the period beginning on the date of grant and ending on the Vesting Date and the denominator of which is the number of calendar months that begin during the period beginning on the date of grant and ending on the Recipient's 65th birthday (or later date specified in accordance with section 6.4(b)). If a Recipient terminates Service in all capacities with all Employers prior to the Vesting Date for a Career Service Award, and to the extent that the relevant Vesting Date for a Career Service Award is prior to the Recipient's 65th birthday (or any later date specified in accordance with section 6.4(b)), any Shares subject to the Career Service Award that are not vested shall be forfeited. Any Shares that become vested due to Retirement shall be further subject to forfeiture if and to the extent provided in any retirement agreement between the Recipient and the Employer.

Section 6.5 Dividend Rights.

Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Notice, any dividends or distributions declared and paid with respect to Shares subject to the Restricted Stock Award, whether or not in cash, shall be held and accumulated (with investment earnings or losses) pending vesting at the same time and subject to the same terms and conditions as the underlying Shares and, pending vesting, shall be reinvested in additional Shares .

Section 6.6 Voting Rights.

Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Notice, voting rights appurtenant to the Shares subject to the Restricted Stock Award, shall be exercised by the Committee in its discretion.

Section 6.7 Tender Offers.

Each Recipient to whom a Restricted Stock Award is outstanding shall have the right to respond, or to direct the response, with respect to the related Shares, to any tender offer, exchange offer or other offer made to the holders of Shares. Such a direction for any such Shares shall be given by proxy or ballot (if the Recipient is the beneficial owner of the Shares for voting purposes) or by completing and filing, with the inspector of elections, the Trustee or such other person who shall be independent of the Company as the Committee shall designate in the direction (if the Recipient is not such a beneficial owner), a written direction in the form and manner prescribed by the Committee. If no such direction is given, then the Shares shall not be tendered.

Section 6.8 **Designation of Beneficiary.**

An Eligible Individual who has received a Restricted Stock Award may designate a Beneficiary to receive any unvested Shares that become vested on the date of his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the Beneficiary designated by an Eligible Individual dies prior to the Eligible Individual, or in the event that no Beneficiary has been designated, any vested Shares that become available for distribution on the Eligible Individual's death shall be paid to the executor or administrator of the Eligible Individual's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select.

Section 6.9 **Manner of Distribution of Awards.**

The Company's obligation to deliver Shares with respect to a Restricted Stock Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Eligible Individual or Beneficiary to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

Section 6.10 **Taxes.**

The Company or the Committee shall have the right to require any person entitled to receive Shares pursuant to a Restricted Stock Award to pay the amount of any tax which is required to be withheld with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Article VII

Stock Appreciation Rights

Section 7.1 **Grant of Stock Appreciation Rights.**

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual a Stock Appreciation Right. A Stock Appreciation Right must be designated as either a tandem Stock Appreciation Right or a stand-alone Stock Appreciation Right and, if not so designated, shall be deemed to be a stand-alone Stock Appreciation Right. A tandem Stock Appreciation Right may only be granted at the same time as the Option to which it relates.

(b) Any Stock Appreciation Right granted under this section 7.1 shall be evidenced by a written agreement which shall:

(i) in the case of a tandem Stock Appreciation Right, relate to the same number of Shares; be settled only in Shares; have the same Exercise Price, Exercise Period, Vesting Date and other terms and conditions as the Option to which it relates and provide that the exercise of the related Option shall be deemed to cancel the Stock Appreciation Right for a like number of Shares and that the exercise of the Stock Appreciation Right shall be deemed to cancel the related Option for a like number of Shares;

(ii) in the case of a stand-alone Stock Appreciation Right:

(A) specify the number of Shares covered by the Stock Appreciation Right;

(B) specify the Exercise Price, determined in accordance with section 7.3;

(C) specify the Earliest Exercise Date and the Exercise Period;

(D) specify the Vesting Date;

(E) specify whether the Stock Appreciation will be settled in cash or in Shares;

(F) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

(G) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Stock Appreciation Right granted to an Eligible Individual.

Section 7.2 **Size of Stock Appreciation Right.**

Subject to section 3.4 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted stand-alone Stock Appreciation Rights shall be determined by the Committee, in its discretion; *provided, however*, that a tandem Stock Appreciation Right shall be granted for a number of Shares no greater than the number of Shares subject to the related Option.

Section 7.3 **Exercise Price.**

The price per Share at which a stand-alone Stock Appreciation Right may be exercised shall be determined by the Committee, in its discretion, *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 7.4 **Exercise Period.**

(a) Subject to section 7.4(b), the Exercise Period during which a stand-alone Stock Appreciation Right may be exercised shall commence on the Vesting Date and shall expire on the date specified in the SAR Agreement (and in any event no later than the tenth anniversary of the date of grant) or, if no date is specified, on the earliest of:

- (i) the date and time when the Recipient terminates Service for any reason; and
- (ii) the last day of the five-year period commencing on the date on which the Option was granted.

A Recipient's termination of Service prior to the Vesting Date of a Stock Appreciation Right shall, unless otherwise provided in the SAR Agreement, result in the Stock Appreciation Right being canceled without consideration at the close of business on the last day of Service. A Stock Appreciation Right that is vested and remains unexercised at the close of business on the last day of the Exercise Period shall be deemed automatically exercised on such date.

Section 7.5 **Vesting Date.**

(a) Subject to section 7.5(b), the Vesting Date for each stand-alone Stock Appreciation Right granted under the Plan shall be the date determined by the Committee and specified in the SAR Agreement or, if no provision for vesting is made in the SAR Agreement, the Vesting Date shall be:

- (i) the first anniversary of the date of grant, as to 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;
- (ii) the second anniversary of the date of grant, as to an additional 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;
- (iii) the third anniversary of the date of grant, as to an additional 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;
- (iv) the fourth anniversary of the date of grant, as to any remaining balance of the Shares subject to the Stock Appreciation Right as of the date of grant;
- (v) in the event of the Recipient's termination of Service due to the Recipient's Death or Disability, the date of termination of Service, as to any Stock Appreciation Rights otherwise scheduled to vest during the period of six months beginning on the date of termination.

Failure of a Recipient to remain in continuous Service during the period beginning on the date a Stock Appreciation Right is granted and ending on the Stock Appreciation Right's Vesting Date shall result in a cancellation of the Stock Appreciation Right without consideration at the earliest date and time at which the Recipient is not in continuous Service.

(b) Except to the extent that an applicable SAR Agreement expressly provides otherwise, each Stock Appreciation Right that is outstanding under the Plan on the date on which a Change of Control occurs shall, on such date, be 100% vested and exercisable.

Section 7.6 **Method of Exercise.**

(a) Subject to the limitations of the Plan and the SAR Agreement, a Recipient may, at any time after the Vesting Date and during the Exercise Period, exercise his or her Stock Appreciation Right as to all or any part of the Shares to which the Stock Appreciation Right relates; *provided, however*, that the minimum number of Shares as to which a Stock Appreciation Right may be exercised shall be 100, or, if less, the total number of Shares relating to the Stock Appreciation Right which remain unexercised. A Recipient shall exercise a Stock Appreciation Right by:

- (i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Stock Appreciation Right; and
- (ii) satisfying such other conditions as may be prescribed in the SAR Agreement.

Any stand-alone Stock Appreciation Rights that are vested and remain unexercised at the expiration date of the relevant Exercise Period shall be deemed automatically exercised on such date without the requirement of notice or any other action on the part of the Recipient.

(b) When the requirements of section 7.6(a) have been satisfied, the Committee shall take such action as is necessary to cause the remittance to the Recipient (or, in the event of his death, his Beneficiary) of a payment in an amount per Share equal to the excess (if any) of (i) the Fair Market Value of a Share on the date of exercise over (ii) the Exercise Price per Share, or, if applicable Shares with an aggregate Fair Market Value of a like amount.

Section 7.7 **Beneficiaries.**

The Recipient of a stand-alone Stock Appreciation Right may designate a Beneficiary to receive any payment in respect of outstanding stand-alone Stock Appreciation Rights that may be made after his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Recipient, or in the event that no Beneficiary has been designated, the executor or administrator of the Recipient's estate, or if no such executor or administrator is appointed within such time as the

Committee, in its sole discretion, shall deem reasonable, such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select, shall be deemed the Beneficiary. If the Recipient and his Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Recipient shall be deemed to have survived the beneficiary.

Article VIII

Special Tax Provisions

Section 8.1 Tax Withholding Rights.

The Company shall have the right to deduct from all amounts paid by the Company in cash with respect to an Option or Stock Appreciation Right under the Plan any taxes required by law to be withheld with respect to such Option or Stock Appreciation Right. Where any Person is entitled to receive Shares, the Company shall have the right to require such Person to pay to the Company the amount of any tax which the Company is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the minimum amount required to be withheld. To the extent determined by the Committee and specified in the Option Agreement, an Option Holder shall have the right to direct the Company to satisfy the minimum required federal, state and local tax withholding by reducing the number of Shares subject to the Option (without issuance of such Shares to the Option holder) by a number equal to the quotient of (a) the total minimum amount of required tax withholding divided by (b) the excess of the Fair Market Value of a Share on the Option Exercise Date over the Option Exercise Price per Share.

Section 8.2 Code Section 83(b) Elections.

If and to the extent permitted by the Committee and specified in an Option Agreement for a Non-Qualified Stock Option or a Restricted Stock Award Agreement for a Restricted Stock Award other than a Performance-Based Restricted Stock Award, a Recipient may be permitted or required to make an election under section 83(b) of the Code to include the compensation related thereto in income for federal income tax purposes at the time of issuance of the Shares to such Recipient instead of at a subsequent Vesting Date. In such event, the Shares issued prior to their Vesting Date shall be issued in certificated form only, and the certificates therefor shall bear the legend set forth in section 6.1(b) or such other restrictive legend as the Committee, in its discretion, may specify. In the event of the Recipient's termination of Service prior to the relevant Vesting Date or forfeiture of the Shares for any other reason, the Recipient shall be required to return all forfeited Shares to the Company without consideration therefor (other than a refund to the Recipient or his estate of an amount equal to the lesser of the amount paid by the Recipient for the Shares upon their issuance or the Fair Market Value of the Shares on the date of forfeiture).

Section 8.3 Election to Defer Income Tax Liability Pursuant to Deferred Compensation Program.

To the extent permitted by the Committee, the Recipient of a Non-Qualified Stock Option, Stock Appreciation Right or Restricted Stock Award may elect to defer the income tax liability associated therewith pursuant to the terms of a non-qualified deferred compensation plan in which the Recipient is eligible to participate.

Article IX

Amendment and Termination

Section 9.1 Termination.

The Board may suspend or terminate the Plan in whole or in part at any time prior to the tenth anniversary of the Effective Date by giving written notice of such suspension or termination to the Committee. Unless sooner terminated, the Plan shall terminate automatically on the day preceding the tenth anniversary of the Effective Date. In the event of any suspension or termination of the Plan, all Options, Stock Appreciation Rights and Restricted Stock Awards theretofore granted under the Plan that are outstanding on the date of such suspension or termination of the Plan shall remain outstanding and exercisable for the period and on the terms and conditions set forth in the Option and Stock Appreciation Right agreements and the Award Notices evidencing such Options, Stock Appreciation Rights and Restricted Stock Awards.

