

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transaction period from _____ to _____

Commission file Number 0-27782

DIME COMMUNITY BANCORP, INC.
(Exact Name of registrant as specified in its charter)

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

209 Havemeyer Street, Brooklyn, NY 11211
(Address of principal executive offices) (Zip Code)

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

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

Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE \$.01 PER SHARE
(Title of Class)

Indicate by check mark whether the Company (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 X 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 Company's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendments to
this Form 10-K.

As of September 22, 1997, there were 12,624,750 shares of the Company's
common stock, \$0.01 par value, outstanding. The aggregate market value of the
voting stock held by non-affiliates of the Company as of September 22, 1997 was
\$209,268,766. This figure is based upon the closing price on the NASDAQ
National Market for a share of the Company's common stock on September 22,
1997, which was \$20.125 as reported in the Wall Street Journal on September 23,
1997.

DOCUMENTS INCORPORATED BY REFERENCE

(1) The Annual Report to Shareholders for the fiscal year ended June 30, 1997
(Item 1 of Part I, and Items 5 through 8 of Part II) and (2) the definitive
Proxy Statement dated October 6, 1997 to be distributed on behalf of the Board
of Directors of Registrant in connection with the Annual Meeting of
Shareholders to be held on November 13, 1997 and any adjournment thereof and
which is expected to be filed with the Securities and Exchange Commission on or
about October 7, 1997
(Part III).

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Statements contained in this Annual Report on Form 10-K relating to plans, strategies, economic performance and trends, and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking information is inherently subject to various factors which could cause actual results to differ materially from these estimates. These factors include: changes in general, economic and market conditions, or the development of an adverse interest rate environment that adversely affects the interest rate spread or other income anticipated from the Company's operations and investments. The Company has no obligation to update these forward looking statements.

PART I

ITEM 1. BUSINESS

General

Dime Community Bancorp, Inc. (the "Company") is a Delaware corporation organized in December, 1995 at the direction of the Board of Directors of The Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the conversion of the Bank, on June 26, 1996, from a federal mutual savings bank to a federal stock savings bank (the "Conversion"). In connection with the Conversion, the Company issued 14,547,500 shares (par value \$0.01) of common stock at a price of \$10.00 per share to certain of the Bank's eligible depositors who subscribed for shares and to an Employee Stock Ownership Plan ("ESOP") established by the Company. The Company realized net proceeds of \$141.4 million from the sale of its common stock and utilized approximately \$76.4 million of the proceeds to purchase 100% of the Bank's common stock and \$11.6 million to fund a loan to the ESOP for its purchase of 1,163,800 shares, or 8%, of the Company's common stock. The remaining proceeds of \$53.4 million were retained by the Company.

The primary business of the Company is the operation of its wholly-owned subsidiary, the Bank. In addition to directing, planning and coordinating the business activities of the Bank, the Company retained proceeds of \$53.4 million in connection with the Conversion, which are invested in federal funds, short-term, investment grade marketable securities and mortgage-backed securities. The Company also holds a note evidencing the loan that it made to the ESOP to purchase 8% of its common stock issued in the Conversion. See "-Regulation - Regulation of the Holding Company."

The 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. Under regulations of the Office of Thrift Supervision ("OTS") the Bank is a qualified thrift lender if its ratio of qualified thrift investments to portfolio assets ("QTL Ratio") is 65% or more, on a monthly average basis in nine of every twelve months. At June 30, 1997, the Bank's QTL Ratio was 94.4%, and the Bank has maintained more than 65% of its portfolio assets in qualified thrift investments in at least nine of the preceding twelve months.

In the future, the Company may organize or acquire, through merger or otherwise, other subsidiaries, including other financial institutions, or branches thereof, or other financial services related companies, although there are no current arrangements, understandings or agreements regarding any such acquisition or expansion.

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

Unless otherwise disclosed, the information presented in this Form 10-K reflect the financial condition and results of operations of the Company and the Bank on a consolidated basis. At June 30, 1996, the Company had total consolidated assets of \$1.37 billion, which included \$131.1 million of excess proceeds resulting from the oversubscription to the Company's initial public offering, which was refunded on July 1, 1996. Certain information which discloses percentages of total assets will include parenthetical disclosure for "Adjusted Assets," which represents total assets adjusted for the refund of excess proceeds on July 1, 1996.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing those deposits, primarily in multi-family and one- to four-family residential mortgage loans, mortgage-backed securities, and obligations of the U.S. Government and Government Sponsored Entities ("GSEs"). 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; amortization, prepayments and maturities of mortgage-backed and investment securities; and borrowings, and, to a lesser extent, the sale of fixed-rate mortgage loans to the secondary market. The Bank is also a member of the Federal Home Loan Bank of New York ("FHLBNY").

ACQUISITION OF CONESTOGA BANCORP, INC.

On June 26, 1996 the Bank completed the acquisition (the "Acquisition") of Conestoga Bancorp, Inc. ("Conestoga"), resulting in the merger of Conestoga's wholly-owned subsidiary, Pioneer Savings Bank, F.S.B. ("Pioneer") with and into the Bank, with the Bank as the resulting financial institution.

The Acquisition was accounted for in the financial statements using the purchase method of accounting. Under purchase accounting, the acquired assets and liabilities of Conestoga are recognized at their fair value as of the date of the Acquisition. Shareholders of Conestoga were paid approximately \$101.3 million in cash, resulting in goodwill of \$28.4 million, which is being amortized on a straight line basis over a twelve year period.

Since the Acquisition occurred on June 26, 1996, its impact upon the Company's consolidated results of operations for the fiscal year ended June 30, 1996 was minimal. The full effect of the Acquisition is reflected in the Company's consolidated results of operations for the fiscal year ended June 30, 1997, as well as the consolidated statements of financial condition as of June 30, 1997 and 1996.

MARKET AREA AND COMPETITION

The Bank has been, and intends to continue to be, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburgh section of the borough of Brooklyn. Fourteen additional offices are located in the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is larger, and includes much of New York City and Nassau County. Most of the Bank's mortgage loans are secured by properties located in its primary lending area.

The New York City metropolitan area has historically benefited from having a large number of corporate headquarters and a diversity of financial services industries. However, due to (1) the lingering effects of the decline of the stock market in 1987, (2) the resulting decline in the regional economy and (3) layoffs and corporate relocations in the financial services industry, the New York City metropolitan area experienced reduced levels of employment and an overall decline in the underlying values of local properties from 1987 to 1993.

Since then, the local economy has improved significantly. Unemployment has remained low, home sales have increased, residential apartment and commercial property vacancy rates have declined considerably, and local real estate values have stabilized. The rise and decline of the Bank's non-performing asset portfolio closely parallels the trend of the local economy during this period. See "Asset Quality." A strong local economy existed throughout the Company's entire fiscal year ended June 30, 1997. Despite these encouraging trends, the outlook for the local economy remains uncertain.

The Bank faces significant competition both in making loans and in attracting deposits. The Bank's market area has a high density of financial institutions, many of which have greater financial resources than the Bank, and all of which are competitors of the Bank to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage banking companies and insurance companies. The Bank has recently faced increased competition for the origination of multi-family loans, which comprised 66.15% Bank's loan portfolio at June 30, 1997. Management anticipates that competition for both multi-family and one- to four-family loans will continue to increase in the future. Thus, no assurances can be made that the Bank will be able to maintain its current level of such loans. The Bank's most direct competition for deposits has historically come from savings and loan associations, savings banks, commercial banks and direct purchases of government securities. The Bank faces additional competition for deposits from short-term money market funds and other corporate and government securities funds, and from other financial institutions such as brokerage firms and insurance companies. Competition may also increase as a result of the lifting of restrictions on the overall operations of financial institutions.

LENDING ACTIVITIES

LOAN PORTFOLIO COMPOSITION. The Bank's loan portfolio consists primarily of multi-family loans secured by apartment buildings (including loans underlying apartment buildings organized under cooperative form of ownership, "underlying cooperatives"), conventional first mortgage loans secured primarily by one- to four-family residences, including condominiums and cooperative apartment share loans, and non-residential (commercial) property loans. At June 30, 1997, the Bank's loan portfolio totaled \$753.7 million. Within the loan portfolio, \$498.5 million or 66.15% were multi-family loans, \$191.7 million or 25.44% were loans to finance the purchase of one- to four-family properties and cooperative apartment share loans, \$43.2 million or 5.73% were loans to finance the purchase of commercial properties, primarily small shopping centers, warehouses and nursing homes, and \$14.2 million or 1.88% were loans to finance multi-family and residential properties with either full or partial credit guarantees provided by either the Federal Housing Administration ('FHA') or the Veterans' Administration ('VA'). Of the total mortgage loan portfolio outstanding at that date, 23.48% were fixed-rate loans and 76.52% were adjustable-rate loans ('ARMs'), of which 78.16% are multi-family and non-residential property loans which carry a maturity of 10 years, and an amortization period of no longer than 25 years. These loans have a fixed interest rate that adjusts after the fifth year indexed to the 5-year FHLBNY advance rate, but may not adjust below the initial interest rate of the loan. At June 30, 1997, the Bank's loan portfolio also included \$2.8 million in passbook loans, \$1.2 million in home improvement loans, and \$2.0 million in other consumer loans.

The types of loans that the Bank may originate are subject to federal and state laws and regulations. Interest rates charged by the Bank on loans are affected principally by the demand for such loans, the supply of money available for lending purposes, and the rates offered by its competitors. These factors are, in turn, affected by general and economic conditions, and the fiscal and monetary policy of the federal government.

The following table sets forth the composition of the Bank's mortgage and other loan portfolios in dollar amounts and percentages at the dates indicated.

AT June 30,

	1997	Percent of Total	1996 Total	Percent of Total	1995 Total	Percent of Total	1994 Total	Percent of Total	1993 Total	Percent of Total
	(Dollars In Thousands)					(Dollars In Thousands)				
Mortgage loans:										
One-to-four family	140,798	18.68%	\$170,182	29.05%	\$58,291	13.52%	\$59,461	13.74%	\$75,248	16.26%
Multi-family and underlying cooperative	498,536	66.15	296,630	50.63	252,436	58.56	242,088	55.92	243,803	52.67
Non-residential	43,180	5.73	37,708	6.44	26,972	6.26	26,896	6.21	25,873	5.59
FHA/VA insured	14,153	1.88	16,686	2.85	22,061	5.12	27,264	6.30	33,421	7.22
Cooperative apartment	50,931	6.76	59,083	10.08	67,524	15.67	73,250	16.92	80,469	17.39
Total mortgage loans	747,598	99.20	580,289	99.05	427,284	99.13	428,959	99.09	458,814	99.13
Other loans:										
Student loans	1,005	0.13	1,307	0.22	1,431	0.33	1,506	0.35	1,696	0.37
Passbook savings (secured by savings and time deposits)	2,801	0.37	3,044	0.52	1,510	0.35	1,516	0.35	1,375	0.30
Home improvement loans	1,243	0.16	891	0.15	475	0.11	550	0.13	665	0.14
Consumer installment and other	1,027	0.14	323	0.06	336	0.08	362	0.08	302	0.06
Total other loans	6,076	0.80	5,565	0.95	3,752	0.87	3,934	0.91	4,038	0.87
Gross loans	753,674	100.00%	585,854	100.00%	431,036	100.00%	432,893	100.00%	462,852	100.00%
Less:										
Unearned discounts and net deferred loan fees	3,090		2,168		1,182		1,300		1,434	
Allowance for loan losses	10,726		7,812		5,174		3,633		2,996	
Loans, net	\$739,858		\$575,874		\$424,680		\$427,960		\$458,422	
Loans serviced for others:										
One-to-four family and cooperative apartment	\$60,242		\$63,360		\$63,192		\$65,063		\$59,403	
Multi-family and underlying cooperative	9,406		27,690		30,264		34,396		44,079	
Total loans serviced for others	\$69,648		\$91,050		\$93,456		\$99,459		\$103,482	

Includes acquisition of \$113.1 million loans from Conestoga on June 26, 1996, substantially all of which were one-to-four family loans.
Includes loans held for sale.

LOAN MATURITY AND REPRICING. The following table shows the earlier of maturity or repricing period of the Bank's loan portfolio at June 30, 1997. Loans that have adjustable rates are shown as being due in the period during which the interest rates are next subject to change. The table does not include prepayments or scheduled principal amortization. Prepayments and scheduled principal amortization on the Bank's loan portfolio totaled \$91.4 million for the year ended June 30, 1997.

At June 30, 1997							
----- Mortgage Loans -----							
	One-to- Four-Family	Multi- family and Underlying Cooperative	Non- Residential	FHA/VA Insured	Cooperative Apartment	Other Loans	Total Loans
	-----	-----	-----	-----	-----	-----	-----
	(In Thousands)						
Amount due:							
One year or less	\$44,285	\$29,814	\$6,577	\$-	\$39,395	\$5,055	\$125,126
After one year:							
One to three years	18,864	101,529	7,052	6,947	11,027	1,021	146,440
More than three years to five years	2,565	252,905	23,562	-	477	-	279,509
More than five years to ten years	16,728	81,880	4,309	152	32	-	103,101
More than ten years to twenty years	29,554	32,408	1,159	7,054	-	-	70,175
Over twenty years	28,802	-	521	-	-	-	29,323
Total due or repricing after one year	96,513	468,722	36,603	14,153	11,536	1,021	628,548
Total amounts due or repricing, gross	\$140,798	\$498,536	\$43,180	\$14,153	\$50,931	\$6,076	\$753,674
	=====	=====	=====	=====	=====	=====	=====

The following table sets forth the dollar amounts in each loan category at June 30, 1997 that are due after June 30, 1998, and whether such loans have fixed or adjustable-interest rates.

Due after June 30, 1998			
	Fixed	Adjustable	Total
	-----	-----	-----
	(In Thousands)		
Mortgage loans:			
One-to-four family	\$76,311	\$20,202	\$96,513
Multi-family and underlying cooperative	76,363	392,359	468,722
Non-residential	8,416	28,187	36,603
FHA/VA insured	14,153	-	14,153
Cooperative apartment	179	11,357	11,536
Other loans	-	1,021	1,021
Total loans	\$175,422	\$453,126	\$628,548
	=====	=====	=====

Multi-family and Non-residential Lending. The Bank originates adjustable-rate and fixed-rate multi-family (five or more units) and non-residential loans which are secured primarily by apartment buildings, underlying cooperatives, mixed-use (residential combined with commercial) and other non-residential properties, generally located in the Bank's primary lending area. The main competitors for loans in this market tend to be other small- to medium-sized local savings institutions. Multi-family and non-residential loans in the Bank's portfolio generally range in amount from \$100,000 to \$9.0 million, and have an average loan size of approximately \$672,000. Residential multi-family loans in this range generally have between 5 and 100 apartments per building. The Bank had a total of \$439.4 million of multi-family loans in its portfolio on buildings with under 100 units as of June 30, 1997. Mostly as a result of rent control and rent stabilization, the associated rent rolls for buildings of this type indicate a rent range that would be considered affordable for low- to moderate-income households. In addition, at June 30, 1997, the Bank had a total of \$50.9 million in loans secured by mortgages on underlying cooperative apartment buildings.

The Bank originated multi-family loans totaling \$245.3 million during the fiscal year ended June 30, 1997, versus \$94.4 million during the year ended June 30, 1996. At June 30, 1997, the Bank had \$115.1 million of commitments outstanding to originate mortgage loans, which included \$6.4 million of commitments to refinance existing mortgage loans. This compares to \$81.2 million of commitments outstanding at June 30, 1996. All the mortgage commitments outstanding at June 30, 1997 were issued to borrowers within the Bank's service area, \$114.5 million of which are secured by multi-family and underlying cooperative apartment buildings.

The Bank's current lending policy requires loans in excess of \$500,000 to be approved by the Board of Directors. The Bank also considers the financial resources and income level of the borrower, the borrower's experience in owning or managing similar properties, the market value of the property and the Bank's lending experience with the borrower. The typical adjustable-rate multi-family loan carries a maturity of 10 years, and an amortization period of no longer than 25 years. These loans have a fixed interest rate that adjusts after the fifth year indexed to the 5-year FHLBNY advance rate, but may not adjust below the initial interest rate of the loan. Prepayment penalties are assessed throughout the life of the loans. The Bank also offers fixed-rate, self-amortizing, multi-family and non-residential loans with maturities of up to 15 years.

At June 30, 1997, the Bank had multi-family loans totaling \$498.5 million in its portfolio, comprising 66.2% of the gross loan portfolio. The underwriting standards for new loans generally require (1) a maximum loan-to-value ratio of 75% based on an appraisal performed by an independent, state-certified appraiser and (2) sufficient cash flow from the underlying property to adequately service the debt, represented by a debt service ratio not below 1.15. Of the Bank's multi-family loans, \$434.3 million, or 87.1 %, were secured by apartment buildings, and \$64.2 million, or 12.9 % were secured by underlying cooperatives at June 30, 1997. Multi-family 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. At June 30, 1997, the Bank had 141 multi-family and non-residential loans with principal balances of \$1.0 million or more, totaling \$276.4 million. These loans, while underwritten to the same standards as all other multi-family and non-residential 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. As of June 30, 1997, none of these loans were in arrears nor in the process of foreclosure. See '- Asset Quality.'

Loans secured by apartment buildings and other multi-family residential properties are generally larger and involve a greater degree of risk than one-to-four family mortgage loans. Repayment of multi-family loans is dependent, in large part, on sufficient cash flow from the property to cover 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 value of the security for the loan or the future cash flow of such properties. As a result, rental income might not rise sufficiently over time to meet increases in the loan rate at repricing, or increases in overhead expenses (I.E., utilities, taxes). During the last five fiscal years, the Bank's charge-offs related to its multi-family loan portfolio totaled \$6.2 million. As of June 30, 1997, the Bank had \$1.6 million of non-performing multi-family loans. See "- Asset Quality and - Allowance for Loan Losses" for discussions of the Bank's underwriting procedures utilized in originating multi-family loans.

The Bank's loan portfolio also includes \$43.2 million in non-residential real estate mortgage loans which represented 5.73% of gross loans at June 30, 1997. This portfolio is comprised of commercial and industrial properties, and shopping centers. The Bank utilizes, where appropriate, rent or lease income, business receipts, the borrowers' credit history and business experience, and comparable appraisal values when underwriting non-residential applications. As of June 30, 1997, there were no non-performing non-residential loans in the Bank's portfolio. Like multi-family loans, the repayment of non-residential real estate mortgage loans is dependent, in large part, upon sufficient cash flows from the property to cover operating expenses and debt service. For this reason, non-residential real estate mortgage loans are considered to include greater risk than one-to-four family residential loans.