Section 9.2 Amendment.

The Board may amend or revise the Plan in whole or in part at any time; *provided, however*, that, to the extent required to comply with section 162(m) of the Code or the corporate governance standards imposed under the listing requirements imposed by any national securities exchange on which the Company lists or seeks to list Shares, no such amendment or revision shall be effective if it amends a material term of the Plan unless approved by the holders of a majority of the votes cast on a proposal to approve such amendment or revision.

Section 9.3 Adjustments in the Event of Business Reorganization.

(a) In the event any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Shares or other securities, stock dividend or other special and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution, or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Recipients under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of securities deemed to be available thereafter for grants of Options, Stock Appreciation Rights and Restricted Stock Awards in the aggregate to all Eligible Individuals and individually to any one Eligible Individual, (ii) the number and kind of securities that may be delivered or deliverable in respect of outstanding Options, Stock Appreciation Rights and Restricted Stock Awards, and (iii) the Exercise Price of Options and Stock Appreciation Rights. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Options, Stock Appreciation Rights or Restricted Stock Awards (including, without limitation, cancellation of Options, Stock Appreciation Rights and Restricted Stock Awards in exchange for the in-the-money value, if any, of the vested portion thereof, or substitution of Options, Stock Appreciation Rights or Restricted Stock Awards using stock of a successor or other entity) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Parent or Subsidiary or the financial statements of the Company or any Parent or Subsidiary, or in response to changes in applicable laws, regulations, or account principles; *provided, however*, that any such adjustment to an Option, Stock Appreciation Right or Performance-Based Restricted Stock Award granted to a Recipient who is a Covered Employee shall conform to the requirements of section 162(m) of the Code and the regulations thereunder then in effect.

(b) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change in Control) in which the Company is not the surviving entity, any Options or Stock Appreciation Rights granted under the Plan which remain outstanding shall be converted into options to purchase voting common equity securities of the business entity which survives such merger, consolidation or other business reorganization or stock appreciation rights having substantially the same terms and conditions as the outstanding Options under this Plan and reflecting the same economic benefit (as measured by the difference between the aggregate exercise price and the value exchanged for outstanding Shares in such merger, consolidation or other business reorganization), all as determined by the Committee prior to the consummation of such merger; *provided, however*, that the Committee may, at any time prior to the consummation of such merger, consolidation or other business reorganization, direct that all, but not less than all, outstanding Options and Stock Appreciation Rights be canceled as of the effective date of such merger, consolidation or other business reorganization in exchange for a cash payment per Share equal to the excess (if any) of the value exchanged for an outstanding Share in such merger, consolidation or other business reorganization over the Exercise Price of the Option or Stock Appreciation Right being canceled.

(c) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change in Control) in which the Company is not the surviving entity, any Restricted Stock Award shall be adjusted by allocating to the Recipient the amount of money, stock, securities or other property to be received by the other shareholders of record, and such money, stock, securities or other property shall be subject to the same terms and conditions of the Restricted Stock Award that applied to the Shares for which it has been exchanged.

Article X

Miscellaneous

Section 10.1 **Status as an Employee Benefit Plan.**

This Plan is not intended to satisfy the requirements for qualification under section 401(a) of the Code or to satisfy the definitional requirements for an "employee benefit plan" under section 3(3) of the Employee Retirement Income Security Act of 1974, as amended. It is intended to be a non-qualified incentive compensation program that is exempt from the regulatory requirements of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be construed and administered so as to effectuate this intent.

Section 10.2 **No Right to Continued Employment.**

Neither the establishment of the Plan nor any provisions of the Plan nor any action of the Board or the Committee with respect to the Plan shall be held or construed to confer upon any Eligible Individual any right to a continuation of his or her position as a director or employee of the Company. The Employers reserve the right to remove any participating member of the Board or dismiss any Eligible Employee or otherwise deal with any Eligible Individual to the same extent as though the Plan had not been adopted.

Section 10.3 **Construction of Language.**

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 words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to an Article or section number shall refer to an Article or section of this Plan unless otherwise indicated.

Section 10.4 **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 federal law. The federal and state courts located in the County of New York shall have exclusive jurisdiction over any claim, action, complaint or lawsuit brought under the terms of the Plan. By accepting any Restricted Stock Award, Stock Appreciation Right or Option granted under this Plan, the Eligible Individual, and any other person claiming any rights under the Plan, agrees to submit himself, and any such legal action as he shall bring under the Plan, to the sole jurisdiction of such courts for the adjudication and resolution of any such disputes.

Section 10.5 **Headings.**

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 Plan, the text shall control.

Section 10.6 **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, engagements or torts.

Section 10.7 **Notices.**

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 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:

(a) If to the Committee:

Dime Community Bancshares, Inc.
c/o The Dime Savings Bank of Williamsburgh

Attention: Corporate Secretary

(b) If to a Recipient, Beneficiary or Option Holder, to the Recipient's, Beneficiary's or Option Holder's address as shown in the Employer's records.

Section 10.8 **Approval of Shareholders.**

The Plan shall be subject to approval by the Company's shareholders within twelve (12) months before or after the Effective Date. Any Option, Stock Appreciation Right or Restricted Stock Award granted prior to the date such approval is obtained shall be granted contingent on such approval and shall be void *ab initio* in the event such approval is not obtained. No Performance-Based Restricted Stock Awards shall be granted after the fifth (5th) anniversary of the Effective Date unless, prior to such date, the listing of permissible Performance Goals set forth in section 6.3 shall have been re-approved by the stockholders of the Company in the manner required by section 162(m) of the Code and the regulations thereunder.

DIME COMMUNITY BANCSHARES, INC.
2004 STOCK INCENTIVE PLAN

Article I

Purpose

Section 1.1 **General Purpose of the Plan.** The purpose of the Plan is to promote the growth and profitability of Dime Community Bancshares, Inc., by providing certain directors, key officers and employees of Dime Community Bancshares, Inc. and its Parents and Subsidiaries with an incentive to achieve corporate objectives and by attracting and retaining individuals of outstanding competence through a participation interest in the performance of Common Stock of Dime Community Bancshares, Inc.

Article II

Definitions

The following definitions shall apply for the purposes of this Plan, unless a different meaning is plainly indicated by the context:

Section 2.1 **Award Notice** means, with respect to a particular Restricted Stock Award, a written instrument evidencing the Restricted Stock Award and establishing the terms and conditions thereof.

Section 2.2 **Bank** means The Dime Savings Bank of Williamsburgh, a federally chartered savings institution, and any successor thereto.

Section 2.3 **Beneficiary** means the Person designated by an Eligible Individual to receive any Shares subject to a Restricted Stock Award made to such Eligible Individual that become distributable, or to have the right to exercise any Options or Stock Appreciation Rights granted to such Eligible Individual that are exercisable, following the Eligible Individual's death.

Section 2.4 **Board** means the Board of Directors of the Company.

Section 2.5 **Career Service Award** means, in the case of any Recipient, a Restricted Stock Award described in section 6.4.

Section 2.6 **Change in Control** means any of the following events:

(a) the occurrence of any event (other than an event described in section 2.6(c)(i)) upon which any "person" (as such term is used in sections 13(d) and 14(d) of the 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) any group constituting a person in which employees of the Company 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 Company representing 25% or more of the combined voting power of all of the Company's then outstanding securities; or

(b) 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 Company'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 Company; or

(c) the shareholders of the Company approve either:

(i) 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:

(A) 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 of the resulting institution then outstanding in substantially the same proportions as their ownership of voting securities of the Company immediately 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 Company's obligations under the Plan; or

(ii) 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

(d) any event that would be described in section 2.6(a), (b) or (c) if the "Bank" were substituted for the "Company" therein.

Section 2.7 Code means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

Section 2.8 Committee means the Committee described in section 4.1.

Section 2.9 Company means Dime Community Bancshares, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

Section 2.10 Covered Employee means, for any taxable year of the Company, a person who is, or who the Committee determines is reasonably likely to be, a "covered employee" (within the meaning of section 162(m) of the Code).

Section 2.11 Disability means a condition of incapacity, mental or physical, for the performance of services which the Committee determines, on the basis of competent medical evidence, is likely to be permanent, to continue for an indefinite period of at least one hundred eighty (180) days, or to result in death.

Section 2.12 Disinterested Board Member means a member of the Board who: (a) is not a current employee of the Company or a subsidiary, (b) is not a former employee of the Company who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, (c) has not been an officer of the Company, (d) does not receive remuneration from the Company or a subsidiary, either directly or indirectly, in any capacity other than as a director except in an amount for which disclosure would not be required pursuant to Item 404(a) of the proxy solicitation rules of the Securities and Exchange Commission and (e) does not possess an interest in any other transaction, and is not engaged in a business relationship, for which disclosure would be required pursuant to Items 404(a) or (b) of the proxy solicitation rules of the Securities and Exchange Commission. The term Disinterested Board Member shall be interpreted in such manner as shall be necessary to conform to the requirements of section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act and the corporate governance standards imposed on compensation committees under the listing requirements imposed by any national securities exchange on which the Company lists or seeks to list Shares.

Section 2.13 Early Retirement means, in the case of any Recipient, termination of all Service for the Employers at or after attainment of age 55 and the completion of at least ten consecutive years of Service to the Employers.

Section 2.14 Earliest Exercise Date means, with respect to an Option, the earliest date on which the Option may be exercised. The Earliest Exercise Date may, but need not, be the same as the Option's Vesting Date.

Section 2.15 Effective Date means May 20, 2004.

Section 2.16 Eligible Employee means any employee of the Company, or of a Parent or Subsidiary, whom the Committee may determine to be a key officer or employee and select to receive a Restricted Stock Award or a grant of an Option or Stock Appreciation Right pursuant to the Plan.

Section 2.17 Eligible Individual means: (a) any Eligible Employee; and (b) any non-employee director of the Company or a Parent or Subsidiary.

Section 2.18 Employer means the Company, the Bank and any successor thereto and, with the prior approval of the Board, and subject to such terms and conditions as may be imposed by the Board, any other savings bank, savings and loan association, bank, corporation, financial institution or other business organization or institution. With respect to any Eligible Individual, the Employer shall mean the entity which employs such person or upon whose board of directors such person serves.

Section 2.19 Exchange Act means the Securities Exchange Act of 1934, as amended.

Section 2.20 Exercise Period means the period during which an Option or Stock Appreciation Right may be exercised.

Section 2.21 **Exercise Price** means the price per Share at which Shares subject to an Option may be purchased upon exercise of the Option and on the basis of which the cash payment due upon exercise of a Stock Appreciation Right is computed.

Section 2.22 **Fair Market Value** 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, as of the close of the market in New York City and without regard to after-hours trading activity; 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, as of the close of the market in New York City and without regard to after-hours trading activity, 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 2.22(a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

Section 2.23 **Family Member** means, with respect to any Eligible Individual: (a) any of the Eligible Individual's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouses, former spouses, siblings, nieces, nephews, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law or sisters-in-law, including relationships created by adoption; (b) any natural person sharing the Eligible Individual's household (other than as a tenant or employee, directly or indirectly, of the Eligible Individual); (c) a trust in which any combination of the Eligible Individual and Persons described in section 2.23(a) and (b) own more than fifty percent (50%) of the beneficial interests; (d) a foundation in which any combination of the Eligible Individual and Persons described in sections 2.23(a) and (b) control management of the assets; or (e) any other corporation, partnership, limited liability company or other entity in which any combination of the Eligible Individual and Persons described in sections 2.23(a) and (b) control more than fifty percent (50%) of the voting interests.