The Bank's three largest loans at June 30, 1997, consisted of a \$9.0 million loan secured by a first mortgage on a 276 unit apartment building located in midtown Manhattan originated in May, 1997; an \$8.5 million first mortgage loan, originated in June, 1997, secured by a 631 unit apartment building located in the Forest Hills section of Queens; and a \$7.2 million first mortgage loan, originated in February, 1997, secured by a 306 unit apartment building located in the Borough Park section of Brooklyn. As of June 30, 1997, all of these loans were performing in accordance with their terms. See "-Regulation of Federal Savings Associations - Loans to One Borrower." While the loans are current, their large loan balance does subject the Bank to a greater potential loss in the event of non-compliance by the borrower.

The Bank also currently services a total of \$9.4 million in multi-family loans for various private investors. These loans were sold in the late 1980s, without recourse.

ONE- TO FOUR-FAMILY MORTGAGE AND COOPERATIVE APARTMENT LENDING. The Bank offers residential first mortgage loans secured primarily by owner-occupied, one-to four-family residences, including condominiums, and cooperative apartment share loans. Lending is primarily confined to an area covered by a 50-mile radius from the Bank's Main Office in Brooklyn. The Bank offers conforming and non-conforming fixed-rate mortgage loans and adjustable-rate mortgage loans with maturities of up to 30 years and a maximum loan amount of \$500,000. The Bank's residential mortgage loan originations are generally obtained from existing or past loan customers, depositors of the Bank, members of the local community and referrals from attorneys, realtors and independent mortgage brokers who refer members of the communities located in the Bank's primary lending area. The Bank is a participating seller/servicer with several government-sponsored mortgage agencies: FNMA, FHLMC, and SONYMA, and generally underwrites its one- to four-family residential mortgage loans to conform with standards required by these agencies. Although the collateral for cooperative apartment loans is comprised of shares in a cooperative corporation (a corporation whose primary asset is the underlying real estate), cooperative apartment loans generally are treated as one- to four-family loans. The Bank's portfolio of such loans is \$50.9 million, or 6.76% of total loans as of June 30, 1997. The recent market for cooperative apartment loan financing has improved with the support of certain government agencies, particularly SONYMA and FNMA, who are insuring and purchasing, respectively, cooperative apartment share loans in qualifying buildings. The Bank adheres to underwriting guidelines established by SONYMA and FNMA for all fixed-rate cooperative apartment loans which are originated for sale. Adjustable-rate cooperative apartment loans continue to be originated both for portfolio and for sale.

At June 30, 1997, \$191.7 million, or 25.44%, of the Bank's loans consisted of one-to four- family and cooperative apartment mortgage loans. ARMs represented 60.89% of total one- to four-family and cooperative apartment loans, while fixed-rate mortgages comprised 39.11% of the total. A large portion of these fixed rate mortgages were acquired from Conestoga. See "- Acquisition of Conestoga." The Bank currently offers one- to four-family and cooperative apartment mortgage ARMs secured by residential properties with rates that adjust every one or three years. One- to four-family ARMs are offered with terms of up to 30 years. The interest rate at repricing on one- to four-family ARMs currently offered fluctuates based upon a spread above the average yield on United States Treasury securities, adjusted to a constant maturity which corresponds to the adjustment period of the loan (the 'U.S. Treasury constant maturity index') as published weekly by the Federal Reserve Board. Additionally, one- and three-year one- to four-family ARMs are generally subject to limitations on interest rate increases of 2% and 3%, respectively, per adjustment period, and an aggregate adjustment of 6% over the life of the loan. For the year ended June 30, 1997, the Bank originated \$2.6 million of one- to four-family and cooperative apartment mortgage ARMs.

The volume and types of ARMs originated by the Bank have been affected by such market factors as the level of interest rates, competition, consumer preferences and availability of funds. During fiscal 1997, demand for one- to four-family ARMs was relatively weak due to the prevailing low interest rate environment and consumer preference for fixed-rate loans. Accordingly, although the Bank will continue to offer one- to four-family ARMs, there can be no assurance that in the future the Bank will be able to originate a sufficient volume of one- to four-family ARMs to increase or maintain the proportion that these loans bear to total loans.

The retention of one- to four-family and cooperative apartment mortgage ARMs, as opposed to fixed-rate residential mortgage loans, in the Bank's loan portfolio helps reduce the Bank's exposure to increases in interest rates. However, one- to four-family ARMs generally pose credit risks different from the risks inherent in fixed-rate loans, primarily because as interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected. In order to minimize risks, applicants for one- to four-family ARMs are qualified at the highest rate which would be in effect after the first interest rate adjustment, if rates were to rise. The Bank has not in the past, nor does it currently, originate one- to four-family ARMs which provide for negative amortization.

The Bank currently offers fixed-rate mortgage loans with terms of 10 to 30 years secured by one- to four-family residences and cooperative apartments. Interest rates charged on fixed-rate loans are competitively priced based on market conditions. The Bank generally originates fixed-rate loans for sale in amounts up to the maximum allowed by FNMA, FHLMC and SONYMA, with private mortgage insurance required for loans with loan-to-value ratios in excess of 80%. For the year ended June 30, 1997, the Bank originated \$3.3 million of fixed-rate, one- to four-family residential mortgage and cooperative apartment loans.

The Bank generally sells its newly originated conforming fixed-rate mortgage loans in the secondary market to federal and state agencies such as FNMA, FHLMC and SONYMA, and its non-conforming fixed-rate mortgage loans to various private sector secondary market purchasers. With few exceptions, such as SONYMA, the Bank retains the servicing rights on all such loans sold. For the year ended June 30, 1997, the Bank sold mortgage loans totaling \$3.3 million. As of June 30, 1997, the Bank's portfolio of one-to four-family fixed-rate mortgage loans serviced for others totaled \$60.2 million. The Bank intends to continue to sell all of its newly-originated fixed-rate mortgage loans to conform to its interest-rate risk policy. No assurances can be made, however, that the Bank will be able to do so.

Originated mortgage loans in the Bank's one-to-four family portfolio generally include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent. It is the Bank's policy to enforce due-on-sale provisions within the applicable regulations and guidelines imposed by New York law and secondary market purchasers.

Home equity loans currently are originated to a maximum of \$250,000. When combined with the balance of the first mortgage lien, the home equity loan may not exceed 75% of the appraised value of the property at the time of the loan commitment. The Bank's home equity loans outstanding at June 30, 1997, totaled \$1.2 million against total available credit lines of \$1.8 million.

OTHER LENDING. The Bank also originates other loans, primarily student and passbook loans. Total other loans outstanding at June 30, 1997, amounted to \$6.1 million, or 0.80% of the Bank's loan portfolio. Passbook loans, totaling \$2.8 million, and home improvement loans, totaling \$1.2 million, comprise the majority of the Bank's other loan portfolio.

LOAN APPROVAL AUTHORITY AND UNDERWRITING. The Board of Directors establishes lending authorities for individual officers as to its various types of loan products. For multi-family and one- to four-family mortgage loans, including cooperative apartment and condominium loans, the Loan Operating Committee, which is comprised of the Chief Executive Officer, President, and Executive Vice President, and the heads of both the residential loan and multi-family loan origination departments, has the authority to approve loans in amounts up to \$500,000. Any loan in excess of \$500,000, however, must be approved by the Board of Directors. 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 total capital. See ''- Regulation - Regulation of Federal Savings Associations - Loans to One Borrower.''

For all one- to four-family loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower, a credit report is ordered, income, assets and certain other information are verified by an independent credit agency, and if necessary, additional financial information is required to be submitted by the borrower. An appraisal of the real estate intended to secure the proposed loan is required, which currently is performed by an independent appraiser designated and approved by the Board of Directors. In certain cases, the Bank may also require certain environmental hazard reports on multi-family properties. It is the Bank's policy to require appropriate insurance protection, including title and hazard insurance, on all real estate mortgage loans prior to closing. Borrowers generally are required to advance funds for certain items such as real estate taxes, flood insurance and private mortgage insurance, when applicable.

ASSET QUALITY

DELINQUENT LOANS AND FORECLOSED ASSETS. Management does not expect to incur significant losses on its current portfolio of delinquent mortgage loans. Loans in the process of foreclosure and other non-accrual loans, 88 loans in all, totaled \$3.2 million at June 30, 1997 versus \$6.6 million at June 30, 1996. The largest loan in this group is a \$672,000 foreclosure on an underlying cooperative apartment building located in Manhattan. The Bank believes that its allowance for loan losses as of June 30, 1997 is adequate. The Bank had 33 loans totaling \$603,000 delinquent 60-89 days at June 30, 1997, as compared to 33 such delinquent loans totaling \$2.3 million at June 30, 1996.

The Bank's real estate loan servicing policies and procedures require that the Bank initiate contact with a delinquent borrower as soon after the tenth day of delinquency as possible. Generally, the policy calls for a late notice to be sent 10 days after the due date of the late payment. If payment has not been received within 30 days of the due date, a letter is sent to the borrower. Thereafter, periodic letters and phone calls are placed to the borrower until payment is received. In addition, Bank policy calls for the cessation of interest accruals on loans delinquent 60 days or more. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due, or work out a repayment schedule with the borrower to avoid foreclosure. Generally, foreclosure proceedings are initiated by the Bank when a loan is 90 days past due. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is generally sold at foreclosure or by the Bank as soon thereafter as practicable.

Management reviews delinquent loans on a continuous basis and reports monthly to the Board of Directors regarding the status of all delinquent and non-accrual loans in the Bank's portfolio. The Bank retains outside counsel experienced in foreclosure and bankruptcy procedures to institute foreclosure and other actions on the Bank's delinquent loans. It is the policy of the Bank to initiate foreclosure proceedings after a loan becomes 90 days past due. As soon as practicable after initiating foreclosure proceedings on a loan, the Bank prepares an estimate of the fair value of the underlying collateral. It is the Bank's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and as prudently as possible in consideration of market conditions, the physical condition of the property, and any other mitigating conditions.

The continued adherence to these procedures, as well as a strong local real estate market resulted in a significant drop in problem loans in the Bank's portfolio during the fiscal year ended June 30, 1997. Evidence of this is reflected in declines in both non-performing loans and loans delinquent 60-89 days. Non-performing loans totaled \$3.2 million at June 30, 1997 as compared to \$6.6 million at June 30, 1996. The Bank had 33 loans totaling \$603,000 million delinquent 60-89 days at June 30, 1997, as compared to 33 such delinquent loans totaling \$2.3 million at June 30, 1996.

Under Generally Accepted Accounting Principles ("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 debt 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 the Bank would not otherwise consider. Debt restructurings or loan modifications for a borrower do not necessarily always constitute troubled-debt restructurings, however, and troubled-debt restructurings do not necessarily result in non-accrual loans. The Bank had four loans classified as troubled-debt restructurings at June 30, 1997, totaling \$4.7 million, and all are currently performing according to their restructured terms. The largest restructured debt, a \$2.7 million loan secured by a mortgage on an underlying cooperative apartment building located in Forest Hills, New York, was originated in 1987. The loan was first restructured in 1988, and again in 1994. The current regulations of the Office of Thrift Supervision require that troubled-debt restructurings remain classified as such until either the loan is repaid or returns to its original terms. The Bank did not incur any new loan restructurings during the fiscal year ended June 30, 1997. All four troubled-debt restructurings as of June 30, 1997 are on accrual status as they have been performing in accordance with the restructuring terms for over one year.

Effective July 1, 1995, the Bank adopted SFAS 114, which established guidelines for determining and measuring impairment in loans. In the event the carrying balance of the loan, including all accrued interest, exceeds the estimate of fair value, the loan is considered to be impaired and a reserve is established pursuant to SFAS 114. Generally, the Bank considers non-performing loans to be impaired loans. The recorded investment in loans deemed impairment under the guidance of SFAS 114 was approximately \$4.3 million as of June 30, 1997, compared to \$7.4 million at June 30, 1996, and the average balance of impaired loans was \$4.7 million for the year ended June 30, 1997 compared to \$6.7 million for the year ended June 30, 1996. The impaired portion of these loans is represented by specific reserves totaling \$122,000 allocated within the allowance for loan losses at June 30, 1997. At June 30, 1997, one loan totaling \$2.7 million, was deemed impaired for which no reserves have been provided. This loan, which is included in troubled-debt restructurings at June 30, 1997, has performed in accordance with the provisions of the restructuring agreement signed in October, 1995. The loan has been retained on accrual status at June 30, 1997. At June 30, 1997, approximately \$1.6 million of one-to-four family and cooperative apartment loans on nonaccrual status are not deemed impaired under SFAS 114. All of these loans have outstanding balances less than \$203,000, and are considered a homogeneous loan pool not covered by SFAS 114.

NON-PERFORMING ASSETS AND TROUBLED-DEBT RESTRUCTURINGS. The following table sets forth information regarding the Bank's non-performing assets and troubled-debt restructurings at the dates indicated.

	At June 30,				
	1997	1996	1995	1994	1993
	(Dollars In Thousands)				
Non-performing loans:					
One-to-four family	\$1,123	\$1,149	\$572	\$1,276	\$3,449
Multi-family and underlying cooperative	1,613	4,734	3,978	4,363	7,265
Non-residential	-	-	-	-	-
Cooperative apartment	415	668	523	609	918
Other loans	39	-	-	-	-
Total non-performing loans	3,190	6,551	5,073	6,248	11,632
Total Other Real Estate Owned	1,697	1,946	4,466	8,200	7,981
Total non-performing assets	\$4,887	\$8,497	\$9,539	\$14,448	\$19,613
Troubled-debt restructurings	\$4,671	\$4,671	\$7,651	\$7,421	\$5,219
Total non-performing assets and troubled-debt restructurings	\$9,558	\$13,168	\$17,190	\$21,869	\$24,832
Impaired loans	\$4,294	\$7,419	\$-	\$-	\$-
Total non-performing loans to total loans	0.43%	1.12%	1.18%	1.45%	2.52%
Total non-performing assets to total assets	0.37	0.62	1.44	2.23	3.04
Total non performing assets and troubled-debt restructurings to total assets <3>	0.73	0.96	2.59	3.38	3.84

The Bank adopted SFAS 114 effective July 1, 1995. Impaired loans were not measured prior to this date.

Total non-performing assets to total Adjusted Assets were 0.68% at June 30, 1996.

Total non-performing assets and troubled-debt restructurings to total Adjusted Assets were 1.06% at June 30, 1996.

The Bank recorded \$188,000 and \$357,000 of interest income on non-performing loans and troubled-debt restructurings, respectively, for the year ended June 30, 1997, and \$47,000 and \$344,000, respectively, for the fiscal year ended June 30, 1996. If the Bank's non-performing loans and troubled-debt restructurings had been performing in accordance with their terms, the Bank would have recorded additional interest income of \$247,000 and \$114, respectively, for the year ended June 30, 1997, and \$410,000 and \$127,000, respectively, for the fiscal year ended June 30, 1996.

OTHER REAL ESTATE OWNED ("OREO"). Property acquired by the Bank as a result of a foreclosure on a mortgage loan 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 an appraisal on a real estate owned 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. At June 30, 1997, the Bank had \$1.7 million in OREO.

CLASSIFIED ASSETS. The Bank's Loan Loss Reserve Committee meets every other month to review all problem loans in the portfolio to determine whether any loans require reclassification in accordance with applicable regulatory guidelines. Recommendations are reported by the Loan Loss Reserve Committee to the Board of Directors on a quarterly basis. The Loan Loss Reserve Committee, subject to Board approval, establishes policy relating to the internal classification of loans and believes that its classification policies are consistent with regulatory policies. All non-performing loans and OREO are considered to be classified assets. In addition, the Bank maintains a "watch list" comprised of 25 loans totaling \$4.9 million at June 30, 1997 which, while performing, are characterized by weaknesses which require special attention from management and are considered to be potential problem loans. All loans on the watch list are considered to be classified assets or are otherwise categorized as "Special Mention" as discussed below. As a result of its bi-monthly review of the loan portfolio, the Loan Loss Reserve Committee may decide to reclassify one or more of the loans on the watch list.

Federal regulations and Bank policy require that loans and other assets considered to be of lesser quality be classified as 'Substandard,' 'Doubtful' or 'Loss' assets. An asset is considered 'Substandard' if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. 'Substandard' assets have a well-defined weakness or weaknesses and are characterized by the distinct possibility that the Bank will sustain 'some loss' if deficiencies are not corrected. Assets classified as 'Doubtful' have all of the weaknesses inherent in those classified 'Substandard' with the added characteristic that the weaknesses present make 'collection or liquidation in full,' on the basis of current existing facts, conditions, and values, 'highly questionable and improbable.' Assets classified as 'Loss' are those considered 'uncollectible' and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess potential weaknesses that deserve management's attention are designated 'Special Mention' by management. At June 30, 1997 the Bank had \$7.7 million of loans designated Special Mention.

When an insured institution classifies one or more assets, or portion thereof, as Substandard or Doubtful, it is required to establish a general valuation allowance for loan losses in an amount deemed prudent by management. Generally, federally-insured institutions must maintain an allowance for loan losses at a level that is 'adequate to absorb estimated credit losses associated with the loan portfolio.' The general valuation allowance, which is a regulatory term, represents a loss allowance which has been established to recognize the inherent risk associated with lending activities, but which, unlike the specific allowance, has not been allocated to particular problem assets. When an insured institution classifies one or more assets, or proportions thereof, as 'Loss,' it is required to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge-off such amount.

At June 30, 1997, the Bank had \$4.5 million of assets classified Substandard, consisting of 55 loans, no assets classified as doubtful, and \$89,000 of assets classified as Loss, consisting of 2 loans.

Specific reserves are established against loans classified as 'loss.' Rather than an estimation of potential loss, the establishment of a specific reserve represents the identification of an actual loss which will result in a charge-off. This loss amount will be set aside on the Bank's balance sheet as a specific reserve and will serve to reduce the carrying value of the associated loan. The Bank's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by various regulatory agencies which can order the establishment of additional general or specific loss allowances.