Section 2.24 **Incentive Stock Option** means a right to purchase Shares that is granted to an Eligible Employee pursuant to section 5.1, that is designated by the Committee to be an Incentive Stock Option and that is intended to satisfy the requirements of section 422 of the Code.

Section 2.25 **Non-Qualified Stock Option** means a right to purchase Shares that is either (a) granted to an Eligible Individual who is not an Eligible Employee or (b) granted to an Eligible Employee and either (i) is not designated by the Committee to be an Incentive Stock Option, or (ii) does not satisfy the requirements of section 422 of the Code.

Section 2.26 **Option** means either an Incentive Stock Option or a Non-Qualified Stock Option.

Section 2.27 **Option Agreement** means a written instrument evidencing an Option granted under the Plan.

Section 2.28 **Option Holder** means, at any relevant time with respect to an Option, the person having the right to exercise the Option.

Section 2.29 **Parent** means any entity, whether or not incorporated, in an unbroken chain of entities ending with the Company where each entity other than the first entity in the unbroken chain owns stock or other equity interests in one of the other entities in the unbroken chain possessing fifty percent (50%) or more of the combined voting power of all of the other entity's outstanding stock or other interests that vote generally in the election of the other entity's directors or other governing body.

Section 2.30 **Performance Goal** means, with respect to any Performance-Based Restricted Stock Award, the performance goal or performance goal(s) established pursuant to section 6.3(a), the attainment of which is a condition of vesting of the Performance-Based Restricted Stock Award.

Section 2.31 **Performance Measurement Period** means, with respect to any Performance Goal, the period of time over which attainment of the Performance Goal is measured.

Section 2.32 **Performance-Based Restricted Stock Award** means a Restricted Stock Award to which section 6.3 is applicable.

Section 2.33 **Permitted Transferee** means, with respect any Recipient, a Family Member of the Recipient to whom an Option has been transferred in accordance with section 5.8.

Section 2.34 **Person** means an individual, a corporation, a partnership, a limited liability company, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization or institution.

Section 2.35 **Plan** means the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan, as amended from time to time.

Section 2.36 **Recipient** means the person to whom an Option or Stock Appreciation Right is granted or a Restricted Stock Award is made.

Section 2.37 **Restricted Stock Award** means an award of Shares pursuant to Article VI.

Section 2.38 **Retirement** means: (a) termination of Service with the Employer in all capacities at or after attaining age 65 or (b) Early Retirement. No termination of Service shall be deemed a Retirement unless the terminating individual enters into a retirement agreement with the Employer, in

form and substance satisfactory to the Committee, pursuant to which he agrees to provide limited transition services to the Employer on a consulting basis and/or abide by non-competition, confidentiality, non-derogation and non-disturbance covenants prescribed by the Committee for a fixed period specified by the Committee not to exceed two years.

Section 2.39 **SAR Agreement** means a written instrument evidencing a Stock Appreciation Right granted under the Plan.

Section 2.40 **Service** means, unless the Committee provides otherwise in an Option Agreement or SAR Agreement or Restricted Stock Award Notice, service in any capacity as a common-law employee, consultant or non-employee director to the Company or a Parent or Subsidiary.

Section 2.41 **Share** means a share of Common Stock, par value \$.01 per share, of the Dime Community Bancshares, Inc.

Section 2.42 **Stock Appreciation Right** means the right upon exercise to receive, in cash or Shares, the amount equal to the excess (if any) of (a) the Fair Market Value of a Share on the date of exercise over (b) the Exercise Price.

Section 2.43 **Subsidiary** means any entity, whether or not incorporated, in an unbroken chain of entities beginning with the Company where each entity other than the last entity in the unbroken chain owns stock or other equity interests in one of the other entities in the unbroken chain possessing fifty percent (50%) or more of the combined voting power of all of the other entity's outstanding stock or other interests that vote generally in the election of the other entity's directors or other governing body.

Section 2.44 **Termination for Cause** means one of the following:

(a) for an Eligible Individual who is not an officer or employee of any bank or savings institution regulated by the Office of Thrift Supervision, termination of employment with the Employer upon the occurrence of any of the following:

(i) the employee intentionally engages in dishonest conduct in connection with his performance of services for the Employer resulting in his conviction of or plea of guilty or nolo contendere to a felony;

(ii) the employee is convicted of, or pleads guilty or nolo contendere to, a felony or any crime involving moral turpitude;

(iii) the employee willfully fails or refuses to perform his duties under any employment or retention agreement and fails to cure such breach within sixty (60) days following written notice thereof from the Employer;

(iv) the employee breaches his fiduciary duties to the Employer for personal profit; or

(v) the employee's willful breach or violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease and desist order in connection with his performance of services for the Employer;

(b) for an Eligible Individual who is an officer or employee of a bank or savings institution regulated by the Office of Thrift Supervision, termination of employment for 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 for any reason constituting cause for termination under any written employment agreement between the Employer and such Eligible Employee, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that such individual 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, which notice shall be given to such individual not later than five (5) business days after the board of directors of the Employer adopts, and shall be accompanied by, a resolution duly approved by affirmative vote of a majority of the entire board of directors of the Employer at a meeting called and held for such purpose (which meeting shall be held not less than fifteen (15) days nor more than thirty (30) days after notice to the individual), at which meeting there shall be a reasonable opportunity for the individual to make oral and written presentations to the members of the board of directors of the Employer, 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 of directors of the Employer grounds exist for discharging the individual for cause;

(c) for an Eligible Individual who is a non-employee director, removal for cause under the terms of the laws or any law rule or regulation applicable to the entity upon whose board of directors the individual serves as a non-employee director.

Section 2.45 **Vesting Date** means the date on which an Option, Stock Appreciation Right, Restricted Stock Award, or Shares acquired upon exercise of an Option cease to be forfeitable upon termination of the Recipient's Service.

Article III

Available Shares

Section 3.1 **Shares Available under the Plan.**

Subject to section 9.3, the maximum aggregate number of Shares which may be issued for Restricted Stock Awards and upon the exercise of Options and Stock Appreciation Rights shall be 1,496,300 Shares.

Section 3.2 **Shares Available for Options.**

Subject to section 9.3, the maximum aggregate number of Shares which may be issued upon exercise of Options shall be 1,496,300 shares, and the maximum aggregate number of Options which may be granted to any one individual in any calendar year shall be 250,000 Options.

Section 3.3 **Shares Available for Restricted Stock Awards.**

Subject to section 9.3, the maximum number of Shares which may be issued as Restricted Stock Awards under the Plan shall be 374,075 Shares and the maximum aggregate number of Shares which may be granted as Restricted Stock Awards to any one individual in any calendar year shall be 60,000 Shares.

Section 3.4 **Shares Available for Stock Appreciation Right**

Subject to section 9.3, the maximum aggregate number of Shares which may be issued upon exercise of Stock Appreciation Rights shall be 1,496,300 and the maximum aggregate number of Stock Appreciation Rights which may be granted under the Plan and to any one individual in any calendar year shall be 250,000 Stock Appreciation Rights.

Article IV

Administration

Section 4.1 **Committee.**

(a) Subject to section 4.1(b), the Plan shall be administered by the members of the Compensation Committee of Dime Community Bancshares, Inc. who are Disinterested Board Members. If the Committee consists of fewer than two Disinterested Board Members, then the Board shall appoint to the Committee such additional Disinterested Board Members as shall be necessary to provide for a Committee consisting of at least two Disinterested Board Members.

(b) The Board may, in its discretion, take any action and exercise any power, privilege or discretion conferred on the Committee under the Plan with the same force and effect under the Plan as if done or exercised by the Committee.

(c) No member of the Committee on the Board shall participate in any action taken by such body under the Plan if he or she is personally affected thereby, unless all members of the Committee or Board, as applicable, are similarly affected.

Section 4.2 **Committee Action.**

The Committee shall hold such meetings, and may make such administrative rules and regulations, as it may deem proper. A majority of the members of the Committee shall constitute a quorum, and the action of a majority of the members of the Committee present at a meeting at which a quorum is present, as well as actions taken pursuant to the unanimous written consent of all of the members of the Committee without holding a meeting, shall be deemed to be actions of the Committee. All actions of the Committee shall be final and conclusive and shall be binding upon the Company and all other interested parties. Any Person dealing with the Committee shall be fully protected in relying upon any written notice, instruction, direction or other communication signed by the Secretary of the Committee and one member of the Committee, by two members of the Committee or by a representative of the Committee authorized to sign the same in its behalf.

Section 4.3 **Committee Responsibilities.**

Subject to the terms and conditions of the Plan and such limitations as may be imposed by the Board, the Committee shall be responsible for the overall management and administration of the Plan and shall have such authority as shall be necessary or appropriate in order to carry out its responsibilities, including, without limitation, the authority:

(a) to interpret and construe the Plan, and to determine all questions that may arise under the Plan as to eligibility for participation in the Plan, the number of Shares subject to the Restricted Stock Awards, Stock Appreciation Rights or Options, if any, to be granted, and the terms and conditions thereof;

(b) with the consent of the Recipient or Beneficiary, as applicable, amend or modify the terms of any outstanding Option, Stock Appreciation Right or Restricted Stock Award or accelerate or defer the Vesting Date or Earliest Exercise Date thereof;

(c) to adopt rules and regulations and to prescribe forms for the operation and administration of the Plan; and

(d) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

All decisions, determinations and other actions of the Committee made or taken in accordance with the terms of the Plan shall be final and conclusive and binding upon all parties having an interest therein.

Article V

Stock Options

Section 5.1 **Grant of Options.**

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual an Option to purchase Shares. An Option for an Eligible Employee must be designated as either an Incentive Stock Option or a Non-Qualified Stock Option and, if not designated as either, shall be a Non-Qualified Stock Option. An Option for an Eligible Individual who is not an Eligible Employee shall be a Non-Qualified Stock Option.

(b) Any Option granted under this section 5.1 shall be evidenced by a written agreement which shall:

- (i) specify the number of Shares covered by the Option determined in accordance with section 5.2;
- (ii) specify the Exercise Price, determined in accordance with section 5.3, for the Shares subject to the Option;
- (iii) specify the Earliest Exercise Date and the Exercise Period determined in accordance with section 5.4;
- (iv) specify the Vesting Date determined in accordance with section 5.5;
- (v) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

(vi) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Option granted to an Eligible Individual.

Section 5.2 Size of Option.

Subject to section 3.2 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted Options shall be determined by the Committee, in its discretion.

Section 5.3 Exercise Price.

The price per Share at which an Option may be exercised shall be determined by the Committee, in its discretion, *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 5.4 Exercise Period; Earliest Exercise Date.