The Bank has increased its allowance for loan losses to a level which management believes is adequate to absorb possible losses that may be incurred within the Bank's loan portfolio. The Bank provided \$4.2 million to its allowance for loan losses for the fiscal year ended June 30, 1997. At June 30, 1997, the total allowance was \$10.7 million, which amounted to 336.24% of non-performing loans and 1.43% of total loans. The increase in the allowance reflects management's assessment of the risks inherent in its loan portfolio, including those risks associated with the Bank's emphasis on multi-family mortgage loans, which are considered to be at greater risk of loss than one- to four-family loans. The Bank will continue to monitor and modify the level of its allowance for loan losses in order to maintain such allowance at a level which management considers adequate to provide for loan losses. For the fiscal year ended June 30, 1997, the Bank had charge-offs, net of recoveries, of \$1.3 million against the allowance. Since 1985, total principal losses attributable to the Bank's loan portfolio have averaged 0.18% of the average outstanding loan balance.

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

	At or for the Year Ended June 30,				
	1997	1996	1995	1994	1993
	(Dollars In Thousands)				
Total loans outstanding at end of period	\$750,584	\$583,686	\$429,854	\$431,593	\$461,418
Average total loans outstanding	\$648,357	\$449,063	\$430,845	\$455,705	474,362
ALLOWANCE FOR LOAN LOSSES:					
Balance at beginning of period	\$7,812	\$5,174	\$3,633	\$2,996	\$2,094
Provision for loan losses	4,200	2,979	2,950	4,105	3,395
Charge-offs					
One-to-four family	(104)	(21)	(146)	(224)	(272)
Multi-family and underlying cooperative	(985)	(553)	(1,081)	(2,203)	(1,355)
Non-residential	-	(274)	(92)	-	(19)
FHA/VA insured	-	-	(9)	-	(13)
Cooperative apartment	(276)	(170)	(328)	(1,109)	(876)
Other	(23)	(5)	-	-	-
Total charge-offs	(1,388)	(1,023)	(1,656)	(3,536)	(2,535)
Recoveries	102	14	247	68	42
Reserve acquired in purchase of Conestoga	-	668	-	-	-
Balance at end of period	\$10,726	\$7,812	\$5,174	\$3,633	\$2,996
Allowance for loan losses to total loans at end of period	1.43%	1.34%	1.20%	0.84%	0.65%
Allowance for loan losses to total non-performing loans at end of period	336.24	119.25	101.99	58.15	25.76
Ratio of net charge-offs to average loans outstanding during the period	0.20	0.22	0.33	0.76	0.53
ALLOWANCE FOR LOSSES ON OTHER REAL ESTATE OWNED:					
Balance at beginning of period	\$114	\$-	\$-	\$-	\$-
Provision charged to operations	450	586	-	-	-
Charge-offs, net of recoveries	(377)	(472)	-	-	-
Balance at end of period	\$187	\$114	\$-	\$-	\$-

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

Total loans at June 30, 1996 includes \$113.1 million of loans acquired from Conestoga.

The Bank adopted SFAS No. 114 on July 1, 1995. See 'Management's Discussion and Analysis of Financial Condition and Results of Operations-Impact of Accounting Standards.'

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 June 30,									
	1997		1996		1995		1994		1993	
	Allowance Amount	Percent of Loans in Each Category to Total Loans	Allowance Amount	Percent of Loan in Each Category to Total Loans	Allowance Amount	Percent of Loans in Each Category to Total Loans	Allowance Loans	Percent of Loan in Each Category to Total Amount	Allowance Loans	Percent of Loans in Each Category to Total
(Dollars In thousands)										
Impaired loans	\$122	0.58%	\$955	1.30%	\$-	-%	\$-	-%	\$-	-%
One-to-four family	820	19.04	1,171	29.90	556	14.25	398	14.66	391	17.52
Multi-family and underlying cooperative	7,398	66.83	3,808	50.81	3,372	61.72	2,267	59.68	1,773	56.77
Non- residential Cooperative	862	5.84	605	6.63	103	6.60	72	6.63	54	6.02
apartment	1,355	6.89	1,085	10.38	1,031	16.51	784	18.06	669	18.75
Other	169	0.82	188	0.98	112	0.92	112	0.97	109	0.94
Total	\$10,726	100.00%	\$7,812	100.00%	\$5,174	100.00%	\$3,633	100.00%	\$2,996	100.00%

Total loans represent gross loans less FHA and VA loans, which are government guaranteed loans.

The Bank adopted SFAS 114 effective July 1, 1995. Prior to this date, impaired loans were not measured. At June 30, 1997 and 1996, impaired loans represent 0.57% and 1.27% of total loans.

INVESTMENT ACTIVITIES

INVESTMENT STRATEGIES OF THE COMPANY - The Company's principal asset is its investment in the Bank's common stock, which amounted to \$152.2 million at June 30, 1997. The Company's other investments at that date totaled \$28.4 million, which are invested primarily in U.S. agency obligations which will be utilized for general business activities which may include, but are not limited to: (1) repurchases of Common Stock, (2) acquisition of other companies, (3) subject to applicable limitations, the payment of dividends, and/or (4) investments in the equity securities of other financial institutions and other investments not permitted for federally-insured institutions. There can be no assurance that the Company will engage in any of these activities in the future.

Otherwise, the investment policy of the Company calls for investments in relatively short-term, liquid securities similar to such securities defined in the securities investment policy of the Bank.

INVESTMENT POLICY OF THE BANK. The securities investment policy of the Bank, which is established by its Board of Directors, is designed to help the Bank achieve its overall asset/liability management objectives. Generally, the policy calls for management to emphasize principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment when selecting new investments for the Bank's portfolio. The Bank's current securities investment policy permits investments in various types of liquid assets including obligations of the U.S. Treasury and federal agencies, investment grade corporate obligations, various types of mortgage-backed securities, commercial paper, certificates of deposit, and federal funds sold to select financial institutions periodically approved by the Board of Directors.

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

The Bank currently does not participate in hedging programs, interest rate swaps, or other activities involving the use of off-balance sheet derivative financial instruments. These activities are prohibited by the Bank's securities investment policy. Similarly, the Bank has not and does not invest in mortgage-backed securities which are deemed to be "high risk," or purchase bonds which are not rated investment grade.

MORTGAGE-BACKED SECURITIES. In its securities investment activities over the past few years the Company has increased its purchases of mortgage-backed securities, which provide the portfolio with investments consisting of desirable repricing, cash flow and credit quality characteristics. Mortgage-backed securities generally yield less than the loans that underlie the securities because of the cost of payment guarantees and credit enhancements that reduce credit risk to the investor. While mortgage-backed securities backed by federally sponsored agencies carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that fluctuating interest rates, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities. However, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize borrowings of the Company. Approximately 98.40% of the Company's \$308.5 million mortgage-backed securities portfolio, which represented 23.46% of the Company's total assets at June 30, 1997, was comprised of securities backed by either the Governmental National Mortgage Association ("GNMA"), FHLMC, or FNMA. In addition to the superior credit quality provided by the agency backing, the mortgage-backed securities portfolio also provides the Company with important interest rate risk management features. One year adjustable-rate mortgage-backed securities, which total \$86.9 million, are the single largest component of the Company's mortgage-backed securities portfolio. These securities are structured so that the interest rate received by the Company adjusts annually in tandem with changes in other short-term market interest rates, a feature which reduces the Company's exposure to interest rate risk. The Company also has a \$85.6 million investment in fixed-rate balloon mortgage-backed securities which provide a return of principal and interest on a monthly basis, and have original maturities of between five to seven years, at which point the entire remaining principal balance is repaid (the "balloon" payment). The remainder of the Company's mortgage-backed securities portfolio is split between a \$15.5 million investment in seasoned pass-through certificates backed by GNMA, FNMA or FHLMC, with an average remaining maturity of 7 years, \$43.6 million in 15 or 30 year fixed rate FNMA or GNMA securities, and an \$76.9 million of Collateralized Mortgage Obligations ("CMOs") comprised entirely of fixed rate, short-term classes with relatively little cash flow volatility or floating rate classes which reprice periodically.

At June 30, 1997, the Bank has \$72.5 million in CMOs and REMICSs. All of the securities are underwritten by U.S. agency obligations or highly reputable financial institutions. In addition, none of these securities have stripped principal and interest components and the Bank is positioned in priority tranches in all securities. The majority of these securities have been purchased from short-term borrowings as part of securities sold under agreement to repurchase transactions, in which these securities act as collateral for the borrowed funds. As of June 30, 1997, the fair value of these securities equal or exceed their cost basis.

The Bank adopted SFAS 115 effective July 1, 1994. SFAS 115 requires that investments in equity securities that 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. The Company had no securities classified as trading securities during the year ended June 30, 1996, and does not intend to trade securities. Unrealized gains and losses on available for sale securities are excluded from earnings and are reported as a separate component of stockholders' equity, net of deferred taxes. At June 30, 1997, the Company had \$288.8 million of

securities classified as available for sale which represented 21.96% of total assets at June 30, 1997. Given the size of the available for sale portfolio, future fluctuations in market values of these securities could result in fluctuations in the Company's stockholders' equity.

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The maturities on the Bank's fixed-term mortgage-backed securities (balloons, seasoned GNMA's and FHLMCs) are relatively short as compared to the final maturities on its ARMs and CMO portfolios. Except for fixed rate mortgage backed securities acquired from Conestoga, which were generally classified as available for sale, the Company typically classifies purchased fixed rate mortgage-backed securities as held-to-maturity, and carries the securities at amortized cost. The Company is confident of its ability to hold these securities to final maturity. The Company typically classifies purchased ARMs and CMOs as available for sale, in recognition of the greater prepayment uncertainty associated with these securities, and carries these securities at fair market value.

The following table sets forth activity in the Company's mortgage-backed securities portfolio for the periods indicated.

	For the Year Ended June 30,		
	1997	1996	1995
	(In Thousands)		
Amortized cost at beginning of period	\$209,542	\$90,543	\$94,356
Purchases/ Sales (net)	137,889	20,743	10,067
Principal repayments	(41,021)	(25,871)	(13,595)
Premium and discount amortization, net	(246)	(282)	(285)
Securities acquired in purchase of Conestoga(1)	-	124,409	-
Amortized cost at end of period	306,164	\$209,542	\$90,543

(1) Amount comprised of \$9.9 million of FHLMC securities, \$38.4 million of FNMA securities, \$70.1 of GNMA securities, and \$6.0 million of CMOs.

The following table sets forth the amortized cost and fair value of the Company's securities at the dates indicated.

	At June 30,					
	1997		1996		1995	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Mortgage-backed securities:						
GNMA	\$103,974	\$106,431	\$88,133	\$88,562	\$24,402	\$24,960
FNMA	71,621	71,745	56,721	56,653	7,417	7,599
FHLMC	58,226	58,536	56,122	56,153	54,888	55,382
CMOs	72,343	72,500	8,566	8,589	3,836	3,964
Total mortgage-backed securities	306,164	309,212	209,542	209,957	90,543	91,905
Investment securities:						
U.S. treasury and agency	119,742	120,226	297,993	297,906	25,834	25,694
Other	34,271	34,596	83,700	83,611	67,991	67,909
Total investment securities	154,013	154,822	381,693	381,517	93,825	93,603
Equity securities	4,912	5,889	2,977	3,205	3,304	3,070
Net unrealized gain	3,710	-	575	-	770	-
Total securities, net	\$468,799	\$469,923	\$594,787	\$594,679	\$188,442	\$188,578

Includes \$9.9 million of FHLMC securities, \$38.4 million of FNMA securities, \$70.1 million in GNMA securities, \$6.0 million in CMOs, \$119.1 million in agency obligations, and \$51.7 million in corporate obligations acquired from Conestoga.

The net unrealized gain at June 30, 1997, 1996 and 1995 relates to available for sale securities in accordance with SFAS No. 115. The net unrealized gain is presented in order to reconcile the 'Amortized Cost' of the Company's securities portfolio to the recorded value reflected in the Consolidated Statements of Condition.

CORPORATE DEBT OBLIGATIONS. The Company invests in the short-term investment grade debt obligations of various corporations. Corporate debt obligations generally carry both a higher rate of return and a higher degree of credit risk than U.S. Treasury securities with comparable maturities. In addition, corporate securities are generally less liquid than comparable U.S. Treasury securities. In recognition of the additional risks associated with investing in these securities, the Company's investment policy limits new investments in corporate obligations to those companies which are rated single 'A' or better by one of the nationally recognized rating agencies, and limits investments in any one corporate entity to the lesser of 1% of total assets or 15% of the Company's equity. At June 30, 1997, the Company's portfolio of corporate debt obligations totaled \$31.1 million, or 6.63% of total assets.

The following table sets forth the amortized cost and fair value of the Company's securities, by accounting classification and by type of security, at the dates indicated.

	At June 30,					
	1997		1996		1995	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Held-to-Maturity:						
Mortgage-backed securities:						
Pass through securities	\$78,388	\$79,075	\$52,580	\$52,596	\$53,815	\$54,172
Total mortgage-backed securities	78,388	79,075	\$52,580	\$52,596	\$53,815	\$54,172
Investment securities	101,587	102,024	43,552	43,428	51,475	51,254
Total Held-to Maturity	\$179,975	\$181,099	\$96,132	\$96,024	\$105,290	\$105,426
Available-for-Sale:						
Mortgage-backed securities:						
Pass through securities	\$155,433	\$157,637	\$148,396	\$148,772	\$32,892	\$33,769
CMOs	72,343	72,500	8,566	8,589	3,836	3,964
Total mortgage-backed securities	227,776	230,137	156,962	157,361	36,728	37,733
Investment securities	52,426	52,798	338,141	338,089	42,350	42,349
Equity securities	4,912	5,889	2,977	3,205	3,304	3,070
Net unrealized gain	3,710	-	575	-	770	-
Total Available-for-Sale	\$288,824	\$288,824	\$498,655	\$498,655	\$83,152	\$83,152
Total securities, net	\$468,799	\$469,923	\$594,787	\$594,679	\$188,442	\$188,578

Includes \$118.4 million of mortgage-backed pass-through securities, \$6.0 million in CMOs, and \$170.8 million in investment securities acquired from Conestoga. Except, for \$10.7 million of investment securities which were classified as held-to-maturity, all securities acquired were classified as available for sale.

Mortgage-backed securities include investments in CMOs and REMICs.

Includes corporate debt obligations.

The net unrealized gain at June 30, 1997, 1996 and 1995 relates to available for sale securities in accordance with SFAS No. 115. The net unrealized gain is presented in order to reconcile the 'Amortized Cost' of the Company's securities portfolio to the recorded value reflected in the Consolidated Statements of Condition.

Amount includes \$125.0 million of investment securities (short-term agency obligations) which matured on July 1, 1996 in order to coincide with the refund of excess subscription proceeds received in the Company's initial public offering.

The following table sets forth certain information regarding the amortized cost, fair value and weighted average yield of the Company's debt securities at June 30, 1997, by remaining period to contractual maturity. With respect to mortgage-backed securities, the entire amount 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. Other than obligations of federal agencies and GSEs, the Company has no investments in securities issued by any one entity in excess of 10% of stockholders' equity at June 30, 1997.

At June 30, 1997						
	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	\$7,536	\$7,541	6.07%	\$-	\$-	-%
Due after 1 year but within 5 years	32,295	32,295	6.42	25,441	25,513	6.67
Due after 5 years but within 10 years	28,803	29,105	6.93	7,338	7,330	6.70
Due after ten years	9,754	10,134	7.95	194,997	197,295	7.06
Total	78,388	79,075	6.77	227,776	230,137	7.00
U.S. Treasury and Agency:						
Due within 1 year	-	-	-	4,000	3,999	5.72
Due after 1 year but within 5 years	75,133	75,509	6.89	25,461	25,506	6.31
Due after 5 years but within 10 years	10,903	10,909	8.06	4,245	4,302	7.33
Due after ten years	-	-	-	-	-	-
Total	86,036	86,418	7.03	33,706	33,807	6.37
Corporate and Other						
Due within 1 year	5,248	5,255	6.30	6,490	6,528	6.83
Due after 1 year but within 5 years	8,829	8,858	6.26	10,981	11,215	7.05
Due after 5 years but within 10 years	229	248	5.81	1,249	1,247	7.68
Due after ten years	1,245	1,245	7.50	-	-	-
Total	15,551	15,606	6.37	18,720	18,990	7.01
Total:						
Due within 1 year	12,784	12,796	6.16	10,490	10,527	6.41
Due after 1 year but within 5 years	116,257	116,662	6.71	61,883	62,234	6.59
Due after 5 years but within 10 years	39,935	40,262	7.28	12,832	12,879	7.00
Due after ten years	10,999	11,379	7.50	194,997	197,295	7.06
Total	\$179,975	\$181,099	6.78%	\$280,202	\$282,935	6.93%

SOURCES OF FUNDS

GENERAL. Deposits, repayments of loans and mortgage-backed securities, investment security maturities and redemptions, and short- to medium-term borrowings from the FHLBNY, which include both advances and repurchase agreements treated as financings, are the Bank's primary sources of funding for its lending and investment activities. The Bank is also active in the secondary mortgage market, selling substantially all of its new long-term, fixed-rate residential mortgage product to either FNMA, FHLMC, or SONYMA.

DEPOSITS. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank presently offers savings accounts, money market accounts, checking accounts, NOW and Super NOW accounts, and certificates of deposit. 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. The Bank has not used brokers to attract and retain deposits, relying instead on customer service, convenience and long-standing relationships with customers. Consequently, the communities in which the bank maintains branch offices have historically provided the Bank with nearly all of its deposits. At June 30, 1997, the Bank had deposit liabilities of \$963.4 million, up \$13.3 million from June 30, 1996. Within total deposits, \$40.1 million, or 4.2%, consisted of certificates of deposit with balances of \$100,000 or greater. Individual Retirement Accounts ('IRA's') totaled \$98.0 million, or 10.3% of total deposits.

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

	For the Year Ended June 30,		
	1997	1996	1995
		(In thousands)	
Deposits	\$1,702,024	\$696,881	\$699,479
Withdrawals	1,729,025	718,534	709,317
Withdrawals in excess of deposits	(27,001)	(21,653)	(9,838)
Deposits acquired in purchase of Conestoga	-	394,250	-
Interest credited	40,282	22,676	17,918
Total increase in deposits	\$13,281	\$395,273	\$8,080

Amount comprised of \$216.3 million in certificate of deposits, \$129.2 million in savings accounts, \$16.9 million in checking accounts, \$30.8 million in money market accounts, and \$954,000 in NOW and Super NOW accounts.

At June 30, 1997 the Bank had \$46.8 million in certificate of deposit accounts over \$100,000 maturing as follows:

Maturity Period	Amount	Weighted Average Rate
	(Dollars In Thousands)	
Within three months	\$9,568	5.33%
After three but within six months	7,157	5.25
After six but within twelve months	10,572	5.66
After 12 months	19,509	6.21
Total	\$46,806	5.76%

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 June 30,								
	1997			1996			1995		
	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)					
Checking accounts	\$27,391	2.84%	- %	\$27,684	2.91%	- %	\$10,219	1.85%	-%
NOW accounts	15,817	1.64	1.24	15,029	1.58	1.50	13,877	2.50	1.50
Super NOW accounts	507	0.05	1.24	552	0.06	1.50	674	0.12	1.50
Money market accounts	33,530	3.48	2.96	45,948	4.84	3.04	16,698	3.01	2.65
Savings accounts	344,377	35.75	2.27	365,146	38.43	2.50	238,217	42.93	2.50
Certificates of deposit	541,773	56.24	5.61	495,755	52.18	5.50	275,156	49.59	5.72

Totals	----- \$963,395 =====	----- 100.00% =====	----- \$950,114 =====	----- 100.00% =====	----- \$554,841 =====	----- 100.00% =====
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The following table presents, by interest rate ranges, the amount of certificate accounts outstanding at the dates indicated and the period to maturity of the certificate accounts outstanding at June 30, 1997.

Interest Rate Range	Period to Maturity at June 30, 1997			Total at June 30,		
	Less than One Year	One to Three Years	Four to Five Years	1997	1996	1995
			(In Thousands)			
4.00% and below	\$11	\$1	\$-	\$12	\$3,300	\$20,646
4.01% to 5.00%	82,249	2,605	-	84,854	204,826	45,135
5.01% to 6.00%	210,580	63,386	8,099	282,065	144,331	86,389
6.01% to 7.00%	16,786	135,198	6,544	158,528	116,545	112,929
7.01% and above	3,828	12,409	77	16,314	26,753	10,057
Total	\$313,454	\$213,599	\$14,720	\$541,773	\$495,755	\$275,156

BORROWINGS. The Bank has been a member and shareholder of the FHLBNY since February 14, 1980. One of the privileges accorded FHLBNY shareholders is the ability to borrow money under various lending ('Advance') programs at competitive interest rates. The Bank's total borrowing capacity at the FHLBNY at June 30, 1997 is in excess of \$166.4 million. Included as part of the total borrowing capacity at the FHLBNY, the Bank has been approved for an 'Overnight Line of Credit' of \$50.0 million, and a \$50.0 million 'One-Month Overnight Line of Credit,' both priced at 0.125% over the prevailing federal funds rate.

The Bank had borrowings ('Advances') from the Federal Home Loan Bank of New York totaling \$63.2 million and \$15.7 million at June 30, 1997 and 1996, respectively. The average cost of FHLB advances was 5.79% and 5.40%, respectively, during the years ended June 30, 1997 and 1996, and the average interest rate on outstanding FHLB advances was 6.18% and 5.40%, respectively, at June 30, 1997 and 1996. At June 30, 1997, in accordance with the Advances, Collateral Pledge and Security Agreement, the Bank maintained in excess of \$69.5 million of qualifying collateral (principally bonds and mortgage-backed securities), as defined, to secure such advances.

Securities sold with agreement to repurchase totaled \$76.3 million at June 30, 1997. The mortgage-backed securities sold with agreement to repurchase mature at various periods beginning in May, 2001. Borrowings under such reverse repurchase agreements involve the delivery of securities to broker-dealers who arrange the 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 securities sold with agreement to repurchase at maturity will be provided primarily by cash received from the maturing securities.

FEDERAL TAXATION

General. 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 Bank or the Company. The Bank was last audited for its taxable year ended December 31, 1988. For federal income tax purposes, the Company and the Bank will file separate income tax returns and report their income 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 Small Business Job Protection Act of 1996 (the "1996 Act"), which was enacted on August 20, 1996, made significant changes to provisions of the Internal Revenue Code of 1986 (the "Code") relating to a savings institution's use of bad debt reserves for federal income tax purposes and requires such an institution to recapture (i.e., take into income) certain portions of its accumulated bad debt reserves. The effect of the 1996 Act on the Bank is discussed below. Prior to the enactment of the 1996 Act, the Bank was permitted to establish tax reserves for bad debts and to make annual additions thereto, which additions, within specified formula limits, were deducted in arriving at the Bank's taxable income. The Bank's deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property, was permitted to be computed using an amount based on a six-year moving average of the Bank's charge-offs for actual losses (the "Experience Method"), or an amount equal to 8% of the Bank's taxable income (the "PTI Method"), computed without regard to this deduction and with additional modifications and reduced by the amount of any permitted addition to the non-qualifying reserve. Use of the PTI Method had the effect of reducing the marginal rate of federal tax on the Bank's income to 32.2%, exclusive of any minimum or environmental tax, as compared to the generally applicable maximum corporate federal income tax rate of 35%. The Bank's deduction with respect to non-qualifying loans was required to be computed under the Experience Method. Each year the Bank reviewed the most favorable way to calculate the deduction attributable to an addition to the tax bad debt reserves.

THE 1996 ACT. Under the 1996 Act, for its current and future taxable years, the Bank is not permitted to make additions to its tax bad debt reserves. The Bank will be allowed to deduct bad debts as incurred. In addition, the Bank is required to recapture (i.e., take into income) over a six year period the excess of the balance of its tax bad debt reserves as of July 1, 1996 (other than its supplemental reserve for losses on loans) over the balance of such reserves as of June 30, 1988 (or over a lesser amount if the Bank's loan portfolio decreased since June 30, 1988). As a result of such recapture, the Bank will pay additional federal tax of approximately \$1.1 million. Since the Bank had already provided a deferred income tax liability for this amount prior to the enactment of the 1996 Act, the enactment of the 1996 Act did not adversely impact the Bank's financial condition or results of operations. Moreover, such recapture will be suspended for each of the two successive taxable years, beginning July 1, 1996, in which the Bank originates a minimum of certain residential loans based upon the average of the principal amounts of such loans made by the Bank during its six taxable years preceding its current taxable year. The recapture was suspended based upon the Bank's origination levels during the tax year ended June 30, 1997.

Distributions. Under the 1996 Act, if the Bank makes "non-dividend distributions" to the Company, such distributions will be considered to have been made from the Bank's unrecaptured tax bad debt reserve balance as of June 30, 1988, to the extent thereof, and then from the Bank's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's income.

The amount of additional taxable income created from a non-dividend distribution is an amount that, when reduced by the tax attributable to the 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" and "Dividend Policy" 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 Code imposes a tax ("AMT") on alternative minimum taxable income ("AMTI") at a rate of 20%. AMTI is also adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items. Thus, the Bank's AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds 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 Bank and the Company are subject to New York State franchise tax on one of several alternative bases, whichever results in the highest tax, and will file combined returns for purposes of this tax. The basic tax is measured by "entire net income," which is federal taxable income with adjustments. For New York State tax purposes, so long as the Bank continues to meet 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 an amount equal to 32% of the Bank's entire net income (the "PTI Method"), computed without regard to this deduction and reduced by the amount of any permitted addition to the Bank's reserve for non-qualifying loans.

On July 30, 1996, New York State (the "State") enacted legislation, effective January 1, 1996, which generally retains the percentage of taxable income method for computing allowable bad debt deductions and does not require the Bank to recapture into income State tax bad debt reserves unless one of the following events occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends in excess of the Bank's earnings and profits or distributions in liquidation or in redemption of stock; 2) the Bank fails to qualify as a thrift as provided by the State tax law, or 3) there is a change in state tax law. The Bank had a deferred tax liability of approximately \$1.9 million recorded for the excess of State tax bad debt reserves over its reserve at December 31, 1987 in accordance with SFAS 109. In December, 1996 after evaluating the State tax legislation, as well as relevant accounting literature and industry practices, management of the Bank concluded that this liability was no longer required to be recorded, and recovered the full deferred tax liability. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

The Bank's deduction with respect to non-qualifying loans must be computed under the Experience Method which is based on the Bank's actual charge-offs. Each year the Bank will review the most favorable way to calculate the deduction attributable to an addition to the tax bad debt reserves.

The New York State tax rate for the 1997 calendar year is 10.755% (including commuter transportation and other surcharges) of net income. In general, the Company will not be required to pay New York State tax on dividends and interest received from the Bank.

CITY OF NEW YORK. The Bank and the Company are also subject to a similarly calculated New York City banking corporation tax of 9% on income allocated to New York City.

On March 11, 1997, New York City enacted legislation, effective January 1, 1996, which conformed its tax law regarding bad debt deductions to New York State's tax law. As a result of this legislation, the Bank, in March, 1997, recovered a deferred tax liability of approximately \$1.0 million previously recorded for the excess of New York City tax bad debt reserves over its base year reserve at December 31, 1987. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

STATE OF DELAWARE. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax, but is required to file an annual report 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 FDIC, as its deposit insurer. The Bank's deposit accounts are insured up to applicable limits by the Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF") administered by the FDIC, and it is a member of the FHLBNY. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OTS and the FDIC conduct periodic examinations to assess the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings association can engage and is intended primarily for the protection of the insurance fund and depositors. The Company, as a unitary savings and loan holding company, is required to file certain reports with, and otherwise comply with, the rules and regulations of the OTS and of the Securities and Exchange Commission (the "SEC") under the federal securities laws.

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 Congress, could have a material adverse impact on the Company, the Bank, and the operations of both.

The following discussion is intended to be a summary of the material statutes and regulations applicable to savings associations, and it 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 thereunder. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities, and certain other assets. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage. These investment powers are subject to various limitations, including (a) a prohibition against the acquisition of any corporate debt security that is not rated in one of the four highest rating categories; (b) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property; (c) a limit of 20% of an association's assets on commercial loans; (d) a limit of 35% of an association's assets on the aggregate amount of consumer loans and acquisitions of certain debt securities; (e) a limit of 5% of assets on non-conforming loans (loans in excess of the specific limitations of HOLA); and (f) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

LOANS TO ONE BORROWER. Under HOLA, savings associations are generally subject to the same limits on loans to one borrower as are imposed on national banks. Generally, under these limits, a savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of the association's unimpaired capital and surplus. Additional amounts may be lent, not in excess of 10% of unimpaired capital and surplus, if such loans or extensions of credit are fully secured by readily-marketable collateral. Such collateral is defined to include certain debt and equity securities and bullion, but generally does not include real estate. At June 30, 1997, the Bank's limit on loans to one borrower was \$22.8 million. At June 30, 1997, the Bank's largest aggregate amount of loans to one borrower was \$13.0 million and the second largest borrower had an aggregate balance of \$9.0 million.

QTL TEST. HOLA requires a savings association to meet 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" in 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 and credit card and purchased mortgage servicing rights, and (c) the value of property used to conduct the association's business. "Qualified thrift investments" includes various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, small business loans, education loans, and credit card loans. At June 30, 1997, the Bank maintained 94.4% of its portfolio assets in qualified thrift investments. The Bank had also satisfied the QTL test in each of the prior 12 months and, therefore, was a qualified thrift lender. A savings association may also satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986.

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, (c) obtaining new advances from any FHLB, and (d) 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 meet the QTL test, any company controlling the association would have to register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended. If the savings association does not requalify under the QTL test within the three-year period after it failed the QTL test, it would be required to terminate any activity and to dispose of any investment not permissible for a national bank and would have to repay as promptly as possible any outstanding advances from an FHLB. A savings association that has failed the QTL test may requalify under the QTL test and be free of such limitations, but it may do so only once.

CAPITAL REQUIREMENTS. The OTS regulations require savings associations to meet three minimum capital standards: a tangible capital ratio requirement of 1.5% of total assets as adjusted under the OTS regulations, a leverage ratio requirement of 3% of core capital to such adjusted total assets, and a risk-based capital ratio requirement of 8% of core and supplementary capital to total risk-based assets. In determining the amount of risk-weighted assets for purposes of the risk-based capital requirement, a savings association must compute its risk-based assets by multiplying its assets and certain off-balance sheet items by risk-weights, which range from 0% for cash and obligations issued by the United States Government or its agencies, to 100% for consumer and commercial loans, as assigned by the OTS capital regulation based on the risks OTS believes are inherent in the type of asset.

Tangible capital is defined, generally, as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related earnings, minority interests in equity accounts of fully consolidated subsidiaries, less intangibles other than certain purchased mortgage servicing rights and investments in and loans to subsidiaries engaged in activities not permissible for a national bank. Core capital is defined similarly to tangible capital, but core capital also includes certain qualifying supervisory goodwill and certain purchased credit card relationships. Supplementary capital currently includes cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, and the allowance for possible loan losses. The allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets, and the amount of supplementary capital that may be included as total capital cannot exceed the amount of core capital.

The OTS regulations require a savings association with "above normal" interest rate risk to deduct a portion of such capital from its total capital to account for the "above normal" interest rate risk. A savings association's interest rate risk is measured by the decline in the net portfolio value of its assets (I.E., the difference between incoming and outgoing discounted cash flows from assets, liabilities and off-balance sheet contracts) resulting from a hypothetical 2% increase or decrease in market rates of interest, divided by the estimated economic value of the association's assets, as calculated in accordance with guidelines set forth by the OTS. At the times when the 3-month Treasury bond equivalent yield falls below 4%, an association may compute its interest rate risk on the basis of a decrease equal to one-half of that Treasury rate rather than on the basis of 2%. A savings association whose measured interest rate risk exposure exceeds 2% would be considered to have "above normal" risk. The interest rate risk component is an amount equal to

one-half of the difference between the association's measured interest rate risk and 2%, multiplied by the estimated economic value of the association's assets. That dollar amount is deducted from an association's total capital in calculating compliance with its risk-based capital requirement. Any required deduction for interest rate risk becomes effective on the last day of the third quarter following the reporting date of the association's financial data on which the interest rate risk was computed. The OTS has indefinitely deferred the implementation of the interest rate risk component in the computation of an institution's risk-based capital requirements. The OTS continues to monitor the interest rate risk of individual institutions and retains the right to impose additional capital requirements on individual institutions.

The table below presents the Bank's regulatory capital as compared to the OTS regulatory capital requirements at June 30, 1997:

	Actual		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio
As of June 30, 1997:				
		(Dollars In Thousands)		
Tangible	\$124,118	9.86%	\$18,873	1.5%
Core Capital	124,182	9.87	37,748	3.0%
Risk-based capital	132,465	19.99	53,009	8.0%

The following is a reconciliation of generally accepted accounting principles (GAAP) capital to regulatory capital for the Bank:

	Tangible Capital	At June 30, 1997 Core Capital	Risk-Based Capital
		(In Thousands)	
GAAP capital	\$152,198	\$152,198	\$152,198
Non-allowable assets:			
Core deposit intangible	(64)	-	-
Unrealized gain on available for sale securities	(1,583)	(1,583)	(1,583)
Goodwill	(26,433)	(26,433)	(26,433)
General valuation allowance	-	-	8,283
Regulatory capital	124,118	124,182	132,465
Minimum capital requirement	18,873	37,748	53,009
Regulatory capital excess	\$105,245	\$86,434	\$79,456

LIMITATION ON CAPITAL DISTRIBUTIONS. OTS regulations currently impose limitations upon capital distributions by savings associations, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital. At least 30-days written notice must be given to the OTS of a proposed capital distribution by a savings association, and capital distributions in excess of specified earnings or by certain institutions are subject to approval by the OTS. An association that has capital in excess of all fully phased-in regulatory capital requirements before and after a proposed capital distribution and that is not otherwise restricted in making capital distributions, could, after prior notice but without the approval of the OTS, make capital distributions during a calendar year equal to the greater of (a) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half its 'surplus capital ratio' (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year, or (b) 75% of its net earnings for the previous four quarters. Any additional capital distributions would require prior OTS approval. In addition, the OTS can prohibit a proposed capital distribution, otherwise permissible under the regulation, if the OTS has determined that the association is in need of more than normal supervision or if it determines that a proposed distribution by an association would constitute an unsafe or unsound practice. Furthermore, under the OTS prompt corrective action regulations, the Bank would be prohibited from making any capital distribution if, after the distribution, the Bank failed to meet its minimum capital requirements, as described above. See ' - Prompt Corrective Regulatory Action.'

LIQUIDITY. The Bank is required to maintain an average daily balance of liquid assets (cash, certain time deposits, bankers' acceptances, specified United States Government, state or federal agency obligations, shares of certain mutual funds and certain corporate debt securities and commercial paper) equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus short-term borrowings. This liquidity requirement may be changed from time to time by the OTS to any amount within the range of 4% to 10% depending upon economic conditions and the savings flows of member institutions, and is currently 5%. OTS regulations also require each savings association to maintain an average daily balance of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable deposit accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet these liquidity requirements. The Bank's average liquidity ratio for the month ended June 30, 1997 was 14.98%, which exceeded the applicable requirements. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirements.

ASSESSMENTS. Savings associations are required by OTS regulation to pay assessments to the OTS to fund the operations of the OTS. The general assessment, paid on a semi-annual basis, is computed upon the savings association's total assets, including consolidated subsidiaries, as reported in the association's latest quarterly Thrift Financial Report. The Bank's assessment expense during the year ended June 30, 1997 totaled \$423,000.

BRANCHING. Subject to certain limitations, HOLA and the 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 for a "qualified thrift lender," or qualifies as a "domestic building and loan association" under the Internal Revenue Code of 1986, which imposes qualification requirements similar to those for a "qualified thrift lender" under HOLA. See "QTL Test." The authority for a federal savings association to establish an interstate branch network would facilitate a geographic diversification of the association's activities. This authority under HOLA and the OTS regulations preempts any state law purporting to regulate branching by federal savings associations.

COMMUNITY REINVESTMENT. Under the CRA, as implemented by OTS regulations, a savings association has a continuing and affirmative obligation consistent with its safe and sound operation to help meet 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 that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS, in connection with its examination of a savings association, to assess the association's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such association. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a "Satisfactory" CRA rating in its most recent examination.