(a) Subject to section 5.4(b), the Exercise Period during which an Option may be exercised shall commence on the Earliest Exercise Date specified by the Committee in the Option Agreement (or, if no Earliest Exercise Date is specified in the Option Agreement, on the Vesting Date). It shall expire on the date specified in the Option Agreement (and in any event no later than the tenth anniversary of the date of grant) or, if no date is specified, on the earliest of:

- (i) the date and time when the Recipient terminates Service for any reason other than the Recipient's death, Disability or discharge that is not a Termination for Cause; and
- (ii) the last day of the three-month period that begins on the date and time when the Recipient terminates Service due to discharge that is not a Termination for Cause;
- (iii) the last day of the one-year period that begins on the date and time when the Recipient terminates Service due to the Recipient's death or Disability; and
- (iv) the last day of the five-year period commencing on the date on which the Option was granted.

A Recipient's termination of Service prior to the Earliest Exercise Date of an Option shall, unless otherwise provided in the Option Agreement, result in the Option being canceled without consideration at the close of business on the last day of Service. An Option that remains unexercised at the close of business on the last day of the Exercise Period (including but not limited to an Option whose Earliest Exercise Date has not occurred) shall be canceled without consideration at the close of business on the last day of the Exercise Period.

(b) Unless otherwise determined by the Committee and specified in the Option Agreement:

(i) if a Change in Control occurs while an Option is outstanding and on or before its scheduled expiration date, then for purposes of exercising vested Options, the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) tenth (10th) anniversary of the date the Option was granted; and (B) the third (3rd) anniversary of the date of the Change in Control; or any later date determined under section 5.4(b)(ii) or (iii);

(ii) if a Change in Control occurs while an Option is outstanding and on or before its Earliest Exercise Date, then solely for the purpose of measuring the Exercise Period (but not for purposes of vesting), the Recipient of the Option shall be deemed to continue in Service through the applicable Earliest Exercise Date, and the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) the tenth (10th) anniversary of the date the Option was granted; (B) the third (3rd) anniversary of the date of the Change in Control; and (C) ninety (90) days after the Earliest Exercise Date; or any later date determined under section 5.4(b)(i) or (iii);

(iii) if, on the date an Option is otherwise scheduled to expire, the holder of the Option may not then exercise the Option or sell Shares on a national securities exchange without violating applicable federal, state or local securities laws or the terms of a securities trading

blackout (including but not limited to a blackout period established under the Company's securities trading policy or a contractual lockup in connection with a securities offering or other transaction involving the Company), the date on which the Exercise Period expires shall be extended to the earliest to occur of: (A) the tenth (10th) anniversary of the date the Option was granted; and (B) ninety (90) days after the last day of the securities trading blackout; or any later date determined under section 5.4(b)(i) or (ii); and

(iv) the Earliest Exercise Date (but not the Vesting Date) of any Option outstanding on the date of the Recipient's termination of Service due to death or Disability shall be accelerated to the date of such termination of Service provided that the Recipient of such Option remained in continuous Service during the period beginning on the date the Option is granted and ending on the date of termination of Service.

Section 5.5 **Vesting Date.**

(a) Subject to section 5.5(b), the Vesting Date for each Option granted under the Plan shall be the date determined by the Committee and specified in the Option Agreement. If no provision for vesting is made in the Option Agreement, the Vesting Date shall be:

- (i) the first anniversary of the date of grant, as to 25% of the Shares subject to the Option as of the date of grant;
- (ii) the second anniversary of the date of grant, as to an additional 25% of the Shares subject to the Option as of the date of grant;
- (iii) the third anniversary of the date of grant, as to an additional 25% of the Shares subject to the Option as of the date of grant;
- (iv) the fourth anniversary of the date of grant, as to any remaining balance of the Shares subject to the Option as of the date of grant;
- (vi) in the event of the Recipient's termination of Service due to the Recipient's Death or Disability, the date of termination of Service, as to any Options otherwise scheduled to vest during the period of six months beginning on the date of termination.

Failure of a Recipient to remain in continuous Service during the period beginning on the date an Option is granted and ending on the Option's Vesting Date shall result in a cancellation of the Option without consideration at the earliest date and time at which the Recipient is not in continuous Service.

(b) Except to the extent that an applicable Option Agreement expressly provides otherwise, each Option granted to an Eligible Employee that is outstanding under the Plan on the date on which a Change of Control occurs shall, on such date, be 100% vested and exercisable.

Section 5.6 **Additional Restrictions on Incentive Stock Options.**

An Option granted to an Eligible Employee designated by the Committee to be an Incentive Stock Option shall be subject to the following provisions:

(a) If, for any calendar year, the sum of (i) plus (ii) exceeds \$100,000, where (i) equals the Fair Market Value (determined as of the date of the grant) of Shares subject to an Option intended to be an Incentive Stock Option which first become available for purchase during such calendar year, and (ii) equals the Fair Market Value (determined as of the date of grant) of Shares subject to any other options intended to be Incentive Stock Options and previously granted to the same Eligible Employee which first become exercisable in such calendar year, then that number of Shares optioned which causes the sum of (i) and (ii) to exceed \$100,000 shall be deemed to be Shares optioned pursuant to a Non-Qualified Stock Option or Non-Qualified Stock Options, with the same terms as the Option or Options intended to be an Incentive Stock Option;

(b) The Exercise Price of an Incentive Stock Option granted to an Eligible Employee who, at the time the Option is granted, owns Shares comprising more than 10% of the total combined voting power of all classes of stock of the Company shall not be less than 110% of the Fair Market Value of a Share, and if an Option designated as an Incentive Stock Option shall be granted at an Exercise Price that does not satisfy this requirement, the designated Exercise Price shall be observed and the Option shall be treated as a Non-Qualified Stock Option;

(c) The Exercise Period of an Incentive Stock Option granted to an Eligible Employee who, at the time the Option is granted, owns Shares comprising more than 10% of the total combined voting power of all classes of stock of the Company, shall expire no later than the fifth anniversary of the date on which the Option was granted, and if an Option designated as an Incentive Stock Option shall be granted for an Exercise Period that does not satisfy this requirement, the designated Exercise Period shall be observed and the Option shall be treated as a Non-Qualified Stock Option;

(d) An Incentive Stock Option that is exercised during its designated Exercise Period but more than:

- (i) three (3) months after the termination of employment with the Company and all of its Parents and Subsidiaries (other than on account of disability within the meaning of section 22(e)(3) of the Code or death of the Eligible Employee to whom it was granted); or
- (ii) one (1) year after such individual's termination of employment with the Company, a parent or a subsidiary due to disability (within the meaning of section 22(e)(3) of the Code) or death;

may be exercised in accordance with the terms of the Option but shall at the time of exercise be treated as a Non-Qualified Stock Option; and

(e) Except with the prior written approval of the Committee, no individual shall dispose of Shares acquired pursuant to the exercise of an Incentive Stock Option until after the later of (i) the second anniversary of the date on which the Incentive Stock Option was granted, or (ii) the first anniversary of the date on which the Shares were acquired.

Section 5.7 **Method of Exercise.**

(a) Subject to the limitations of the Plan and the Option Agreement, an Option Holder may, at any time after the Earliest Exercise Date and during the Exercise Period, exercise his or her right to purchase all or any part of the Shares to which the Option relates; *provided, however*, that the minimum number of Shares which may be purchased at any time shall be 100, or, if less, the total number of Shares relating to the Option which remain unpurchased. An Option Holder shall exercise an Option to purchase Shares by:

- (i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Option;
 - (ii) delivering to the Committee full payment, consistent with section 5.7(b), for the Shares as to which the Option is to be exercised; and
 - (iii) satisfying such other conditions as may be prescribed in the Option Agreement.
- (b) The Exercise Price of Shares to be purchased upon exercise of any Option shall be paid in full:
- (i) in cash (by certified or bank check or such other instrument as the Company may accept); or
 - (ii) if and to the extent permitted by the Committee, in the form of Shares already owned by the Option holder for a period of more than six (6) months as of the exercise date and having an aggregate Fair Market Value on the date the Option is exercised equal to the aggregate Exercise Price to be paid; or
 - (iii) by a combination thereof.

If permitted by the Committee, payment for any Shares to be purchased upon exercise of an Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price and applicable tax withholding amounts (if any), in which event the Shares acquired shall be delivered to the broker promptly following receipt of payment.

(c) When the requirements of section 5.7(a) and (b) have been satisfied, the Committee shall take such action as is necessary to cause the issuance of a stock certificate evidencing the Option holder's ownership of such Shares. The Person exercising the Option shall have no right to vote or to receive dividends, nor have any other rights with respect to the Shares, prior to the date as of which such Shares are transferred to such Person on the stock transfer records of the Company, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which such transfer is effected, except as may be required under section 8.3.

Section 5.8 **Limitations on Options**

(a) An Option by its terms shall not be transferable by any Option Holder, except that (i) a Recipient may transfer a Non-Qualified Stock Option to the Recipient's Family Members during his lifetime; and (b) any Option Holder may transfer Options remaining unexercised at his death to a Beneficiary or by will or by the laws of descent and distribution. Any permitted transfer to Family Members shall be effected by written notice to the Company given in such form and manner as the Committee may prescribe and shall be recognized only if such notice is received by the Company prior to the death of the person giving it. Thereafter, the Permitted Transferee shall have, with respect to such Option, all of the rights, privileges and obligations which would attach thereunder to the Recipient except the right to transfer the Option to Family Members. If a privilege of the Option depends on the life, Service, employment or other status of the transferor, such privilege of the Option for the transferee shall continue to depend on the life, Service, employment or other status of the transferor. The Committee shall have full and exclusive authority to interpret and apply the provisions of this Plan to transferees to the extent not specifically described herein.

(b) The Company's obligation to deliver Shares with respect to an Option shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Option holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

(c) An Option holder may designate a Beneficiary to receive any Options that may be exercised after his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Option holder, or in the event that no Beneficiary has been designated, any Options that may be exercised following the Option holder's death shall be transferred to the executor or administrator of the Option holder's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select. If the Option holder and his Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Option holder shall be deemed to have survived the beneficiary.

Article VI

Restricted Stock Awards

Section 6.1 **In General.**

- (a) Each Restricted Stock Award shall be evidenced by an Award Notice issued by the Committee to the Eligible Individual, which notice shall:
- (i) specify the number of Shares covered by the Restricted Stock Award;
 - (ii) specify the amount (if any) which the Recipient shall be required to pay to the Company in consideration for the issuance of such Shares (which shall in no event be less than the minimum amount required for such Shares to be validly issued, fully paid and nonassessable under applicable law);
 - (iii) specify whether the Restricted Stock Award is a Performance-Based Award and, if it is, the applicable Performance Goal or Performance Goals;
 - (iv) specify whether the Restricted Stock Award is a Career Service Award; and
 - (iv) specify the date of grant of the Restricted Stock Award; and
 - (v) specify the Vesting Date for the Restricted Stock Award;

and contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe.

- (b) All Restricted Stock Awards shall be in the form of issued and outstanding Shares that shall be either:
- (i) registered in the name of the Committee or other trustee or custodian for the benefit of the Recipient and held by the Committee pending the vesting or forfeiture of the Restricted Stock Award;
 - (ii) registered in the name of Recipient and held by the Committee, together with a stock power executed by the Recipient in favor of the Committee, pending the vesting or forfeiture of the Restricted Stock Award; or
 - (iii) registered in the name of and delivered to the Recipient.

In any event, the certificates evidencing the Shares shall at all times prior to the applicable Vesting date bear the following legend:

The Common Stock evidenced hereby is subject to the terms of Restricted Stock Award Notice between Dime Community Bancshares, Inc. and [Name of Recipient] dated [Date] made pursuant to the terms of the Dime Community Bancshares, Inc. 2004 Omnibus Stock Incentive Plan, copies of which are on file at the executive offices of Dime Community Bancshares, Inc., and may not be sold, encumbered, hypothecated or otherwise transferred except in accordance with the terms of such Plan and Agreement.

or such other restrictive legend as the Committee, in its discretion, may specify.

- (c) An Award by its terms shall not be transferable by the Eligible Individual other than by will or by the laws of descent and distribution, and the Shares granted pursuant to such Award shall be distributable, during the lifetime of the Recipient, only to the Recipient.

Section 6.2 **Vesting Date.**

- (a) The Vesting Date for each Restricted Stock Award that is not a Career Service Award shall be determined by the Committee and specified in the Award Notice and, if no date is specified in the Award Notice, shall be the first anniversary of the date of grant as to 25% of the Shares; the second anniversary of the date of grant as to an additional 25% of the Shares; the third anniversary of the date of grant as to an additional 25% of the Shares; and the fourth anniversary of the date of grant as to the remaining balance of the Shares.

- (b) Unless otherwise determined by the Committee and specified in the Award Notice for a Restricted Stock Award that is not a Career Service Award:

(i) if the Recipient of a Restricted Stock Award terminates Service prior to the Vesting Date for any reason other than death or Disability, any unvested Shares shall be forfeited without consideration (other than a refund to the Recipient of an amount equal to the lesser of the amount (if any) paid by the Recipient for the Shares being forfeited upon their issuance and the Fair Market Value of such Shares on the date of forfeiture);

(ii) if the Recipient of a Restricted Stock Award terminates Service prior to the Vesting Date on account of death or Disability, any unvested Shares that were scheduled to vest during the six-month period beginning on the date of termination shall become vested on the date of termination of Service; and

(iii) if a Change in Control occurs prior to the Vesting Date of a Restricted Stock Award that is outstanding on the date of the Change in Control, the Vesting Date shall be accelerated to the date of the Change in Control.

Section 6.3 **Performance Based Restricted Stock Awards.**

(a) At the time it grants a Performance-Based Restricted Stock Award, the Committee shall establish one or more Performance Goals, the attainment of which shall be a condition of the Recipient's right to retain the related Shares. The Performance Goals shall be selected from among the following:

- (i) Earnings per common share
- (ii) Net income
- (iii) Return on average equity
- (iv) Return on average assets
- (v) Core earnings
- (vi) Stock price
- (vii) Strategic business objectives, consisting of one or more objectives based upon satisfying specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures
- (viii) Operating income
- (ix) Operating efficiency ratio
- (x) Net interest spread
- (xi) Loan production volumes
- (xii) Non-performing loans
- (xiii) Cash flow
- (xiv) Total shareholder return
- (xv) Net revenue
- (xvi) Gross revenue
- (xvii) Operating expense
- (xviii) Fee income
- (xix) Deposit growth
- (xx) Any other performance criteria established by the Administrative Committee
- (xxi) Any combination of (i) through (xx) above

Performance Goals may be established on the basis of reported earnings or cash earnings, and consolidated results or individual business units and may, in the discretion of the Committee, include or exclude extraordinary items and/or the results of discontinued operations. Each Performance 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 (or individual business units) and/or the past or current performance of other companies.

(b) At the time it grants a Performance-Based Restricted Stock Award, the Committee shall establish a Performance Measurement Period for each Performance Goal. The Performance Measurement Period shall be the period over which the Performance Goal is measured and its attainment is determined. If the Committee establishes a Performance Goal but fails to specify a Performance Measurement Period, the Performance Measurement Period shall be:

(i) if the Performance-Based Restricted Stock Award is granted during the first nine months of the Company's fiscal year, the three-fiscal year period of the Company that begins with the fiscal year in which the Performance-Based Restricted Stock Award is granted; and

(ii) in all other cases, the period of twelve (12) consecutive fiscal quarters of the Company that begins with the fiscal quarter in which the Performance-Based Restricted Stock Award is granted.

(c) As promptly as practicable following the end of each Performance Measurement Period, the Committee shall determine, on the basis of such evidence as it deems appropriate, whether the Performance Goals for such Performance Measurement Period have been attained and, if they have been attained, shall certify such fact in writing.

(d) If the Performance Goals for a Performance-Based Restricted Stock Award have been attained and certified, the Committee shall either:

(i) if the relevant Vesting Date has occurred, cause the ownership of the Shares subject to such Restricted Stock Award, together with all dividends and other distributions with respect thereto that have been accumulated, to be transferred on the stock transfer records of the Company, free of any restrictive legend other than as may be required by applicable law, to the Recipient of the Restricted Stock Award; or

(ii) in all other cases, continue the Shares in their current status pending the occurrence of the relevant Vesting Date or forfeiture of the Shares.

If any one or more of the relevant Performance Goals have not been attained, all of the Shares subject to such Restricted Stock Award shall be forfeited without a consideration (other than a refund to the Recipient or his estate of an amount equal to the lesser of the amount (if any) paid by the Recipient for the Shares being forfeited upon their issuance and the Fair Market Value of such Shares on the date of forfeiture).

(e) If the Performance Goals for any Performance Measurement Period 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 Performance Goals and make payments accordingly under the Plan; provided, however, that any adjustments made in accordance with or for the purposes of this section 6.3(e) shall be disregarded for purposes of calculating the Performance Goals for a Performance-Based Restricted Stock Award to a Covered Employee if and to the extent that such adjustments would have the effect of increasing the amount of a the Restricted Stock Award to such Covered Employee.

(f) If provided by the Committee when a Performance-Based Restricted Stock Award is granted, to the extent that the relevant Performance Goals are achieved prior to the end of the Performance Measurement Period and certified by the Committee, vested a Performance-Based Restricted Stock Award may

be paid at any time following such certification.

Section 6.4 **Career Service Awards.**

The Vesting Date of a Restricted Stock Award that is designated a Career Service Award shall be:

- (a) the date of the Retirement, death or Disability of the Recipient; and
- (b) the fifth anniversary of the date of grant of the Restricted Stock Award or occurrence of such later date as the Committee may determine and specify in the Award Notice

in each case while the Recipient is in the Service of the Employer. If the Vesting Date is prior to the Recipient's 65th birthday (or any later date specified in accordance with section 6.4(b)), the number of Shares subject to the Career Service Award that become vested on the Vesting Date shall be equal to the product (rounded to the nearest whole Share) of (a) the number of Shares subject to the Career Service Award multiplied by (b) a fraction, the numerator of which is the number of calendar months that begin during the period beginning on the date of grant and ending on the Vesting Date and the denominator of which is the number of calendar months that begin during the period beginning on the date of grant and ending on the Recipient's 65th birthday (or later date specified in accordance with section 6.4(b)). If a Recipient terminates Service in all capacities with all Employers prior to the Vesting Date for a Career Service Award, and to the extent that the relevant Vesting Date for a Career Service Award is prior to the Recipient's 65th birthday (or any later date specified in accordance with section 6.4(b)), any Shares subject to the Career Service Award that are not vested shall be forfeited. Any Shares that become vested due to Retirement shall be further subject to forfeiture if and to the extent provided in any retirement agreement between the Recipient and the Employer.

Section 6.5 **Dividend Rights.**

Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Notice, any dividends or distributions declared and paid with respect to Shares subject to the Restricted Stock Award, whether or not in cash, shall be held and accumulated (with investment earnings or losses) pending vesting at the same time and subject to the same terms and conditions as the underlying Shares and, pending vesting, shall be reinvested in additional Shares .

Section 6.6 **Voting Rights.**

Unless the Committee determines otherwise with respect to any Restricted Stock Award and specifies such determination in the relevant Award Notice, voting rights appurtenant to the Shares subject to the Restricted Stock Award, shall be exercised by the Committee in its discretion.

Section 6.7 **Tender Offers.**

Each Recipient to whom a Restricted Stock Award is outstanding shall have the right to respond, or to direct the response, with respect to the related Shares, to any tender offer, exchange offer or other offer made to the holders of Shares. Such a direction for any such Shares shall be given by proxy or ballot (if the Recipient is the beneficial owner of the Shares for voting purposes) or by completing and filing, with the inspector of elections, the Trustee or such other person who shall be independent of the Company as the Committee shall designate in the direction (if the Recipient is not such a beneficial owner), a written direction in the form and manner prescribed by the Committee. If no such direction is given, then the Shares shall not be tendered.

Section 6.8 **Designation of Beneficiary.**

An Eligible Individual who has received a Restricted Stock Award may designate a Beneficiary to receive any unvested Shares that become vested on the date of his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the Beneficiary designated by an Eligible Individual dies prior to the Eligible Individual, or in the event that no Beneficiary has been designated, any vested Shares that become available for distribution on the Eligible Individual's death shall be paid to the executor or administrator of the Eligible Individual's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, to such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select.

Section 6.9 **Manner of Distribution of Awards.**

The Company's obligation to deliver Shares with respect to a Restricted Stock Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Eligible Individual or Beneficiary to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

Section 6.10 **Taxes.**

The Company or the Committee shall have the right to require any person entitled to receive Shares pursuant to a Restricted Stock Award to pay the amount of any tax which is required to be withheld with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Article VII

Stock Appreciation Rights

Section 7.1 **Grant of Stock Appreciation Rights.**

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual a Stock Appreciation Right. A Stock Appreciation Right must be designated as either a tandem Stock Appreciation Right or a stand-alone Stock Appreciation Right and, if not so designated, shall be deemed to be a stand-alone Stock Appreciation Right. A tandem Stock Appreciation Right may only be granted at the same time as the Option to which it relates.

(b) Any Stock Appreciation Right granted under this section 7.1 shall be evidenced by a written agreement which shall:

(i) in the case of a tandem Stock Appreciation Right, relate to the same number of Shares; be settled only in Shares; have the same Exercise Price, Exercise Period, Vesting Date and other terms and conditions as the Option to which it relates and provide that the exercise of the related Option shall be deemed to cancel the Stock Appreciation Right for a like number of Shares and that the exercise of the Stock Appreciation Right shall be deemed to cancel the related Option for a like number of Shares;

(ii) in the case of a stand-alone Stock Appreciation Right:

(A) specify the number of Shares covered by the Stock Appreciation Right;

(B) specify the Exercise Price, determined in accordance with section 7.3;

(C) specify the Earliest Exercise Date and the Exercise Period;

(D) specify the Vesting Date;

(E) specify whether the Stock Appreciation will be settled in cash or in Shares;

(F) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

(G) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Stock Appreciation Right granted to an Eligible Individual.

Section 7.2 **Size of Stock Appreciation Right.**

Subject to section 3.4 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted stand-alone Stock Appreciation Rights shall be determined by the Committee, in its discretion; *provided, however*, that a tandem Stock Appreciation Right shall be granted for a number of Shares no greater than the number of Shares subject to the related Option.