In April 1995, the OTS and the other federal banking agencies adopted amendments revising their CRA regulations. Among other things, the amended CRA regulations substitute for the prior process-based assessment factors a new evaluation system that would rate an institution based on its actual performance in meeting community needs. In particular, the proposed system would focus on 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, ATMs, and other offices. The amended CRA regulations also clarify how an institution's CRA performance would be considered in the application process.

TRANSACTIONS WITH RELATED PARTIES. The Bank's authority to engage in transactions with its "affiliates" is limited by the OTS regulations and by Sections 23A and 23B of the Federal Reserve Act ("FRA"). In general, an affiliate of the Bank is any company that controls the Bank or any other company that is controlled by a company that controls the Bank, excluding the Bank's subsidiaries other than those that are insured depository institutions. The OTS regulations prohibit a savings association (a) from lending to any of its affiliates that is engaged in activities that are not permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act ("BHC Act") and (b) from 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 to or would apply to nonaffiliated companies.

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

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

STANDARDS FOR SAFETY AND SOUNDNESS. The FDI Act, as amended by FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994 ('Community Development Act'), requires the OTS, together with the other federal bank regulatory agencies, to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation, and compensation, fees and benefits and such other operational and managerial standards as the agencies deem appropriate. The OTS and the federal bank regulatory agencies have adopted, effective August 9, 1995, a set of guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. In general, the guidelines require, among other things, 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. The OTS and the other agencies determined that the adoption of stock valuation standards was not appropriate. In addition, the OTS adopted regulations pursuant 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. If an institution fails to comply with such an order, the OTS may seek to enforce such order in judicial proceedings and to impose civil money penalties. Effective October 1, 1996, the OTS and the federal bank regulatory agencies adopted guidelines for identifying and monitoring asset quality and earnings standards.

REAL ESTATE LENDING STANDARDS. The OTS and the other federal banking agencies adopted regulations to prescribe standards for extensions of credit that (a) are secured by real estate or (b) are made for the purpose of financing the construction of improvements on real estate. The OTS 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 also must be consistent with accompanying OTS guidelines, which include loan-to-value ratios for the different types of real estate loans. Associations are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are reviewed and justified appropriately. The guidelines also list a number of lending situations in which exceptions to the loan-to-value standards are justified.

PROMPT CORRECTIVE REGULATORY ACTION. Under the OTS prompt corrective action regulations, the OTS is required to take certain, and is authorized to take other, supervisory actions against undercapitalized savings associations. For this purpose, a savings association would be placed in one of five categories based on the association's capital. Generally, a savings association is treated as 'well capitalized' if its ratio of total capital to risk-weighted assets is at least 10.0%, its ratio of core capital to risk-weighted assets is at least 6.0%, its ratio of core capital to total assets is at least 5.0%, and it is not subject to any order or directive by the OTS to meet a specific capital level. A savings association will be treated as 'adequately capitalized' if its ratio of total capital to risk-weighted assets is at least 8.0%, its ratio of core capital to risk-weighted assets is at least 4.0%, and its ratio of core capital to total assets is at least 4.0% (3.0% if the association receives the highest rating on the CAMEL financial institutions rating system). A savings association that has a total risk-based capital of less than 8.0% or a leverage ratio or a Tier 1 capital ratio that is less than 4.0% (3.0% leverage ratio if the association receives the highest rating on the CAMEL financial institutions rating system) is considered to be 'undercapitalized.' A savings association that has a total risk-based capital of less than 6.0% or a Tier 1 risk-based capital ratio or a leverage ratio of less than 3.0% is considered to be 'significantly undercapitalized.' 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. As of the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. See '- Capital Requirements.'

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 or other capital distributions or paying management fees to any controlling person if, following such distribution, the association would be undercapitalized. An undercapitalized association is required to file a capital restoration plan within 45 days of the date the association receives notice that it is within any of the three undercapitalized categories. The OTS is required to monitor closely the condition of an undercapitalized association and to restrict the asset growth, acquisitions, branching, and new lines of business of such an association. Significantly undercapitalized associations are subject to restrictions on compensation of senior executive officers; such an association may not, without OTS consent, pay any bonus or provide compensation to any senior executive officer at a rate

exceeding the officer's average rate of compensation (excluding bonuses, stock

options and profit-sharing) during the 12 months preceding the month when the association became undercapitalized. A significantly undercapitalized association may also be subject, among other things, 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 the FDIC have a broad range of grounds under which they may appoint a receiver or conservator for an insured depository association. Under FDICIA, the OTS is required to appoint a receiver (or with the concurrence of the FDIC, a conservator) for a critically undercapitalized association within 90 days after the association becomes critically undercapitalized or, with the concurrence of the FDIC, to take such other action that would better achieve the purposes of the prompt corrective action provisions. Such alternative action can be renewed for successive 90-day periods. However, if the association continues to be critically undercapitalized on average during the quarter that begins 270 days after it first 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 things, entering into certain material transactions or paying interest on new or renewed liabilities at a rate that would significantly increase the association's weighted average cost of funds.

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

INSURANCE OF DEPOSIT ACCOUNTS - Savings associations are subject to a risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under the risk-based assessment system, which began in 1993, the FDIC assigns an institution to one of three capital categories based on the institution's financial information as of the reporting period ending seven months before the assessment period. The three capital categories consist of (a) well capitalized, (b) adequately capitalized, or (c) undercapitalized. The FDIC also assigns an institution to one of the three supervisory subcategories within each capital group. The supervisory subgroup to which an institution is assigned is based upon a supervisory evaluation provided to the FDIC by the institutions 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 category to which it is assigned. Under the regulation, 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%. As a result of the Deposit Insurance Funds Act of 1996 (the "Funds Act"). Both the BIF and SAIF currently satisfy the reserve ratio requirement. See "Recent Development - Insurance Expense - SAIF Recapitalization." If the FDIC determines that assessment rates should be increased, institutions in all risk categories could be affected. The FDIC has exercised this authority several times in the past and could raise insurance assessment rates in the future. If such action is taken, it could have an adverse effect upon the earnings of the Bank.

The Funds Act also amended the FDIA to recapitalize the SAIF and to expand the assessment base for the payments of FICO bonds. Beginning January 1, 1997, the assessment base included the deposits of both BIF and SAIF-insured institutions. See "Recent Development - Insurance Expense - DSAIF Recapitalization." Until December 31, 1999, or such earlier date on which the last savings association ceases to exist, the rate of assessment for BIF-assessable deposits shall be one-fifth of the rate imposed on SAIF-assessable deposits. The annual rate of assessments for the payments of FICO bonds for the semi-annual period beginning January 1, 1997 was 0.0130% for BIF-assessable deposits and 0.0648% for SAIF-assessable deposits. For the semi-annual period beginning on July 1, 1997, the rates of assessment for FICO bonds are 0.0126% for BIF-assessable deposits and 0.0630% for SAIF-assessable deposits.

FEDERAL HOME LOAN BANK SYSTEM. The Bank is a member of the FHLBNY, which is one of the regional FHLBs composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. The Bank, as a member of the FHLBNY, is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to the greater of 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year or one-twentieth{ }of its advances (borrowings) from the FHLBNY. The Bank was in compliance with this requirement with an investment in FHLB stock at June 30, 1997, of \$8.3 million. Any advances from a FHLB must be secured by specified types of collateral, and all long-term advances may be obtained only for the purpose of providing funds for residential housing finance. The FHLBNY paid dividends on the capital stock of \$503,027, \$332,964, and \$367,131 and during the years ended June 30, 1997, 1996 and 1995, respectively. If dividends were reduced, or interest on future FHLB advances increased, the Bank's net interest income would likely also be reduced. Further, there can be no assurance that the impact of FDICIA and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ('FIRREA') on the FHLBs will not also cause a decrease in the value of the FHLB stock held by the Bank.

FEDERAL RESERVE SYSTEM. The Bank is subject to provisions of the FRA and the FRB's 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). The FRB regulations generally require that reserves be maintained in the amount of 3% of the aggregate of transaction accounts up to \$49.3 million. The amount of aggregate transaction accounts in excess of \$49.3 million are currently subject to a reserve ratio of 10%, which ratio the FRB may adjust between 8% and 12%. The FRB regulations currently exempt \$4.4 million of otherwise reservable balances from the reserve requirements, which exemption is adjusted by the FRB at the end of each year. The Bank is in compliance with the foregoing reserve requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the OTS. FHLB System members are also authorized to borrow from the Federal Reserve 'discount window,' but FRB regulations require such institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

REGULATION OF HOLDING COMPANY

The Company is a non-diversified unitary savings association holding company within the meaning of HOLA, as amended. As such, the Company 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 Company and its non-savings association subsidiaries, if any. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness, or stability of a subsidiary savings association.

HOLA prohibits a savings association holding company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings association or holding company thereof, without prior written approval of the OTS; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings association, a non-subsidiary holding company, or a 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 Company generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to satisfy the QTL test. See ''- Regulation of Federal Savings Associations - QTL Test'' for a discussion of the QTL requirements. Upon any non-supervisory acquisition by the Company of another savings association or of a savings bank that meets the QTL test and is deemed to be a savings association by the OTS and that will be held as a separate subsidiary, the Company will become a multiple savings association holding company and will be subject to limitations on the types of business activities in which it can 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 the 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, and (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. Some states impose conditions of reciprocity, which have the effect of requiring that the laws of both the state in which the acquiring holding company is located (as determined by the location of its subsidiary savings association) and the state in which the association to be acquired is located, have each enacted legislation allowing its savings associations to be acquired by out-of-state holding companies on the condition that the laws of the other state authorize such transactions on terms no more restrictive than those imposed on the acquiror by the state of the target association. Some of these states also impose regional limitations, which restrict such acquisitions to states within a defined geographic region. Other states allow full nationwide banking without any condition of reciprocity. Some states do not authorize interstate acquisitions of savings associations.

Transactions between the Company and the Bank, including any of its subsidiaries, and any of its affiliates are subject to various conditions and limitations. See '' Regulation of Federal Savings Associations - Transactions with Related Parties.'' The Bank must give 30-days written notice to the OTS prior to any declaration of the payment of any dividends or other capital distributions to the Company. See ''- Regulation of Federal Savings Associations - Limitation on Capital Distributions.''

FEDERAL SECURITIES LAWS

The Company's Common stock is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

ITEM 2 - PROPERTIES

The Bank conducts its business through fifteen full-service offices, including eight offices acquired from Conestoga in June, 1996. The Bank's Main Office and headquarters is located at 209 Havemeyer Street, Brooklyn, New York. The Bank believes that its current facilities are adequate to meet the present and immediately foreseeable needs of the Bank and the Company.

	Leased or Owned	Date Leased or or Acquired	Lease Expiration Date	Net Book Value at June 30, 1997
ADMINISTRATIVE OFFICE 275 South 5th Street Brooklyn, New York 11211	Owned	1989	-	\$3,985,014
MAIN OFFICE 209 Havemeyer Street Brooklyn, New York 11211	Owned	1906	-	\$358,939
AVENUE M BRANCH 1600 Avenue M at East 16{th} Street Brooklyn, New York 11230	Owned	1993	-	\$467,368
BAYSIDE BRANCH 61-38 Springfield Boulevard Bayside, New York 11364	Leased	1974	May, 2004	\$48,882
BELLMORE BRANCH 2412 Jerusalem Avenue Bellmore, New York 11710	Owned	1973	-	\$499,146
BENSONHURST BRANCH 1545 86th Street Brooklyn, New York 11228	Owned	1978	-	\$1,097,205
BRONX BRANCH 1931 Turnbull Avenue Bronx, New York 10473	Leased	1965	October, 2006	\$31,102
GATES AVENUE BRANCH 1012 Gates Avenue Brooklyn, New York 11221	Owned	1905	-	\$273,994
HILLCREST BRANCH 176-47 Union Turnpike Flushing, New York 11366	Leased	1971	May, 2001	\$52,285
KINGS HIGHWAY BRANCH 1902-1904 Kings Highway Brooklyn, New York 11229	Owned	1976	-	\$810,201
MARINE PARK BRANCH 2172 Coyle Street Brooklyn, NY 11229	Owned	1993	-	\$815,842
MERRICK BRANCH 1775 Merrick Avenue Merrick, New York 11566	Owned	1960	-	\$233,059
PORT WASHINGTON BRANCH 1000 Port Washington Boulevard Port Washington, New York 11050	Owned	1971	-	\$470,284
ROSLYN BRANCH 1075 Northern Boulevard Roslyn, NY 11576	Owned	1990	-	\$2,967,444
WESTBURY BRANCH 622 Old Country Road Westbury, New York 11590		1994	-	\$552,277
WHITESTONE BRANCH 24-44 Francis Lewis Boulevard Whitestone, New York 11357	Owned	1979	-	\$807,409

The Bank has an option to extend this lease for an additional ten year term at fair market rent, as determined by the agreement of the parties or, if the parties cannot agree, by arbitration.

Prior to October 2, 1993, this branch office was located at 2161 Coyle Street, Brooklyn, New York.

This branch office opened April 29, 1995.

Building owned, land leased. Lease expires in October, 2003.

Includes premises utilized by Help Center Service and Havemeyer Brokerage Corp.

ITEM 3 - LEGAL PROCEEDINGS

On December 5, 1996, Dime Bancorp, Inc. and its wholly-owned subsidiary, Dime Savings Bank of New York, FSB (together "Dime of New York,") filed a complaint in the United States District Court, Southern District of New York against the Company and the Bank. Dime of New York alleges violations of New York State and federal trademark law and unfair competition law. Dime of New York seeks injunctive relief in the form of an order requiring the Bank to use its full name with identical type-size and type-style in marketing and advertising materials, or in the alternative requiring the Bank to change its name, due to alleged inequitable conduct. The complaint also seeks an order requiring the Company to change its corporate name and change its Nasdaq Stock Market trading symbol "DIME." Dime of New York does not seek monetary damages.

The Company and the Bank have answered the complaint and filed counterclaims in which they seek to enjoin the Dime of New York from employing service marks that are confusingly similar to the Company's and the Bank's service marks. The action is in the preliminary stages of discovery. The Company and the Bank intend to defend vigorously these claims made against them and pursue their counterclaims.

The Bank is involved in various other legal actions arising in the ordinary course of its business which, in the aggregate, involve amounts which are believed to be immaterial to the financial condition and results of operations of the Bank.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

PART II

ITEM 5- MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Information regarding the market for the Company's common stock and related stockholder matters appears in the 1997 Annual Report under the caption "Market for the Company's Common Stock and Related Stockholder Matters," and is incorporated herein by this reference.

ITEM 6. - SELECTED FINANCIAL DATA

Information regarding selected financial data appears in the 1997 Annual Report to Shareholders for the year ended June 30, 1997 ("1997 Annual Report") under the caption "Financial Highlights," and is incorporated herein by this reference.

ITEM 7. -MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information regarding management's discussion and analysis of financial condition and results of operations appears in the 1997 Annual Report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated herein by this reference.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Information regarding market risk appears in the 1997 Annual Report to Shareholders under the caption "Discussion of Market Risk" and is incorporated herein by reference.

ITEM 8. - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information regarding financial statements and supplementary data, including the Independent Auditors' Report appears in the 1997 Annual Report under the captions:

"Independent Auditors' Report," "Consolidated Statements of Financial Condition at June 30, 1997 and 1996,"
"Consolidated Statements of Operations for each of the years in the three year period ended June 30, 1997,"
"Consolidated Statements of Stockholders' Equity for each of the years in the three year period ended
June 30, 1997," "Consolidated Statements of Cash Flows for each of the years in the three year period ended
June 30, 1997," and "Notes to Consolidated Financial Statements," and is incorporated herein by this reference.

ITEM 9. - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. - DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Information regarding directors and executive officers of the Company is presented under the headings "Proposal 1 - Election of Directors - General," "Information as to Nominees and Continuing Directors," "Nominees for Election as Director," "Continuing Directors," "Meetings and Committees of the Board of Directors," "Executive Officers," "Directors' Compensation," "Executive Compensation," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on November 13, 1997 (the "Proxy Statement") which will be filed with the SEC within 120 days of June 30, 1997, and is incorporated herein by reference.

ITEM 11. - EXECUTIVE COMPENSATION

Information regarding executive and director compensation is presented under the headings "Election of Directors - Directors' Compensation," "Executive Compensation," "Summary Compensation Table," "Employment Agreements," "Employee Retention Agreements," "Employee Severance Compensation Plan," and "Benefits," in the Proxy Statement and is incorporated herein by reference.

ITEM 12. - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

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.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following consolidated financial statements and schedules of the Company, and the independent auditors' report thereon are included in the Company's Annual Report to Shareholders for the year ended June 30, 1997, and are incorporated herein by reference:

Independent Auditors' Report
Consolidated Statements of Financial Condition at June 30, 1997 and 1996
Consolidated Statements of Operations for each of the years in the three year period ended June 30, 1997

Consolidated Statements of Stockholders' Equity for each of the years in the three year period ended June 30, 1997
Consolidated Statements of Cash Flows for each of the years in the three year period ended June 30, 1997
Notes to Consolidated Financial Statements
Quarterly Results of Operations (Unaudited) for each of the years in the two year period ended June 30, 1997

The remaining information appearing in the 1997 Annual Report is not deemed to be filed as a part of this report, except as expressly provided herein.