Section 7.3 **Exercise Price.**

The price per Share at which a stand-alone Stock Appreciation Right may be exercised shall be determined by the Committee, in its discretion, *provided, however*, that the Exercise Price shall not be less than the Fair Market Value of a Share on the date on which the Option is granted.

Section 7.4 **Exercise Period.**

(a) Subject to section 7.4(b), the Exercise Period during which a stand-alone Stock Appreciation Right may be exercised shall commence on the Vesting Date and shall expire on the date specified in the SAR Agreement (and in any event no later than the tenth anniversary of the date of grant) or, if no date is specified, on the earliest of:

(i) the date and time when the Recipient terminates Service for any reason; and

(ii) the last day of the five-year period commencing on the date on which the Option was granted.

A Recipient's termination of Service prior to the Vesting Date of a Stock Appreciation Right shall, unless otherwise provided in the SAR Agreement, result in the Stock Appreciation Right being canceled without consideration at the close of business on the last day of Service. A Stock Appreciation Right that is vested and remains unexercised at the close of business on the last day of the Exercise Period shall be deemed automatically exercised on such date.

Section 7.5 **Vesting Date.**

(a) Subject to section 7.5(b), the Vesting Date for each stand-alone Stock Appreciation Right granted under the Plan shall be the date determined by the Committee and specified in the SAR Agreement or, if no provision for vesting is made in the SAR Agreement, the Vesting Date shall be:

(i) the first anniversary of the date of grant, as to 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;

(ii) the second anniversary of the date of grant, as to an additional 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;

(iii) the third anniversary of the date of grant, as to an additional 25% of the Shares subject to the Stock Appreciation Right as of the date of grant;

(iv) the fourth anniversary of the date of grant, as to any remaining balance of the Shares subject to the Stock Appreciation Right as of the date of grant;

(v) in the event of the Recipient's termination of Service due to the Recipient's Death or Disability, the date of termination of Service, as to any Stock Appreciation Rights otherwise scheduled to vest during the period of six months beginning on the date of termination.

Failure of a Recipient to remain in continuous Service during the period beginning on the date a Stock Appreciation Right is granted and ending on the Stock Appreciation Right's Vesting Date shall result in a cancellation of the Stock Appreciation Right without consideration at the earliest date and time at which the Recipient is not in continuous Service.

(b) Except to the extent that an applicable SAR Agreement expressly provides otherwise, each Stock Appreciation Right that is outstanding under the Plan on the date on which a Change of Control occurs shall, on such date, be 100% vested and exercisable.

Section 7.6 Method of Exercise.

(a) Subject to the limitations of the Plan and the SAR Agreement, a Recipient may, at any time after the Vesting Date and during the Exercise Period, exercise his or her Stock Appreciation Right as to all or any part of the Shares to which the Stock Appreciation Right relates; *provided, however*, that the minimum number of Shares as to which a Stock Appreciation Right may be exercised shall be 100, or, if less, the total number of Shares relating to the Stock Appreciation Right which remain unexercised. A Recipient shall exercise a Stock Appreciation Right by:

(i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Stock Appreciation Right; and

(ii) satisfying such other conditions as may be prescribed in the SAR Agreement.

Any stand-alone Stock Appreciation Rights that are vested and remain unexercised at the expiration date of the relevant Exercise Period shall be deemed automatically exercised on such date without the requirement of notice or any other action on the part of the Recipient.

(b) When the requirements of section 7.6(a) have been satisfied, the Committee shall take such action as is necessary to cause the remittance to the Recipient (or, in the event of his death, his Beneficiary) of a payment in an amount per Share equal to the excess (if any) of (i) the Fair Market Value of a Share on the date of exercise over (ii) the Exercise Price per Share, or, if applicable Shares with an aggregate Fair Market Value of a like amount.

Section 7.7 Beneficiaries.

The Recipient of a stand-alone Stock Appreciation Right may designate a Beneficiary to receive any payment in respect of outstanding stand-alone Stock Appreciation Rights that may be made after his death. Such designation (and any change or revocation of such designation) shall be made in writing in the form and manner prescribed by the Committee. In the event that the designated Beneficiary dies prior to the Recipient, or in the event that no Beneficiary has been designated, the executor or administrator of the Recipient's estate, or if no such executor or administrator is appointed within such time as the Committee, in its sole discretion, shall deem reasonable, such one or more of the spouse and descendants and blood relatives of such deceased person as the Committee may select, shall be deemed the Beneficiary. If the Recipient and his Beneficiary shall die in circumstances that cause the Committee, in its discretion, to be uncertain which shall have been the first to die, the Recipient shall be deemed to have survived the beneficiary.

Article VIII

Special Tax Provisions

Section 8.1 Tax Withholding Rights.

The Company shall have the right to deduct from all amounts paid by the Company in cash with respect to an Option or Stock Appreciation Right under the Plan any taxes required by law to be withheld with respect to such Option or Stock Appreciation Right. Where any Person is entitled to receive Shares, the Company shall have the right to require such Person to pay to the Company the amount of any tax which the Company is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the minimum amount required to be withheld. To the extent determined by the Committee and specified in the Option Agreement, an Option Holder shall have the right to direct the Company to satisfy the minimum required federal, state and local tax withholding by reducing the number of Shares subject to the Option (without issuance of such Shares to the Option holder) by a number equal to the quotient of (a) the total minimum amount of required tax withholding divided by (b) the excess of the Fair Market Value of a Share on the Option Exercise Date over the Option Exercise Price per Share.

Section 8.2 Code Section 83(b) Elections.

If and to the extent permitted by the Committee and specified in an Option Agreement for a Non-Qualified Stock Option or a Restricted Stock Award Agreement for a Restricted Stock Award other than a Performance-Based Restricted Stock Award, a Recipient may be permitted or required to make an election under section 83(b) of the Code to include the compensation related thereto in income for federal income tax purposes at the time of issuance of the Shares to such Recipient instead of at a subsequent Vesting Date. In such event, the Shares issued prior to their Vesting Date shall be issued in certificated form only, and the certificates therefor shall bear the legend set forth in section 6.1(b) or such other restrictive legend as the Committee, in its discretion, may specify. In the event of the Recipient's termination of Service prior to the relevant Vesting Date or forfeiture of the Shares for any other reason, the Recipient shall be required to return all forfeited Shares to the Company without consideration therefor (other than a refund to the Recipient or his estate of an amount equal to the lesser of the amount paid by the Recipient for the Shares upon their issuance or the Fair Market Value of the Shares on the date of forfeiture).

Section 8.3 Election to Defer Income Tax Liability Pursuant to Deferred Compensation Program.

To the extent permitted by the Committee, the Recipient of a Non-Qualified Stock Option, Stock Appreciation Right or Restricted Stock Award may elect to defer the income tax liability associated therewith pursuant to the terms of a non-qualified deferred compensation plan in which the Recipient is eligible to participate.

Article IX

Amendment and Termination

Section 9.1 **Termination.**

The Board may suspend or terminate the Plan in whole or in part at any time prior to the tenth anniversary of the Effective Date by giving written notice of such suspension or termination to the Committee. Unless sooner terminated, the Plan shall terminate automatically on the day preceding the tenth anniversary of the Effective Date. In the event of any suspension or termination of the Plan, all Options, Stock Appreciation Rights and Restricted Stock Awards theretofore granted under the Plan that are outstanding on the date of such suspension or termination of the Plan shall remain outstanding and exercisable for the period and on the terms and conditions set forth in the Option and Stock Appreciation Right agreements and the Award Notices evidencing such Options, Stock Appreciation Rights and Restricted Stock Awards.

Section 9.2 **Amendment.**

The Board may amend or revise the Plan in whole or in part at any time; *provided, however*, that, to the extent required to comply with section 162(m) of the Code or the corporate governance standards imposed under the listing requirements imposed by any national securities exchange on which the Company lists or seeks to list Shares, no such amendment or revision shall be effective if it amends a material term of the Plan unless approved by the holders of a majority of the votes cast on a proposal to approve such amendment or revision.

Section 9.3 **Adjustments in the Event of Business Reorganization.**

(a) In the event any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Shares or other securities, stock dividend or other special and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution, or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Recipients under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of securities deemed to be available thereafter for grants of Options, Stock Appreciation Rights and Restricted Stock Awards in the aggregate to all Eligible Individuals and individually to any one Eligible Individual, (ii) the number and kind of securities that may be delivered or deliverable in respect of outstanding Options, Stock Appreciation Rights and Restricted Stock Awards, and (iii) the Exercise Price of Options and Stock Appreciation Rights. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Options, Stock Appreciation Rights or Restricted Stock Awards (including, without limitation, cancellation of Options, Stock Appreciation Rights and Restricted Stock Awards in exchange for the in-the-money value, if any, of the vested portion thereof, or substitution of Options, Stock Appreciation Rights or Restricted Stock Awards using stock of a successor or other entity) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Parent or Subsidiary or the financial statements of the Company or any Parent or Subsidiary, or in response to changes in applicable laws, regulations, or account principles; *provided, however*, that any such adjustment to an Option, Stock Appreciation Right or Performance-Based Restricted Stock Award granted to a Recipient who is a Covered Employee shall conform to the requirements of section 162(m) of the Code and the regulations thereunder then in effect.

(b) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change in Control) in which the Company is not the surviving entity, any Options or Stock Appreciation Rights granted under the Plan which remain outstanding shall be converted into options to purchase voting common equity securities of the business entity which survives such merger, consolidation or other business reorganization or stock appreciation rights having substantially the same terms and conditions as the outstanding Options under this Plan and reflecting the same economic benefit (as measured by the difference between the aggregate exercise price and the value exchanged for outstanding Shares in such merger, consolidation or other business reorganization), all as determined by the Committee prior to the consummation of such merger; *provided, however*, that the Committee may, at any time prior to the consummation of such merger, consolidation or other business reorganization, direct that all, but not less than all, outstanding Options and Stock Appreciation Rights be canceled as of the effective date of such merger, consolidation or other business reorganization in exchange for a cash payment per Share equal to the excess (if any) of the value exchanged for an outstanding Share in such merger, consolidation or other business reorganization over the Exercise Price of the Option or Stock Appreciation Right being canceled.

(c) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change in Control) in which the Company is not the surviving entity, any Restricted Stock Award shall be adjusted by allocating to the Recipient the amount of money, stock, securities or other property to be received by the other shareholders of record, and such money, stock, securities or other property shall be subject to the same terms and conditions of the Restricted Stock Award that applied to the Shares for which it has been exchanged.

Article X

Miscellaneous

Section 10.1 **Status as an Employee Benefit Plan.**

This Plan is not intended to satisfy the requirements for qualification under section 401(a) of the Code or to satisfy the definitional requirements for an "employee benefit plan" under section 3(3) of the Employee Retirement Income Security Act of 1974, as amended. It is intended to be a non-qualified incentive compensation program that is exempt from the regulatory requirements of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be construed and administered so as to effectuate this intent.

Section 10.2 **No Right to Continued Employment.**

Neither the establishment of the Plan nor any provisions of the Plan nor any action of the Board or the Committee with respect to the Plan shall be held or construed to confer upon any Eligible Individual any right to a continuation of his or her position as a director or employee of the Company. The Employers reserve the right to remove any participating member of the Board or dismiss any Eligible Employee or otherwise deal with any Eligible Individual to the same extent as though the Plan had not been adopted.

Section 10.3 **Construction of Language.**

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 words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to an Article or section number shall refer to an Article or section of this Plan unless otherwise indicated.

Section 10.4 **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 federal law. The federal and state courts located in the County of New York shall have exclusive jurisdiction over any claim, action, complaint or lawsuit brought under the terms of the Plan. By accepting any Restricted Stock Award, Stock Appreciation Right or Option granted under this Plan, the Eligible Individual, and any other person claiming any rights under the Plan, agrees to submit himself, and any such legal action as he shall bring under the Plan, to the sole jurisdiction of such courts for the adjudication and resolution of any such disputes.

Section 10.5 **Headings.**

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 Plan, the text shall control.

Section 10.6 **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, engagements or torts.

Section 10.7 **Notices.**

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 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:

(a) If to the Committee:

Dime Community Bancshares, Inc.
c/o The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211

Attention: Corporate Secretary

(b) If to a Recipient, Beneficiary or Option Holder, to the Recipient's, Beneficiary's or Option Holder's address as shown in the Employer's records.

Section 10.8 **Approval of Shareholders.**

The Plan shall be subject to approval by the Company's shareholders within twelve (12) months before or after the Effective Date. Any Option, Stock Appreciation Right or Restricted Stock Award granted prior to the date such approval is obtained shall be granted contingent on such approval and shall be void *ab initio* in the event such approval is not obtained. No Performance-Based Restricted Stock Awards shall be granted after the fifth (5th) anniversary of the Effective Date unless, prior to such date, the listing of permissible Performance Goals set forth in section 6.3 shall have been re-approved by the stockholders of the Company in the manner required by section 162(m) of the Code and the regulations thereunder.

œ Code of Business Ethics œ

THE DIME SAVINGS BANK OF WILLIAMSBURGH

Revised October 2004

Board Approved October 2004

STATEMENT OF VALUES

Integrity and trust are fundamental elements of Dime's history and the manner in which we conduct business. Our commitment to these principles requires that all of our actions and relationships be based upon these uncompromising values:

Treat each other with respect



Act fairly in all of our relationships



Honor our commitments and obligations



Communicate honestly



Accept responsibility for our actions



Provide equal opportunity to all



Comply with all laws and regulations

MESSAGE FROM THE CHAIRMAN

Dear Fellow Employee:

Superior ethical values form the foundation upon which our company is built. All of us at Dime must demonstrate the highest standards of integrity in our relationships with customers. Equally as important, we must practice these values internally among the Dime team, and in our associations with suppliers and competitors.

This pamphlet, the *Code of Business Ethics*, reaffirms our longstanding commitment to individual and corporate integrity. It is additionally designed to help you understand the conduct expected of us as representatives of the Bank.

While acting with integrity requires the exercise of common sense, we will inevitably encounter situations which are uncertain. This booklet is intended to guide you in such matters. It cannot, however, consider all possible circumstances you may confront. Other important avenues for guidance are your supervisors and the Human Resources or Legal Departments. I urge you to seek and follow their advice.

I am personally committed to the exercise of the highest ethical standards. Dime's reputation for excellence and its continued success depend upon your dedication as well. Join me in making Dime a truly great bank, attractive to investors, admired by competitors, active in our communities and respected by all.

Sincerely,

Vincent F. Palagiano

*Chairman of the Board and
Chief Executive Officer*

INTRODUCTION

Dime's customers view us as banking experts. They place their trust in the Bank by depositing their savings and purchasing our products. The most effective method of earning and maintaining their confidence, as well as that of our fellow employees, regulators, shareholders and others with whom we interact, is to operate with the highest ethical standards and in accordance with all applicable laws and regulations. This has always been, and continues to be, the policy of the Bank. It applies to employees of Dime Community Bancshares, Inc. and its subsidiaries, as well as agents, consultants and others acting on Dime's behalf. For purposes of this booklet, Dime Community Bancshares, Inc. and all of its subsidiaries will be referred to as Dime or the Bank.

Dime operates through its employees. It is your responsibility to be aware of, and comply with, all laws affecting your area of operation. In addition, you should not tolerate illegal or unethical behavior in others. If you are requested to violate law or this Code of Business Ethics, or become aware of such conduct, you should report the matter promptly to your supervisor, the Director of Human Resources, General Counsel or Director of Internal Audit.

This pamphlet is not intended to describe correct behavior for every business encounter. Rather, it is designed as a reference to help you recognize and respond appropriately to issues which may arise in the daily performance of your job. If you are unable to resolve a specific ethical issue or concern after reviewing the Code, you should consult your manager, the Director of Human Resources or General Counsel for assistance.

In order to help guide your decisions, this pamphlet contains several provisions entitled **When In Doubt**. These are common sense questions you may consider which should assist your determination if you are uncertain. For example, a question applicable to virtually all situations is:

Would I be comfortable and proud to tell my family about my actions or have them described on television or in the newspaper?

I. RESPECT FOR DIVERSITY

Each of us possesses qualities which differ from those of our co-workers. These include not only such characteristics as race, gender and age, but less obvious attributes such as political affiliation, appearance and education. The diversity of our employees should be viewed not as differences, but as potential. Diversity provides a unique opportunity to obtain a variety of perspectives, experience and resources in addressing issues encountered by the Bank and in achieving its goals. It is our objective to create an environment which encourages and respects diversity in order to permit all of us to perform and contribute to our maximum potential.

Dime is committed to equal opportunities for all of its personnel, regardless of race, color, gender, age, religion, disability, national origin, marital status, sexual orientation, citizenship, veteran status or any other characteristic which may be considered "different". In addition, the Bank firmly prohibits sexual and other forms of harassment in the workplace. Complete presentations of Dime's Equal Employment Opportunity and Harassment policies are contained in your Employee Handbook. All managers and employees are expected to thoroughly review and comply with these requirements.

II. CONFLICTS OF INTEREST

Conflicts of interest arise when the personal concerns of an employee, or members of his or her immediate family, differ from the interests of the Bank. *Private concerns may not interfere with an employee's objectivity in performing company responsibilities.* Dime and its shareholders expect that we conduct our affairs in a manner that does not adversely influence our judgment when interacting with third parties or making other decisions on behalf of the Bank.

Employees must promptly disclose to their supervisors all actual and potential conflicts of interest in connection with the business of the Bank, including those in which they have been inadvertently placed. Personnel subject to conflicts will generally be prohibited from participating in decisions or actions regarding the issue. The Chief Executive Officer, and, if appropriate, the Board of Directors, will be advised of all transactions which directly or indirectly benefit controlling shareholders, officers, employees or their immediate families.

An actual conflict of interest need not exist to constitute a violation of the Code. *Activities that create even the appearance of conflict must additionally be avoided.* Apparent conflicts of interest must similarly be discussed with your manager, who will advise you of the appropriate action.

Following are several examples of conduct that may present a conflict of interest. It is not possible to define every objectionable practice, and employees are expected to examine their actions for conflicts which are, or may be, contrary to the interests of the Bank, however, are not specifically described below.

1. Holding a significant ownership or investment interest in a supplier, customer or competitor of the Bank. Dime seldom acquires products or services from its own employees. The Bank's reputation for impartial and fair dealing with vendors may be damaged by routinely purchasing from employees or their immediate families, even if based upon open competition.
2. Acting as an officer, director, employee, consultant, representative or agent of a supplier, customer or competitor of the Bank. All Dime personnel must obtain written supervisory authorization prior to accepting outside employment or a fiduciary appointment which may violate these rules. Approval will not be provided if the activity would, or could reasonably be expected to, result in a conflict of interest or interfere with performance of the individual's duties at the Bank.
3. Using your position at Dime, either directly or indirectly, for personal, family or other gain.
4. Authorizing, recommending or advancing a loan or other Bank product, waiving a payment or fee, or offering any other inducement which creates, results from, or may create, a conflict of interest.
5. Taking personal advantage of business opportunities available to the Bank.

Without prior written approval of the Director of Human Resources and the business unit supervisor, former employees may not (a) recruit Bank personnel for a period of one year following termination of employment, or (b) solicit for any business purpose Dime brokers or significant customer or client relationships for a six-month period following termination. Officers who have executed employment agreements with the Bank shall be bound by the terms of such contracts in this regard. By accepting employment at Dime, you acknowledge that a breach of these restrictions shall entitle the Bank, in addition to any other available remedies, to injunctive relief without proof of actual injury.

WHEN IN DOUBT

When in doubt, ask yourself the following questions:

Do my outside activities in any manner involve current suppliers, vendors, customers or competitors of Dime?

Could my outside activities adversely impact my decision?

III. ACCEPTING THINGS OF VALUE

1. *The Federal Bank Bribery Act makes it a serious crime to offer or accept anything of value in connection with the business of the Bank if your intent is to either influence, or be influenced by, a third party.*

2. In addition, it is Dime policy that employees may not demand, solicit, or accept anything of value, for themselves or a third party, in return for any business service or otherwise in connection with the operation of the Bank.

Dime and federal guidelines contain certain exceptions to the general prohibition against accepting things of value in connection with Bank business, provided they are not received with an intent to influence or be influenced. The permissible exceptions are as follows:

(a) Meals, refreshments, entertainment and travel arrangements or accommodations of reasonable value, arising in connection with a meeting or other occasion conducted to hold legitimate discussions or encourage better business relations, provided that the cost would be paid by Dime as a business expense if not satisfied by the other party;

(b) Gifts, gratuities, amenities or favors based upon obvious family or personal relationships when it is evident that the relationship, rather than the business of the Bank, is the motivating factor;

(c) Gifts of reasonable value, less than \$100, related to commonly recognized events or occasions, such as promotions, weddings, retirement or holidays;

(d) Discounts or rebates that are generally available to the public;

(e) Advertising and promotional material of reasonable and nominal value such as pens, key chains or calendars;

(f) Acceptance of loans from other institutions on customary terms to finance proper and usual activities such as home mortgages;

(g) Awards in recognition of service or accomplishment from civic, charitable, educational, or religious organizations.

3. Employees may not avoid the spirit of the permissible exceptions by accepting repeated gifts of nominal value, or by any other method.

4. Employees may not borrow from customers or suppliers of the Bank, except on customary terms from entities in the business of lending. Borrowing is limited by law, and may be conducted only on a standard basis, without preferential treatment.

5. *Employees must disclose in writing to their supervisor the offer and/or receipt of anything of value which may be for a corrupt purpose or in excess of that authorized in this Code.* The supervisor shall issue a written report of the disclosure, indicating appropriate action, and forward copies to the General Counsel, Director of Internal Audit and Director of Human Resources.

WHEN IN DOUBT

When in doubt, ask yourself the following questions:

Will other vendors or suppliers receive the impression that they must provide similar courtesies in order to obtain company business?

Am I attempting to justify accepting a business courtesy by arguing, "everyone else does it" or "no one will ever find out"?

Do I feel reluctant to discuss the subject with my supervisor?