2. Financial Statement Schedules

Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

- (b) Reports on Form 8-K filed during the quarter ended June 30, 1997
On May 16, 1997, the Company filed a Current Report on Form 8-K regarding the death of James M. Fox, director.
- (c) Exhibits Required by Item 601 of Securities and Exchange Commission Regulation S-K:

EXHIBIT NUMBER

-
- 3.1 Certificate of Incorporation of Dime Community Bancorp, Inc. (1)
 - 3.2 Bylaws of Dime Community Bancorp, Inc. (2)
 - 4.1 Certificate of Incorporation of Dime Community Bancorp, Inc. (1)
 - 4.2 Bylaws of Dime Community Bancorp, Inc. (2)
 - 4.3 Draft Stock Certificate of Dime Community Bancorp, Inc. (1)
 - 10.1 Agency Agreement, by and among Dime Community Bancorp, Inc., The Dime Savings Bank of Williamsburgh and Sandler O'Neill & Partners, L.P. (1)
 - 10.2 Agreement and Plan of Merger dated as of the 2nd day of November, 1995 by and between The Dime Savings Bank of Williamsburgh and Conestoga Bancorp, Inc. (3)
 - 10.3 Stock Option Agreement dated as of the 2nd day of November, 1995 by and between The Dime Savings Bank of Williamsburgh and Conestoga Bancorp, Inc. (3)
 - 10.4 Engagement Letter, dated September 11, 1995 between The Dime Savings Bank of Williamsburgh and Ryan Beck & Co., Inc. (1)
 - 10.5 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (4)
 - 10.6 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (4)
 - 10.7 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (4)
 - 10.8 Employment Agreement between Dime Community Bancorp, Inc. and Vincent F. Palagiano (4)
 - 10.9 Employment Agreement between Dime Community Bancorp, Inc. and Michael P. Devine (4)
 - 10.10 Employment Agreement between Dime Community Bancorp, Inc. and Kenneth J. Mahon (4)
 - 10.11 Form of Employee Retention Agreements by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain executive officers (4)
 - 10.12 Employee Stock Ownership Plan of Dime Community Bancorp, Inc. and certain affiliates (1)
 - 10.13 First Amendment to Employee Stock Ownership Plan of Dime Community Bancorp, Inc. and Certain Affiliates (4)
 - 10.14 ESOP Loan Commitment Letter and ESOP Loan Documents (4)
 - 10.15 The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust (1)

- 10.18 Seventh, Eighth and Ninth Amendments to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust (4)
- 10.16a Tenth and Eleventh Amendments to The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust
- 10.17 The Benefit Maintenance Plan of Dime Community Bancorp, Inc.
- 10.18 Severance Pay Plan of The Dime Savings Bank of Williamsburgh (4)
- 10.19 Retirement Plan for Board Members of Dime Community Bancorp, Inc. (4)
- 10.20 Dime Community Bancorp, Inc. Stock Option Plan for Outside Directors, Officers and Employees, as amended by amendments number 1 and 2.
- 10.21 Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2.
- 10.22 Form of stock option agreement for Outside Directors under Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees
- 10.23 Form of stock option agreement for officers and employees under Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees
- 10.24 Form of award notice for outside directors under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc.
- 10.25 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.
- 11.0 Statement Re: Computation of Per Share Earnings
- 13.1 1997 Annual Report to Shareholders
- 21.1 Subsidiaries of the Registrant (1)
- 27.1 Financial Data Schedule (EDGAR filing only)

- (1) Incorporated by reference to Exhibits to the Registration Statement on Form S-1, No. 33-80735 filed on December 22, 1995, as amended.
- (2) Incorporated by reference to the registrant's 10-Q dated December 31, 1996.
- (3) Incorporated by reference to the Schedule 13D of The Dime Savings Bank of Williamsburgh, filed with the Commission on November 23, 1995.
- (4) Incorporated by reference to Exhibits to the Annual Report on Form 10-K for the fiscal year ended June 30, 1996 filed on September 27, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 of the Securities Exchange Act of 1934, as amended, the Registrant certifies that it has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on September 26, 1997.

Dime Community Bancorp, 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, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

NAME	TITLE	DATE
/S/ VINCENT F. PALAGIANO Vincent F. Palagiano	Chairman of the Board and Chief Executive Officer (Principal executive officer)	September 26, 1997
/S/ MICHAEL P. DEVINE Michael P. Devine	President and Chief Operating Officer and Director	September 26, 1997
/S/ KENNETH J. MAHON Kenneth J. Mahon	Executive Vice President, Secretary and Chief Financial Officer (Principal financial officer)	September 26, 1997
/S/ ANTHONY BERGAMO Anthony Bergamo	Director	September 26, 1997
/S/ GEORGE L. CLARK, JR. George L. Clark, Jr.	Director	September 26, 1997
/S/ STEVEN D. COHN Steven D. Cohn	Director	September 26, 1997
/S/ PATRICK E. CURTIN Patrick E. Curtin	Director	September 26, 1997
/S/ JOSEPH H. FARRELL Joseph H. Farrell	Director	September 26, 1997
/S/ FRED P. FEHRENBACH Fred P. Fehrenbach	Director	September 26, 1997
/S/ JOHN J. FLYNN John J. Flynn	Director	September 26, 1997
/S/ MALCOLM T. KITSON Malcolm T. Kitson	Director	September 26, 1997
/S/ STANLEY MEISELS Stanley Meisels	Director	September 26, 1997
/S/ LOUIS V. VARONE Louis V. Varone	Director	September 26, 1997

TO
THE DIME SAVINGS BANK OF WILLIAMSBURGH

401(k) SAVINGS PLAN

IN RSI RETIREMENT TRUST

Pursuant to Section 11.1 of The Dime Savings Bank of Williamsburgh 401 (k) Savings Plan in RSI Retirement Trust ("Plan"), the Plan is amended effective as of March 1, 1997:

1. INTRODUCTION - Introduction of the Plan shall be amended by adding the following paragraph immediately prior to the last paragraph to read as follows:

Effective March 1, 1997, the Pioneer Savings Bank, FSB Tax Deferral Savings Plan in RSI Retirement Trust shall be merged with and into The Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust. The accounts of employees of Pioneer Savings Bank, FSB and Conestoga Bancorp, Inc. shall be merged into the Accounts maintained on behalf of each Participant in accordance with Section 1.1 of the Plan.

2. ARTICLE I - The definition of Accounts, Section 1.1 shall be amended by adding the following sentence to the end thereof:

Effective March 1, 1997, Accounts shall also include accounts maintained on behalf of employees of the Acquired Company, acquired on June 26, 1996.

3. ARTICLE I - The definition of Bank Contribution Account, Section 1.10 shall be amended by adding the following sentence to the end thereof:

Effective March 1, 1997, Bank Contribution Account shall also mean matching contribution accounts maintained on behalf of Employees of the Acquired Company under the former Pioneer Plan, as in effect on and prior to February 28, 1997.

4. ARTICLE I - The definition of Basic Contribution Account, Section 1.12 shall be amended by adding the following sentence to the end thereof:

Effective March 1, 1997, Basic Contribution Account shall also mean basic contribution accounts maintained on behalf of Employees of the Acquired Company under the former Pioneer Plan, as in effect on and prior to February 28, 1997.

(717)

(1 of 2)

5. ARTICLE I - The definition of Early Retirement Date, Section 1.22 shall be amended by adding the following sentence to the end thereof:

Effective March 1, 1997, for Employees who were employed by the Acquired Company as of the date of acquisition, June 26, 1996, Early Retirement Date shall also mean the first day of any month coincident with or following such Employee's attainment of age fifty-five, (55).

6. ARTICLE I - The following definition shall be added immediately prior to the definition of Plan, Section 1.48, all sections following shall be renumbered accordingly and all cross-references thereto shall be renumbered accordingly:

1.48 PIONEER PLAN means Pioneer Savings Bank, FSB Tax Deferral Savings Plan in RSI Retirement Trust as in effect on and prior to February 28, 1997.

7. ARTICLE I - The definition of Rollover Contribution Account, Section 1.58 prior to its renumbering hereunder, shall be amended by adding the following sentence to the end thereof:

Effective March 1, 1997, Rollover Contribution Account shall also mean rollover contribution accounts maintained on behalf of Employees of the Acquired Company under the former Pioneer Plan as in effect on and prior to February 28, 1997.

AMENDMENT NUMBER ELEVEN
TO
THE DIME SAVINGS BANK OF WILLIAMSBURGH
401(k) SAVINGS PLAN
IN RSI RETIREMENT TRUST

Pursuant to Section 11.1 of the Dime Savings Bank of Williamsburgh 401(k) Savings Plan in RSI Retirement Trust ("Plan"), the Plan is amended as follows, effective September 11, 1997:

1. ARTICLE VIII - Section 8.2 shall be amended by adding the following as the second sentence thereof and the former second sentence shall follow accordingly:

Commencing September 11, 1997, a Borrower may request a loan from his Accounts, in an amount up to the lesser of (a) fifty percent (50%) of the Net Value as of the close of business on the date the loan is processed of: his Basic Contribution Account, vested Bank Contribution Account, Participant Contribution Account and Rollover Contribution Account, or (b) \$50,000, reduced by the highest outstanding loan balance during the preceding twelve (12) months.

2. ARTICLE VIII - Section 8.4(b) shall be amended by deleting the words "and one hundred percent (100%) vested" and by adding the word "vested" in the beginning of Section 8.4(b)(iv).

BENEFIT MAINTENANCE PLAN
OF
DIME COMMUNITY BANCORP, INC.

Adopted Effective As Of November 1, 1992
As Amended and Restated To and Including June 10, 1997

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BENEFIT MAINTENANCE PLAN

OF

DIME COMMUNITY BANCORP, INC.

ARTICLE I

DEFINITIONS

Wherever appropriate to the purposes of the Plan, capitalized terms shall have the meanings assigned to them under the Retirement Plan, Savings Plan or ESOP, as applicable; provided, however, that the following special definitions shall apply for purposes of the Plan, unless a different meaning is clearly indicated by the context:

Section 1.1 Actuarial Equivalent means a benefit of equivalent value determined on the basis of interest rate and mortality assumptions prescribed under the Retirement Plan. If it shall be necessary to determine an Actuarial Equivalent in any case for which interest rate and mortality assumptions shall not have been prescribed under the Retirement Plan, the Actuarial Equivalent shall be determined using the interest rate and mortality assumptions prescribed by the Commissioner of Internal Revenue pursuant to section 417(e) of the Code for the month in which the determination is being made.

Section 1.2 Affiliated Employer means any corporation which is a member of a controlled group of corporations (as defined in section 414(b) of the Code) that includes the Company; any trade or business (whether or not incorporated) that is under common control (as defined in section 414(c) of the Code) with the Company; any organization (whether or not incorporated) that is a member of an affiliated service group (as defined in section 414(m) of the Code) that includes the Company; any leasing organization (as defined in section 414(n) of the Code) to the extent that any of its employees are required pursuant to section 414(n) of the Code to be treated as employees of the Company; and any other entity that is required to be aggregated with the Company pursuant to regulations under section 414(o) of the Code.

Section 1.3 Applicable Limitation means any of the following: (a) the limitation on annual compensation that may be recognized under a tax-qualified plan for benefit computation purposes pursuant to section 401(a)(17) of the Code; (b) the maximum limitation on annual benefits payable by a tax-qualified defined benefit plan pursuant to section 415(b) of the Code; (c) the maximum limitation on annual additions to a tax-qualified defined contribution plan pursuant to section 415(c) of the Code; (d) the maximum limitation on aggregate annual benefits and annual additions under a combination of tax-qualified defined benefit and defined contribution plans maintained by a single employer pursuant to section 415(e) of the Code; (e) the maximum limitation on annual elective deferrals to a qualified cash or deferred arrangement pursuant to section 402(g) of the Code; (f) the annual limitation on elective deferrals under a qualified cash or deferred arrangement by highly compensated employees pursuant to section 401(k) of the Code; and (g) the annual limitation on voluntary employee contributions by, and employer matching contributions for, highly compensated employees pursuant to section 401(m) of the Code.

Section 1.4 Bank means The Dime Savings Bank of Williamsburgh, a federal stock savings bank, and its successors or assigns.

Section 1.5 Beneficiary means any person, other than a Participant or Former Participant, who is determined to be entitled to benefits under the terms of the Plan.

Section 1.6 Board means the Board of Directors of the Company.

Section 1.7 Change in Control means any of the following events:

(a) the occurrence of any event upon which any "person" (as such term is used in sections 13(d) and 14(d) of the Exchange Act), other than (i) a trustee or other fiduciary holding securities under an employee benefit plan maintained for the benefit of employees of the Company; (ii) 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 (iii) 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 were members of the Board on November 1, 1992, 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 (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); 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 (1) 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 (2) the shareholders of the Company own securities of the institution resulting from such merger or consolidation representing 80% or more of the combined voting power of all such securities then outstanding in substantially the same proportions as their ownership of voting securities of the Company before such merger or consolidation; and

(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 1.7(a), (b) or (c) if "the Bank" were substituted for "the Company" therein.

Section 1.8 Code means the Internal Revenue Code of 1986 (including the corresponding provisions of any prior law or succeeding law).

Section 1.9 Committee means the Compensation Committee of the Board of Directors of the Company, or such other person, committee or other entity as shall be designated by or on behalf of the Board to perform the duties set forth in Article IV.

Section 1.10 Company means, Dime Community Bancorp, Inc., a Delaware corporation, any successor thereto.

Section 1.11 Eligible Employee means an Employee who is eligible for participation in the Plan in accordance with the provisions of Article II.

Section 1.12 Employee means any person, including an officer, who is employed by the Employer.

Section 1.13 Employer means Dime Community Bancorp, Inc., and any successor thereto and The Dime Savings Bank of Williamsburgh and any successor thereto and any Affiliated Employer which, with the prior written approval of the Board of Directors of Dime Community Bancorp, Inc. and subject to such terms and conditions as may be imposed by the Board of Directors of Dime Community Bancorp, Inc., shall adopt this Plan.

Section 1.14 Employer Contributions means contributions by any Employer to the Savings Plan or the ESOP.

Section 1.15 ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time (including the corresponding provisions of any succeeding law).

Section 1.16 ESOP means the Employee Stock Ownership Plan of Dime Community Bancorp, Inc. and Certain Affiliates, as amended from time to time (including the corresponding provisions of any successor qualified employee stock ownership plan adopted by the Company).

Section 1.17 Exchange Act means the Securities Exchange Act of 1934, as amended from time to time (including the corresponding provisions of any succeeding law).

Section 1.18 Fair Market Value of a Share means, with respect to a Share on a specified date:

(a) the final reported sales price on the date in question (or if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) as reported in the principal consolidated reporting system with respect to securities listed or admitted to trading on the principal United States securities exchange on which the Shares are listed or admitted to trading; or

(b) if the Shares are not listed or admitted to trading on any such exchange, the closing bid quotation with respect to a Share on such date on the National Association of Securities Dealers Automated Quotations System, or, if no such quotation is provided, on another similar system, selected by the Committee, then in use; or

(c) if sections 1.18(a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

Section 1.19 Former Participant means a person whose participation in the Plan has terminated as provided under section 1.26

Section 1.20 Savings Plan means the 401(k) Savings Plan of The Dime Savings Bank of Williamsburgh, as amended from time to time (including the provisions of any successor qualified defined contribution plan adopted by the Company).

Section 1.21 Participant means any person who is participating in the Plan in accordance with its terms.

Section 1.22 Plan means the Benefit Maintenance Plan of Dime Community Bancorp, Inc., as amended from time to time (including the corresponding provisions of any successor plan adopted by the Company).

Section 1.23 Retirement Plan means the Retirement Plan of The Dime Savings Bank of Williamsburgh, as amended from time to time (including the corresponding provisions of any successor qualified defined benefit plan adopted by the Bank).

Section 1.24 Share means a share of common stock, par value \$.01 per share, of Dime Community Bancorp., Inc.

Section 1.25 Stock Unit means a right to receive a payment under the Plan in an amount equal, on the date as of which such payment is made, to the Fair Market Value of a Share.

Section 1.26 Termination of Service means an Employ-ee's separation from service with all Employers as an Employee, whether by resignation, discharge, death, disability, retirement or other-wise.

ARTICLE II

PARTICIPATION

Section 2.1 Eligibility for Participation.

Only Eligible Employees may be or become Participants. An Employee shall become an Eligible Employee if:

(a)he holds the office of Senior Vice President, or a more senior office, of the Employer, or he has been designated an Eligible Employee by resolution of the Committee; and

(b)he is a Participant in the Retirement Plan, the Savings Plan or the ESOP, or any combination thereof, and the benefits to which he is entitled thereunder are limited by one or more of the Applicable Limitations;

provided, however, that no person shall be named an Eligible Employee, nor shall any person who has been an Eligible Employee continue as an Eligible Employee, to the extent that such person's participation, or continued participation, in the Plan would cause the Plan to fail to be considered maintained for the primary purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of ERISA.

Section 2.2 Commencement of Participation.

An Employee shall become a Participant on the date when he first becomes an Eligible Employee, unless the Committee shall, by resolution, establish an earlier or later effective date of participation for a Participant.

Section 2.3 Termination of Participation.

Participation in the Plan shall cease on the earlier of (a) the date of the Participant's Termination of Service or (b) the date on which he ceases to be an Eligible Employee.

ARTICLE III

BENEFITS TO PARTICIPANTS

Section 3.1 Supplemental Retirement Benefit.

(a) A Participant whose benefits under the Re-tirement Plan are limited by one or more of the Applicable Limitations shall be eligible for a supplemental retirement benefit under this Plan in an amount equal to the excess of:

(i) the retirement benefit to which he would be entitled under the Retirement Plan in the absence of the Applicable Limitations; over

(ii) the actual retirement benefit to which he is entitled under the Retirement Plan;

in each case computed as of the date on which his benefit under the Retirement Plan is scheduled to commence and on the basis of the benefit form selected by him under the Retirement Plan; provided, however, that if the Participant dies before the payment of such supplemental retirement benefit begins, no benefit shall be payable under this section 3.1 and the survivor benefit, if any, which may be payable shall be determined under section 4.1.

(b) The supplemental retirement benefit provided for in this section 3.1 shall be paid in the form of a single life annuity commencing on the first day of the month coincident with or next following the Participant's Termination of Service or, if later, the earliest date on which benefits under the Retirement Plan could, with a proper election, begin to be paid. Notwithstanding the foregoing, a Participant may, within thirty (30) days after first becoming eligible to participate in the Plan for purposes of receiving a supplemental retirement benefit, elect that such supplemental retirement benefit be paid in a different form or commencing at a different time by filing a written election, in such form and manner as the Committee may provide, within such thirty (30) day period, and the amount of such benefit shall be the Actuarial Equivalent of the benefit payable in the absence of such an election.

Section 3.2 Supplemental Savings Benefit.

(a) A Participant whose benefits under the Savings Plan are limited by one or more of the Applicable Limitations shall be eligible for a supplemental savings benefit under this Plan in an amount equal to:

(i) the aggregate amount of Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the Savings Plan) that would have been credited to the Participant's account under the Savings Plan in the absence of the Applicable Limitations if for all relevant periods he had made the maximum amount of elective deferrals under section 402(g) of the Code or voluntary employee contributions under section 401(a) of the Code required to qualify for the maximum possible allocation of Employer Contributions (and without regard to the amount of elective deferrals or voluntary employee contributions actually made); over

(ii) the aggregate amount of Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the Savings Plan) actually credited to the Participant's account under the Savings Plan for such periods;

adjusted for earnings and losses as provided section 3.2(b); provided, however, that if the Participant dies before the payment of such supplemental savings benefit begins, no benefit shall be payable under this section 3.2 and the survivor benefit, if any, which may be payable shall be determined under section 4.2.

(b) The Committee shall cause to be maintained a bookkeeping account to reflect all Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the Savings Plan) that cannot be made to a Participant's account under the Savings Plan due to the Applicable Limitations and shall cause such bookkeeping account to be credited with all such Employer Contributions as of the date on which such Employer Contributions would have been credited to the Participant's account in the Savings Plan in the absence of the Applicable Limitations. The balance credited to such bookkeeping account shall be adjusted for earnings or losses as follows:

(i) except as provided in section 3.2(b)(ii), the balance credited to such bookkeeping account shall be credited with interest as of the last day of each calendar month at a rate for such month equal to one-twelfth of the annualized yield on 30-year Treasury Securities, Constant Maturities, prescribed by the Commissioner of Internal Revenue for such month pursuant to section 417(e) of the Code; or

(ii)if and to the extent permitted by the Committee, as though such Employer Contributions had been contributed to a trust fund and invested, for the benefit of the Participant, in such investments at such time or times as the Participant shall have designated in such form and manner as the Committee shall prescribe.

(c)The supplemental savings benefit payable to a Participant hereunder shall be paid in a single lump sum as soon as practicable following the last day of the calendar year in which the Participant's Termination of Service occurs and shall be equal to the balance credited to his bookkeeping account as of the last day of the last calendar month to end prior to the date of payment. Notwithstanding the foregoing, a Participant may, within thirty (30) days after first becoming eligible to participate in the Plan for purposes of receiving a supplemental savings benefit, specify that such supplemental savings benefit be paid in a different form or commencing at a different time by filing a written election, in such form and manner as the Committee may prescribe, within such thirty (30) day period.

Section 3.3 Supplemental ESOP Benefits.

(a)A Participant whose benefits under the ESOP are limited by one or more of the Applicable Limitations shall be eligible for a supplemental ESOP benefit under this Plan in an amount equal to the sum of:

(i)a number of Stock Units equal to the excess (if any) of (A) the aggregate number of Shares (including any reallocation of Shares forfeited upon the termination of employment of others participating in the ESOP) that would have been credited to the Participant's account under the ESOP in the absence of the Applicable Limitations over (B) the number of Shares actually credited to his account under the ESOP; plus

(ii)if and to the extent that Employer Contributions to the ESOP result in allocations to the Participant's account of assets other than Shares, an amount equal to the excess (if any) of (A) the aggregate amount of Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the ESOP) that would have been credited to the Participant's account under the ESOP in the absence of the Applicable Limitations over (B) the aggregate amount of Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the ESOP) actually credited to the Participant's account under the ESOP;

adjusted for earnings and losses as provided section 3.3(b); provided, however, that if the Participant dies before the payment of such supplemental ESOP benefit begins, no benefit shall be payable under this section 3.3 and the survivor benefit, if any, which may be payable shall be determined under section 4.3.

(b)The Committee shall cause to be maintained a bookkeeping account to reflect all Shares and Employer Contributions (including any reallocation of amounts forfeited upon the termination of employment of others participating in the ESOP) that cannot be allocated to a Participant's account under the ESOP due to the Applicable Limitations and shall cause such bookkeeping account to be credited with such Employer Contributions and Stock Units reflecting such Shares as of the date on which such Employer Contributions and Shares, respectively, would have been credited to the Participant's account in the ESOP in the absence of the Applicable Limitations. The balance credited to such bookkeeping account shall be adjusted for earnings or losses as follows:

(i)all Stock Units shall be adjusted from time to time so that the value of a Stock Unit on any date is equal to the Fair Market Value of Share on such date, and the number of Stock Units shall be adjusted as and when appropriate to reflect any stock dividend, stock split, reverse stock split, exchange, conversion, or other event generally affecting the number of Shares held by all holders of Shares; and

(ii) (A) except as provided in section 3.3(b)(ii)(B), the balance credited to such bookkeeping account that does not consist of Stock Units shall be credited with interest as of the last day of each calendar month at a rate for such month equal to one-twelfth of the annualized yield on 30-year Treasury Securities, Constant Maturities, prescribed by the Commissioner of Internal Revenue for such month pursuant to section 417(e) of the Code; or

(B)if and to the extent permitted by the Committee, the balance credited to such bookkeeping account that does not consist of Stock Units shall be adjusted as though such Employer Contributions had been contributed to a trust fund and invested, for the benefit of the Participant, in such investments at such time or times as the Participant shall have designated in such form and manner as the Committee shall prescribe;

provided, however, that to the extent that the Participant shall receive on a current basis any dividend paid with respect to Shares credited to his account under the ESOP, the bookkeeping account established for him under this Plan shall not be adjusted to reflect such dividend and, instead, the Participant shall be paid an amount per Stock Unit equal to the dividend per Share received by the Participant under the ESOP, at substantially the same time as such dividend is paid under the ESOP.

(c)The supplemental ESOP benefit payable to a Participant hereunder shall be paid in a single lump sum as soon as practicable following the last day of the calendar year in which the Participant's Termination of Service occurs and shall be in an amount equal to the balance credited to his bookkeeping account. Notwithstanding the foregoing, a Participant may, within thirty (30) days after first becoming eligible to participate in the Plan for purposes of receiving a supplemental ESOP benefit, specify that such supplemental ESOP benefit be paid in a different form or commencing at a different time by filing a written election, in such form and manner as the Committee may prescribe, within such thirty (30) day period.

ARTICLE IV
DEATH BENEFITS

Section 4.1 Supplemental Retirement Plan Death Benefits.

If a Participant who is eligible for a supplemental retirement benefit under section 3.1 dies before the payment of such benefit begins, a supplemental survivor's retirement benefit shall be payable to the Participant's Beneficiary under this Plan in amount equal to the excess (if any) of (a) the survivor's benefit that would have been payable under the Retirement Plan commencing at the earliest permissible date in the absence of the Applicable Limitations if the Participant had effectively designated such Beneficiary as his beneficiary under the Retirement Plan, over (b) the survivor's benefit would have been payable under the Retirement Plan commencing at the earliest permissible date after giving effect to the Applicable Limitations if the Participant had effectively designated such Beneficiary as his beneficiary under the Retirement Plan. Such benefit shall be paid in a single lump sum which is the Actuarial Equivalent of the benefit described in the preceding sentence as soon as practicable following the death of the Participant.

Section 4.2 Supplemental Savings Plan Death Benefits.

If a Participant who is eligible for a supplemental savings benefit under section 3.2 dies before the payment of such benefit begins, a supplemental survivor's savings benefit shall be payable to the Participant's Beneficiary under this Plan in amount equal to the balance credited to the bookkeeping account established for the Participant under section 3.2(b). Such benefit shall be paid in a single lump sum as soon as practicable following the death of the Participant and the bookkeeping account established for such Participant pursuant to section 3.2(b) shall continue to be adjusted as provided therein through the last day of the last calendar month to end prior to the date of payment.

Section 4.3 Supplemental ESOP Death Benefits.

If a Participant who is eligible for a supplemental ESOP benefit under section 3.3 dies before the payment of such benefit begins, a supplemental ESOP benefit shall be payable to the Participant's Beneficiary under this Plan in amount equal to the balance credited to the bookkeeping account established for the Participant under section 3.3(b). Such benefit shall be paid in a single lump sum as soon as practicable following the death of the Participant, and the bookkeeping account established for such Participant pursuant to section 3.3(b) shall continue to be adjusted as provided therein through the last day of the last calendar month to end prior to the date of payment.

Section 4.4 Beneficiaries.

A Participant or Former Participant may designate a Beneficiary or Beneficiaries to receive any survivor benefits payable under the Plan upon his death. Any such designation, or change therein or revocation thereof, shall be made in writing in the form and manner prescribed by the Committee, shall be revocable until the death of the Participant, and shall thereafter be irrevocable; provided, however, that any change or revocation shall be effective only if received by the Committee prior to the Participant's or Former Participant's death. If a Participant or Former Participant shall die without having effectively named a Beneficiary, he shall be deemed to have named his estate as his sole Beneficiary. If a Participant or Former Participant and his designated Beneficiary shall die in circumstances which give rise to doubt as to which of them shall have been the first to die, the Participant or Former Participant shall be deemed to have survived the Beneficiary. If a Participant or Former Participant designates more than one Beneficiary, all shall be deemed to have equal shares unless the Participant or Former Participant shall expressly provide otherwise.

ARTICLE V

TRUST FUND

Section 5.1 Establishment of Trust.

The Company may establish a trust fund which may be used to accumulate funds to satisfy benefit liabilities to Participants, Former Participants and their Beneficiaries under the Plan; provided, however, that the assets of such trust shall be subject to the claims of the creditors of the Company in the event that it is determined that the Company is insolvent; and provided, further, that the trust agreement shall contain such terms, conditions and provisions as shall be necessary to cause the Company to be considered the owner of the trust fund for federal, state or local income tax purposes with respect to all amounts contributed to the trust fund or any income attributable to the investments of the trust fund. The Company shall pay all costs and expenses incurred in establishing and maintaining such trust. Any payments made to a Participant, Former Participant or Beneficiary from a trust established under this section 5.1 shall offset payments which would otherwise be payable by the Company in the absence of the establishment of such trust. Any such trust will conform to the terms of the model trust described in Revenue Procedure 92-64, as the same may be modified from time to time.

Section 5.2 Contributions to Trust.

If a trust is established in accordance with section 5.1, the Company shall make contributions to such trust in such amounts and at such times as may be specified by the Committee or as may be required pursuant to the terms of the agreement governing the establishment and operation of such trust.

Section 5.3 Unfunded Character of Plan.

Notwithstanding the establishment of a trust pursuant to section 5.1, the Plan shall be unfunded for purposes of the Code and ERISA. Any liability of the Bank, the Company or another Employer to any person with respect to benefits payable under the Plan shall be based solely upon such contractual obligations, if any, as shall be created by the Plan, and shall give rise only to a claim against the general assets of the Bank, the Company or such Employer. No such liability shall be deemed to be secured by any pledge or any other encumbrance on any specific property of the Bank, the Company or any other Employer.

ARTICLE VI

ADMINISTRATION

Section 6.1 The Committee.

Except for the functions reserved to the Company or the Board, the administration of the Plan shall be the responsibility of the Committee. The Committee shall have the power and the duty to take all actions and to make all decisions necessary or proper to carry out the Plan. The determination of the Committee as to any question involving the general administration and interpretation of the Plan shall be final, conclusive and binding. Any discretionary actions to be taken under the Plan by the Committee shall be uniform in their nature and applicable to all persons similarly situated. Without limiting the generality of the foregoing, the Committee shall have the following powers:

(a) to furnish to all Participants, upon request, copies of the Plan and to require any person to furnish such information as it may request for the purpose of the proper administration of the Plan as a condition to receiving any benefits under the Plan;

(b) to make and enforce such rules and regulations and prescribe the use of such forms as it shall deem necessary for the efficient administration of the Plan;

(c)to interpret the Plan, and to resolve ambiguities, inconsistencies and omissions, and the determinations of the Committee in respect thereof shall be binding, final and conclusive upon all interested parties;

(d)to decide on questions concerning the Plan in accordance with the provisions of the Plan;

(e)to determine the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan, to hear and decide claims for benefits, and to provide a full and fair review to any Participant whose claim for benefits has been denied in whole or in part;

(f)to designate a person, who may or may not be a member of the Committee, as "plan administrator" for purposes of the ERISA;

(g)to allocate any such powers and duties to or among individual members of the Committee; and

(h)the power to designate persons other than Committee members to carry out any duty or power which would otherwise be a responsibility of the Committee or Administrator, under the terms of the Plan.

Section 6.2 Liability of Committee Members and their Delegates

To the extent permitted by law, the Committee and any person to whom it may delegate any duty or power in connection with administering the Plan, the Bank, the Company, any Employer, and the officers and directors thereof, shall be entitled to rely conclusively upon, and shall be fully protected in any action taken or suffered by them in good faith in the reliance upon, any actuary, counsel, accountant, other specialist, or other person selected by the Committee, or in reliance upon any tables, valuations, certificates, opinions or reports which shall be furnished by any of them. Further, to the extent permitted by law, no member of the Committee, nor the Bank, the Company, any Employer, nor the officers or directors thereof, shall be liable for any neglect, omission or wrongdoing of any other members of the Committee, agent, officer or employee of the Bank, the Company or any Employer. Any person claiming benefits under the Plan shall look solely to the Employer for redress.

Section 6.3 Plan Expenses

All expenses incurred prior to the termination of the Plan that shall arise in connection with the administration of the Plan (including, but not limited to administrative expenses, proper charges and disbursements, compensation and other expenses and charges of any actuary, counsel, accountant, specialist, or other person who shall be employed by the Committee in connection with the administration of the Plan), shall be paid by the Company.

Section 6.4 Facility of Payment.

If the Company is unable to make payment to any Participant, Former Participant Beneficiary, or any other person to whom a payment is due under the Plan, because it cannot ascertain the identity or whereabouts of such Participant, Former Participant Beneficiary, or other person after reasonable efforts have been made to identify or locate such person (including a notice of the payment so due mailed to the last known address of such Participant, Former Participant Beneficiary, or other person shown on the records of the Employer), such payment and all subsequent payments otherwise due to such Participant, Former Participant, Beneficiary or other person shall be forfeited twenty-four (24) months after the date such payment first became due; provided, however, that such payment and any subsequent payments shall be reinstated, retroactively, no later than sixty (60) days after the date on which the Participant, Former Participant, Beneficiary, or other person is identified or located.

ARTICLE VII

AMENDMENT AND TERMINATION

Section 7.1 Amendment by the Company.

The Company reserves the right, in its sole and absolute discretion, at any time and from to time, by action of the Board, to amend the Plan in whole or in part. In no event, however, shall any such amendment adversely affect the right of any Participant, Former Participant or Beneficiary to receive any benefits under the Plan in respect of participation for any period ending on or before the later of the date on which such amendment is adopted or the date on which it is made effective.

Section 7.2 Termination.

The Company also reserve the right, in its sole and absolute discretion, by action of the Board, to terminate the Plan. In such event, undistributed benefits attributable to participation prior to the date of termination shall be distributed as though each Participant terminated employment with the Bank, the Company and all other Employers as of the effective date of termination of the Plan.

Section 7.3 Amendment or Termination by Other Employers.

In the event that a corporation or trade or business other than the Company shall adopt this Plan, such corporation or trade or business shall, by adopting the Plan, empower the Company to amend or terminate the Plan, insofar as it shall cover employees of such corporation or trade or business, upon the terms and conditions set forth in sections 7.17.2; provided, however, that any such corporation or trade or business may, by action of its board of directors or other governing body, amend or terminate the Plan, insofar as it shall cover employees of such corporation or trade or business, at different times and in a different manner. In the event of any such amendment or termination by action of the board of directors or other governing body of such a corporation or trade or business, a separate plan shall be deemed to have been established for the employees of such corporation or trade or business, and any amounts set aside to provide for the satisfaction of benefit liabilities with respect to Employees of such corporation or trade or business shall be segregated from the assets set aside for the purposes of this Plan at the earliest practicable date and shall be dealt with in accordance with the documents governing such separate plan.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

Section 8.1 Construction and Language.

Wherever appropriate in the Plan, words used in the singular may be read in the plural, words in the plural may be read in the singular, and words importing the masculine gender shall be deemed equally to refer to the feminine or the neuter. Any reference to an Article or section shall be to an Article or section of the Plan, unless otherwise indicated.

Section 8.2 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 Agreement, the text shall control.

Section 8.3 Non-Alienation of Benefits.

Except as may otherwise be required by law, no distribution or payment under the Plan to any Participant, Former Participant or Beneficiary shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void; nor shall any such distribution or payment be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to such distribution or payment. If any Participant, Former Participant or Beneficiary is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, assign, pledge encumber or charge any such distribution or payment, voluntarily or involuntarily, the Committee, in its sole discretion, may cancel such distribution or payment or may hold or cause to be held or applied such distribution or payment, or any part thereof, to or for the benefit of such Participant, Former Participant or Beneficiary, in such manner as the Committee shall direct; provided, however, that no such action by the Committee shall cause the acceleration or deferral of any benefit payments from the date on which such payments are scheduled to be made.

Section 8.4 Indemnification.

The Company shall indemnify, hold harmless and defend each Participant, Former Participant and Beneficiary, against their reasonable costs, including legal fees, incurred by them or arising out of any action, suit or proceeding in which they may be involved, as a result of their efforts, in good faith, to defend or enforce the obligation of the Bank, the Company and any other Employer under the terms of the Plan.

Section 8.5 Severability.

A determination that any provision of the Plan is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

Section 8.6 Waiver.

Failure to insist upon strict compliance with any of the terms, covenants or conditions of the Plan shall not be deemed a waiver of such term, covenant or condition. A waiver of any provision of the Plan must be made in writing, designated as a waiver, and signed by the party against whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder at any one or more times shall not be deemed a waiver or relinquishment of such right or power at any other time or times.

Section 8.7 Governing Law.

The Plan shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal laws of the United States. Any payments made pursuant to this Plan are subject to and conditioned upon their compliance with 12 U.S.C.

1828(k) and any regulations promulgated thereunder.

Section 8.8 Taxes.

The Employer shall have the right to retain a sufficient portion of any payment made under the Plan to cover the amount required to be withheld pursuant to any applicable federal, state and local tax law.

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Section 8.9 No Deposit Account.

Nothing in this Plan shall be held or construed to establish any deposit account for any Participant or any deposit liability on the part of the Bank. Participants' rights hereunder shall be equivalent to those of a general unsecured creditor of each Employer.

Section 8.10 No Right to Continued Employment.

Neither the establishment of the Plan, nor any provisions of the Plan nor any action of the Plan Administrator, the Committee or any Employer shall be held or construed to confer upon any Employee any right to a continuation of employment by the Employer. The Employer reserves the right to dismiss any Employee or otherwise deal with any Employee to the same extent as though the Plan had not been adopted.

Section 8.11 Status of Plan Under ERISA.