IV. EMPLOYEE TRANSACTIONS WITH THE BANK

1. The Bank will not advance loans to Directors, executive/senior officers, principal shareholders, or their immediate families. The Bank will offer loans and other Dime products to other employees only in conformance with applicable law, regulations and Bank policy.

2. It is contrary to Bank policy for employees to knowingly overdraw their Dime accounts or default on any Bank loan.
3. Employee use of Dime accounts for improper, illegal or unethical purposes is prohibited. Employees may not process transactions in connection with their own account relationships at the Bank or those of their immediate family. Employees are required to promptly disclose to the Director of Human Resources all Dime accounts for which they possess signing authority.
4. Dime will not engage in the sale, purchase or lease of real estate with employees unless the transaction is in conformance with applicable law, regulations and Bank policy.

V. COMMERCIAL BRIBERY

1. Bribes, kickbacks, rebates and similar gifts or payments may not be offered by Dime employees in connection with the business of the Bank.
2. Corporate payments may not be made to government officials, or political parties or candidates, for purposes of securing business for the Bank. Pursuant to the Corrupt Practices Act of 1977, severe penalties may be imposed both upon the Bank and individuals who violate these restrictions.

VI. PROTECTION OF CONFIDENTIAL INFORMATION

1. All information regarding Dime's transactions, business practices and methods, as well as its past, present and prospective customers, personnel, suppliers and others with whom it conducts business, is confidential. *Employees shall not, during or after employment, reveal to unauthorized persons any confidential information regarding the Bank.*
2. Employees shall not, during or after employment, use confidential information for private gain to the employee or any other individual, or in making personal investments. This includes investments in the Bank and other entities. For example, personnel may not invest based upon actual investments by, or the investment strategy of, the Bank.
3. Employees may access customer information solely on a need-to-know basis. Customer information should be used only as necessary to administer Dime's business. Employees may not use confidential information concerning one customer to further the private interests of another customer or any other person or entity.
4. Customer information may generally not be disclosed to third parties. You may only exchange customer data (a) with reputable information reporting agencies, or (b) if required by law.
5. Bank vendors must agree in writing to protect customer information in accordance with our standards.
6. Files and records containing confidential information must be secured in a manner that restricts unauthorized access.
7. Public speaking engagements, authored publications and business consultations may all be considered activities undertaken on behalf of the Bank. Prior approval of the Director of Human Resources is thus required.
8. Subject to limited exceptions, neither the Bank nor its agents may permit a representative of the government access to information contained in the financial records of any Dime customer. Governmental requests for customer information should be presented to the General Counsel for review.
9. The prohibition against disclosing confidential information applies to inquiries by the news media, investment analysts and others in the financial community. Contacts from the press should be referred directly to the President or Chief Financial Officer. No employee should respond to questions from, or schedule an interview with, a reporter without initially consulting the President or Chief Financial Officer. In the case of investment analysts or others in the financial community, unless expressly authorized to the contrary, employees should politely decline comment and refer the inquirer to the President or Chief Financial Officer, or, in their absence, the Director of Investor Relations or General Counsel.
10. All documents prepared by employees, including e-mail, computer files, etc., are considered property of the Bank.
11. Upon termination of employment, personnel must return to Dime all property belonging to the Bank.

VII. ACCURACY OF BUSINESS RECORDS

The strictest standards of integrity must be maintained in connection with the records of the Bank. All information regarding transactions involving Dime must be accurate and precisely reported and recorded. All information required to be contained in periodic reports must be fully, fairly, accurately and timely reported in an understandable manner. Bank documents may not be removed, destroyed or altered in any manner without authorization. This is particularly applicable to records which may document unethical behavior or are related to financial reporting.

VIII. COMMUNICATION AND COMPUTER SYSTEMS

1. The use of Dime communication and computer systems requires particular care. E-mail, voice mail and the Internet exchanges are not private and their source is clearly identifiable. Electronic communications may remain part of Dime business records long

after you believe they have been deleted. Employees must ensure that the content of electronic communications does not adversely impact the Bank, its public image or that of its customers, representatives or suppliers.

2. Electronic communications may not be used improperly for personal reasons, such as messages of a political or religious nature, or exchanges containing obscene or otherwise offensive language or material. Dime reserves the right to access its communications and computer systems without notice.

IX. INSIDER TRADING

1. (a) Employees may not purchase, sell or otherwise trade in securities of any corporation while in possession of material, nonpublic information about the entity. This restriction is not limited to the shares of Dime Community Bancshares, Inc., and includes trading in the securities of other corporations that are current or prospective customers or suppliers of the Bank.

(i) "**Material**" information is knowledge an investor would consider significant in deciding whether to purchase, sell or hold a security, or which may affect the price of a stock. It is not possible to provide a comprehensive list of information considered material, however, some examples include a pending or prospective merger or acquisition; the sale of a significant subsidiary or other asset; internal financial information, such as earnings or losses; the acquisition or loss of a substantial contract, customer or supplier; or an important financing transaction.

(ii) Information is considered "**Nonpublic**" if it has not been available to the general public for a minimum of two trading days.

(b) Employees may not directly or indirectly disclose material, nonpublic information to third parties who may trade in the stock of Dime Community Bancshares, Inc. or another corporation.

2. Failure to comply with the obligations of the securities laws may result in serious criminal penalties, even if the amount of stock involved is minimal.

3. In addition to the restrictions summarized previously in this Code, Directors and Senior Officers may (a) not engage in transactions in Dime stock until the third business day after the public announcement of any material information, and (b) trade in Dime stock only (i) during the period commencing three business days after publication of the quarterly earnings release through the end of the second month of the quarter, and (ii) if not in possession of material, non-public information.

WHEN IN DOUBT

When in doubt, ask yourself the following question:

Are my decisions about whether or when to buy or sell stock influenced by facts I learned at work about Dime or other companies?

X. CONVICTION OF A CRIME

Absent regulatory approval, persons convicted of a criminal offense involving dishonesty or breach of trust, or entering into a pretrial diversion or similar program in connection with such an offense, may not be employed, affiliated with, control or otherwise participate in the affairs of the Bank. This applies to crimes arising from activities occurring both within and outside the scope of employment. *Employees must immediately advise the Director of Human Resources of any such convictions, pretrial diversions or similar programs.* In addition, the Bank will use appropriate measures intended to determine the existence of such offenses.

XI. WHERE TO REPORT VIOLATIONS

Employees are required to notify their supervisors of actual or suspected violations of law or the principles set forth in this guide. Failure to advise your manager of, or detect, an offense may itself be grounds for discipline. If you believe discussing an issue with your supervisor would be inappropriate, you may confer with the Director of Human Resources, General Counsel or the Director of Internal Audit.

Substantial effort will be made to treat reports of suspected illegalities or failures to comply with the Code in a confidential manner. Reports will be investigated promptly, thoroughly and fairly.

Retaliation or intimidation against persons filing a report will not be tolerated and may result in discipline.

XII. WHERE TO OBTAIN GUIDANCE

Because uncompromising standards of integrity are important to all of us, we must have access to additional guidance from knowledgeable individuals when circumstances require. The initial source of assistance should be your supervisors. Employees uncertain regarding these policies are encouraged to discuss with their managers questions of interpretation and compliance with the Code. In those situations where additional advice or guidance is required, you may contact in person, by telephone or in writing, the Director of Human Resources or General Counsel.

Disputes concerning matters of interpretation will be resolved by the Director of Human Resources, and, in appropriate circumstances, the President, Chief Financial Officer and/or General Counsel. In each instance, the determination shall be binding upon all impacted parties.

XIII. ENFORCEMENT

Dime vigorously monitors compliance with the law and its policies. In order to ensure legal adherence and preserve its reputation, Dime will treat seriously any illegalities or failure to comply with the principles set forth in this Code. Violations may result in disciplinary action, including termination of employment and possible civil or criminal penalties, and, where appropriate, will be reported to the Board. Code violations are not the sole grounds for discipline.

The Director of Human Resources is responsible for Code compliance. Business ethics and conformance with law, however, are not solely a function of one Department. The supervisors of each business unit are equally charged with administration of the Code.

Employees are obligated to cooperate fully with all authorized internal and external investigations. Honesty and complete disclosure are at all times required when conferring with Dime's internal or independent auditors, attorneys and security personnel.

XIV. EXCEPTIONS

Exceptions to these policies must conform with applicable law and regulation and be approved by any two of the President, Chief Financial Officer or General Counsel, or their designees, and reported to the Board, or its designee, at the next regularly scheduled meeting. Exceptions will be granted only after full written disclosure of all material facts.

XV. EMPLOYEE ACKNOWLEDGMENT

This Code of Business Ethics is a critical element of Dime's program to prevent and detect violations of law and Bank policy. Employees must sign and return the enclosed form confirming they have reviewed, understand, complied and will comply with the Code of Business Ethics.

EXHIBIT 21.1

Subsidiaries of Dime Community Bancshares, Inc.

The following are the significant subsidiaries of Dime Community Bancshares, Inc.

Name: The Dime Savings Bank of Williamsburgh

Jurisdiction of incorporation: United States of America

Names under which it does business:

The Dime Savings Bank of Williamsburgh

Name: 842 Manhattan Avenue Corporation

Jurisdiction of incorporation: New York

Names under which it does business:

842 Manhattan Avenue Corporation

Name: Dime Community Capital Trust I

Jurisdiction of incorporation: Delaware

Names under which it does business:

Dime Community Capital Trust I

Subsidiaries of The Dime Savings Bank of Williamsburgh

The following are the significant subsidiaries of The Dime Savings Bank of Williamsburgh.

Name: DSBW Preferred Funding Corporation

Jurisdiction of incorporation: Delaware

Names under which it does business:

DSBW Preferred Funding Corporation

Name: DSBW Residential Preferred Funding Corporation

Jurisdiction of incorporation: Delaware

Names under which it does business:

DSBW Residential Preferred Funding Corporation

Name: Havemeyer Equities, Inc.

Jurisdiction of incorporation: New York

Names under which it does business:

Havemeyer Equities, Inc.

Name: Havemeyer Investments, Inc.

Jurisdiction of incorporation: New York

Names under which it does business:

Havemeyer Investments, Inc.

The remaining subsidiaries, which are all direct or indirect subsidiaries of The Dime Savings Bank of Williamsburgh would not, when considered in the aggregate as a single subsidiary, constitute a significant subsidiary as defined in 17 C.F.R. 210.1-02 (v) Rule 1-02(v) of Regulation S-X as of December 31, 2003. For a description of the Registrant's subsidiaries, see Item 1 -"Business," "Subsidiary Activities," of the Form 10-K.

CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO 17 CFR 240.13a-14

I, Vincent F. Palagiano, certify that:

1. I have reviewed this annual report on Form 10-K of Dime Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 reasonably 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 14, 2005

/s/ VINCENT F. PALAGIANO

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

CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO 17 CFR 240.13a-14

I, Kenneth J. Mahon, certify that:

1. I have reviewed this annual report on Form 10-K of Dime Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 reasonably 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 14, 2005

/s/ KENNETH J. MAHON

Kenneth J. Mahon
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K (the "Report") for the year ended December 31, 2004 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 14, 2005

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 year ended December 31, 2004 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 14, 2005
Date

By: /s/ KENNETH J. MAHON

Kenneth J. Mahon
Executive Vice President and Chief Financial Officer