The Plan is intended to be (a) to the maximum extent permitted under applicable laws, an unfunded, non-qualified excess benefit plan as contemplated by section 3(36) of ERISA for the purpose of providing benefits in excess of the limitations imposed under section 415 of the Code, and (b) to the extent not so permitted, an unfunded, non-qualified plan maintained primarily for the purpose of providing deferred compensation for highly compensated employees, as contemplated by sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. The Plan is not intended to comply with the requirements of section 401(a) of the Code or to be subject to Parts 2, 3 and 4 of Title I of ERISA. The Plan shall be administered and construed so as to effectuate this intent.

ADOPTED OCTOBER 8, 1996
EFFECTIVE AS OF DECEMBER 26, 1996
INCORPORATING AMENDMENT NO. 1 AND 2

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Dime Community Bancorp, Inc. 1996 Stock Option Plan

for

Outside Directors, Officers and Employees

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 Bancorp, Inc., to provide eligible directors, certain key officers and employees of Dime Community Bancorp, Inc. and its affiliates with an incentive to achieve corporate objectives, to attract and retain individuals of outstanding competence and to provide such individuals with an equity interest in Dime Community Bancorp, 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 Bank means The Dime Savings Bank of Williamsburgh, a federally chartered savings institution, and any successor thereto.

Section 2.2 Board means the board of directors of the Company.

Section 2.3 Change in Control means any of the following events:

(a) the occurrence of any event upon which any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than (A) a trustee or other fiduciary holding securities under an employee benefit plan maintained for the benefit of employees of the 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 (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); 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 2.3(a), (b) or (c) if "the Bank" were substituted for "the Company" therein.

Section 2.4 Code means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

Section 2.5 Committee means the Committee described in section 4.1.

Section 2.6 Company means Dime Community Bancorp, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

Section 2.7 Disability means a condition of total in-capacity, mental or physical, for further performance of duty with the Company which the Committee shall have determined, on the basis of competent medical evidence, is likely to be permanent.

Section 2.8 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 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 Item 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 or Rule 16b-3 promulgated under the Exchange Act.

Section 2.9 Effective Date means December 26, 1996.

Section 2.10 Eligible Director means a member of the board of directors of an Employer who is not also an employee or an officer of an Employer.

Section 2.11 Eligible Employee means any employee whom the Committee may determine to be a key officer or employee of an Employer and select to receive a grant of an Option pursuant to the Plan.

Section 2.12 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 Employer or Eligible Director, the Employer shall mean the entity which employs such person or upon whose board of directors such person serves.

Section 2.13 Exchange Act means the Securities Exchange Act of 1934, as amended.

Section 2.14 Exercise Price means the price per Share at which Shares subject to an Option may be purchased upon exercise of the Option, determined in accordance with section 5.4.

Section 2.15 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; or

(b) if the Shares are not listed or admitted to trading on any such exchange, the closing bid quotation with respect to a Share on such date on the National Association of Securities Dealers Automated Quotations System, or, if no such quotation is provided, on another similar system, selected by the Committee, then in use; or

(c) if sections 2.15(a) and (b) are not applicable, the fair market value of a Share as the Committee may determine.

Section 2.16 Family Member means the spouse, parent, child or sibling of an Eligible Director or Eligible Employee.

Section 2.17 Incentive Stock Option means a right to purchase Shares that is granted to Eligible Employees pursuant to section 6.1, 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 2.18 Non-Profit Organization means any organization which is exempt from federal income tax under section 501(c)(3), (4), (5), (6), (7), (8) or (10) of the Internal Revenue Code.

Section 2.19 Non-Qualified Stock Option means a right to purchase Shares that is granted pursuant to section 5.1 or 6.1. For Eligible Employees, an Option will be a Non-Qualified Stock Option if (a) it is not designated by the Committee to be an Incentive Stock Option, or (b) it does not satisfy the requirements of section 422 of the Code.

Section 2.20 Option means either an Incentive Stock Option or a Non-Qualified Stock Option.

Section 2.21 Option Period means the period during which an Option may be exercised, determined in accordance with section 5.3 and 6.4.

Section 2.22OTS Regulations means the regulations issued by the Office of Thrift Supervision and applicable to the Plan, the Bank or the Company.

Section 2.23 Person means an individual, a corporation, a bank, a savings bank, a savings and loan association, a financial institution, a partnership, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization or institution.

Section 2.24 Plan means the Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees, as amended from time to time.

Section 2.25 Retirement means retirement at or after the normal or early retirement date set forth in any tax-qualified retirement plan of the Bank.

Section 2.26 Share means a share of Common Stock, par value \$.01 per share, of Dime Community Bancorp, Inc.

Section 2.27 Termination for Cause means one of the following:

(a) for an Eligible Employee who is not an officer or employee of any bank or savings institution regulated by the Office of Thrift Supervision, "Termination for Cause" means 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 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 Employee who is an officer or employee of a bank or savings institution regulated by the Office of Thrift Supervision, "Termination for Cause" means 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 any material breach of this Agreement, in each case as measured against standards generally prevailing at the relevant time in the savings and community banking industry; provided, however, that 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.

ARTICLE III

AVAILABLE SHARES

Section 3.1 Available Shares.

Subject to section 8.3, the maximum aggregate number of Shares with respect to which Options may be granted at any time shall be equal to the excess of:

(a) 1,454,750 Shares; over

(b) the sum of:

(i) the number of Shares with respect to which previously granted Options may then or may in the future be exercised; plus

(ii) the number of Shares with respect to which previously granted Options have been exercised.

A maximum aggregate of 1,018,325 Shares may be granted to Eligible Employees and a maximum aggregate of 436,425 Shares may be granted to Eligible Directors. For purposes of this section 3.1, an Option shall not be considered as having been exercised to the extent that such Option terminates by reason other than the purchase of related Shares; provided, however, that for purposes of meeting the requirements of section 162(m) of the Code, no Eligible Employee who is a covered employee under section 162(m) of the Code shall receive a grant of Options in excess of the amount specified under this section 3.1, computed as if any Option which is cancelled reduced the maximum number of Shares.

ARTICLE IV

ADMINISTRATION

Section 4.1 Committee.

The Plan shall be administered by the members of the Compensation Committee of Dime Community Bancorp, 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.

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 from time to time 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 Options, if any, to be granted, and the terms and conditions thereof;
- (b) to adopt rules and regulations and to prescribe forms for the operation and administration of the Plan; and
- (c) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

ARTICLE V

STOCK OPTIONS FOR ELIGIBLE DIRECTORS

Section 5.1 In General.

- (a) On the Effective Date, each Eligible Director shall be granted an Option to purchase 39,675 Shares.

(b) Any Option granted under this section 5.1 shall be evidenced by a written agreement which shall specify the number of Shares covered by the Option, the Exercise Price for the Shares subject to the Option and the Option Period, all as determined pursuant to this Article V. The Option agreement shall also set forth specifically or incorporate by reference the applicable provisions of the Plan.

Section 5.2 Exercise Price.

The price per Share at which an Option granted to an Eligible Director under section 5.1 may be exercised shall be the Fair Market Value of a Share on the date on which the Option is granted.

Section 5.3 Option Period.

(a) Subject to section 5.3(b), the Option Period during which an Option granted to an Eligible Director under section 5.1 may be exercised shall commence on the date the Option is granted and shall expire on the earlier of:

- (i) removal for cause in accordance with the Employer's bylaws; or
- (ii) the last day of the ten-year period commencing on the date on which the Option was granted.

(b) During the Option Period, the maximum number Shares as to which an outstanding Option may be exercised shall be as follows:

(i) prior to the first anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option shall not be exercisable;

(ii) on and after the first anniversary, but prior to the second anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of twenty percent (20%) of the Shares subject to the Option;

(iii) on and after the second anniversary, but prior to the third anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of forty percent (40%) of the Shares subject to the Option, when granted, including in such number any optioned Shares purchased prior to such second anniversary;

(iv) on and after the third anniversary, but prior to the fourth anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of sixty percent (60%) of the Shares subject to the Option, when granted, including in such number any optioned Shares purchased prior to such third anniversary;

(v) on and after the fourth anniversary, but prior to the fifth anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of eighty percent (80%) of the Shares subject to the Option, when granted, including in such number any optioned Shares purchased prior to such fourth anniversary; and

(vi) on and after the fifth anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8 and for the remainder of the Option Period, the Option may be exercised as to the entire number of optioned Shares not theretofore purchased;

provided, however, that such an Option shall become fully exercisable, and all optioned Shares not previously purchased shall become available for purchase, on the date of the Option holder's death or Disability or Retirement or the date of a Change in Control.

ARTICLE VI

STOCK OPTIONS FOR ELIGIBLE EMPLOYEES

Section 6.1 Size of Option.

Subject to sections 6.2 and 6.5 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Employee may be granted Options shall be determined by the Committee, in its discretion. Except as provided in section 6.5, the maximum number of Shares that may be optioned to any one individual under this Plan during its entire duration shall be the entire number of Shares available under section 3.1 of the Plan.

Section 6.2 Grant of Options.

(a) Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Employee an Option to purchase Shares. The Option for such Eligible Employees 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.

(b) Any Option granted under this section 6.2 shall be evidenced by a written agreement which shall:

(i) specify the number of Shares covered by the Option;

- (ii) specify the Exercise Price, determined in accordance with section 6.3, for the Shares subject to the Option;
- (iii) specify the Option Period determined in accordance with section 6.4;
- (iv) set forth specifically or incorporate by reference the applicable provisions of the Plan; and
- (v) 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 Employee.

Section 6.3 Exercise Price.

The price per Share at which an Option granted to an Eligible Employee 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 6.4 Option Period.

Subject to section 6.5, the Option Period during which an Option granted to an Eligible Employee may be exercised shall commence on the date specified by the Committee in the Option agreement and shall expire on the date specified in the Option agreement or, if no date is specified, on the earliest of:

- (a) the close of business on the last day of the three-month period commencing on the date of the Eligible Employee's termination of employment with the Employer, other than on account of death or Disability, Retirement or a Termination for Cause;
- (b) the close of business on the last day of the one-year period commencing on the date of the Eligible Employee's termination of employment due to death, Disability or Retirement;
- (c) the date and time when the Eligible Employee ceases to be an employee of the Employer due to a Termination for Cause; and
- (d) the last day of the ten-year period commencing on the date on which the Option was granted.

Section 6.5 Required Regulatory Provisions.

Notwithstanding anything contained herein to the contrary:

(a)no Option shall be granted to an Eligible Employee under the Plan prior to shareholder approval under section 9.8;

(b)no Eligible Employee may be granted Options to purchase more than 363,687 Shares; provided, however, that an Eligible Employee may be granted Options to purchase more Shares if such grant is not inconsistent with section 563b.3(g) of the OTS Regulations.

(c)each Option granted to an Eligible Employee shall become exercisable as follows:

(i)prior to the first anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option shall not be exercisable;

(ii)on and after the first anniversary, but prior to the second anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of twenty percent (20%) of the Shares subject to the Option when granted;

(iii)on and after the second anniversary, but prior to the third anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of forty percent (40%) of the Shares subject to the Option when granted, including in such forty percent (40%) any optioned Shares purchased prior to such second anniversary;

(iv)on and after the third anniversary, but prior to the fourth anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of sixty percent (60%) of the Shares subject to the Option when granted, including in such sixty percent (60%) any optioned Shares purchased prior to such third anniversary;

(v)on and after the fourth anniversary, but prior to the fifth anniversary, of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Option may be exercised as to a maximum of eighty percent (80%) of the Shares subject to the Option when granted, including in such eighty percent (80%) any optioned Shares purchased prior to such fourth anniversary; and

(vi)on and after the fifth anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8 and for the remainder of the Option Period, the Option may be exercised as to the entire number of optioned Shares not theretofore purchased;

provided, however, that such an Option shall become fully exercisable, and all optioned Shares not previously purchased shall become available for purchase, on the date of the Option holder's death or Disability or Retirement or the date of a Change in Control; and provided, further, that the Committee may establish a different vesting schedule for any Options.

(d)The Option Period of any Option granted to an Eligible Employee hereunder, whether or not previously vested, shall be suspended as of the time and date at which the Option holder has received notice from the Board that his or her employment is subject to a possible Termination for Cause. Such suspension shall remain in effect until the Option holder receives official notice from the Board that he or she has been cleared of any possible Termination for Cause, at which time, the original Exercise Period shall be reinstated without any adjustment for the intervening suspended period. In the event that the Option Period under section 6.4 expires during such suspension, the Company shall pay to the Eligible Employee, within 30 days after his reinstatement as an employee of the Company, damages equal to the value of the expired Options less the Exercise Price of such Options.

(e)No Option granted to an Eligible Employee hereunder, whether or not previously vested, shall be exercised after the time and date at which the Option holder's employment with the Employer is terminated in a Termination for Cause.

Section 6.6 Additional Restrictions on Incentive Stock Options.

In addition to the limitations of section 7.3, an Option granted to an Eligible Employee designated by the Committee to be an Incentive Stock Option shall be subject to the following limitations:

(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 Option 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 Option Period that does not satisfy this requirement, the designated Option 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 Option Period but more than:

(i)three (3) months after the termination of employment with the Company, a parent or a subsidiary (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; and

(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);

may be exercised in accordance with the terms 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.

ARTICLE VII

OPTIONS - IN GENERAL

Section 7.1 Method of Exercise.

(a) Subject to the limitations of the Plan and the Option agreement, an Option holder may, at any time during the Option 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 7.1(b), for the Shares as to which the Option is to be exercised; and

(iii) satisfying such other conditions as may be pre-scribed in the Option agreement.

(b) The Exercise Price of Shares to be purchased upon exercise of any Option shall be paid in full in cash (by certified or bank check or such other instrument as the Company may accept) or, if and to the extent permitted by the Committee, by one or more of the following: (i) in the form of Shares already owned by the Option holder having an aggregate Fair Market Value on the date the Option is exercised equal to the aggregate Exercise Price to be paid; (ii) by requesting the Company to cancel without payment Options outstanding to such Person for that number of Shares whose aggregate Fair Market Value on the date of exercise, when reduced by their aggregate Exercise Price, equals the aggregate Exercise Price of the Options being exercised; or (iii) by a combination thereof. 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. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

(c) When the requirements of section 7.1(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 7.2 Limitations on Options.

(a) An Option by its terms shall not be transferable by the Option holder other than to Family Members or Non-profit Organizations or by will or by the laws of descent and distribution and shall be exercisable, during the lifetime of the Option holder, only by the Option holder, a Family Member or a Non-profit Organization. Any such transfer 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 transferee shall have, with respect to such Option, all of the rights, privileges and obligations which would attach thereunder to the transferor if the Option were issued to such transferor. If a privilege of the Option depends on the life, employment or other status of the transferor, such privilege of the Option for the transferee shall continue to depend on the life, 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. Notwithstanding the foregoing, an Incentive Stock Option is not transferable by an Eligible Employee other than by will or the laws of descent and distribution, and is exercisable, during his lifetime, solely by him.

(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.

ARTICLE VIII

AMENDMENT AND TERMINATION

Section 8.1 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 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 agreements evidencing such Options.

Section 8.2 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, 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 voting Shares of Dime Community Bancorp, Inc.

Section 8.3 Adjustments in the Event of a Business Reorganization.

(a) In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each Person who is then a holder of record of Shares, the number of Shares covered by each outstanding Option and the number of Shares available pursuant to section 3.1 shall be adjusted to account for such event. Such adjustment shall be effected by multiplying such number of Shares by an amount equal to the number of Shares that would be owned after such event by a Person who, immediately prior to such event, was the holder of record of one Share, and the Exercise Price of the Options shall be adjusted by dividing the Exercise Price by such number of Shares; provided, however, that the Committee may, in its discretion, establish another appropriate method of adjustment.

(b) In the event of any merger, consolidation, or other business reorganization in which the Company is not the surviving entity, any Options granted under the Plan which remain outstanding may be cancelled as of the effective date of such merger, consolidation, business reorganization, liquidation or sale by the Board upon 30 days' written notice to the Option holder; provided, however, that on or as soon as practicable following the date of cancellation, each Option holder shall receive a monetary payment in such amount, or other property of such kind and value, as the Board determines in good faith to be equivalent in value to the Options that have been cancelled.

(c) In the event that the Company shall declare and pay any dividend with respect to Shares (other than a dividend payable in Shares) which results in a nontaxable return of capital to the holders of Shares for federal income tax purposes or otherwise than by dividend makes distribution of property to the holders of its Shares, the Company shall, in the discretion of the Committee, either:

(i) make an equivalent payment to each Person holding an outstanding Option as of the record date for such dividend. Such payment shall be made at substantially the same time, in substantially the same form and in substantially the same amount per optioned Share as the dividend or other distribution paid with respect to outstanding Shares; provided, however, that if any dividend or distribution on outstanding Shares is paid in property other than cash, the Company, in the Committee's discretion, may make such payment in a cash amount per optioned Share equal in fair market value to the fair market value of the non-cash dividend or distribution; or

(ii) adjust the Exercise Price of each outstanding Option in such manner as the Committee may determine to be appropriate to equitably reflect the payment of the dividend; or

(iii)take the action described in section 8.3(c) with respect to certain outstanding Options and the action described in with respect to the remaining outstanding Options;

provided, however, that no such action shall be taken without the approval of the Office of Thrift Supervision until the stockholders of the Company have voted to approve the provisions of this section 8.3(c) in a vote taken after June 26, 1997.

ARTICLE IX
MISCELLANEOUS

Section 9.1 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 9.2 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 Director or Eligible Employee 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 Eligible Director or dismiss any Eligible Employee or otherwise deal with any Eligible Director or Eligible Employee to the same extent as though the Plan had not been adopted.

Section 9.3 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 9.4 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 Plan shall be construed to comply with applicable OTS Regulations.

Section 9.5 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 9.6 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, except to the extent provided in a qualified domestic relations order as defined in section 414(p) of the Code.

Section 9.7 Taxes.

The Company shall have the right to deduct from all amounts paid by the Company in cash with respect to an Option under the Plan any taxes required by law to be withheld with respect to such Option. Where any Person is entitled to receive Shares pursuant to the exercise of an Option, the Company shall have the right to require such Person to pay 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 amount required to be withheld.

Section 9.8 Approval of Shareholders.

The Plan shall not be effective or implemented unless approved by shareholders of Dime Community Bancorp, Inc. as follows:

(1)if, prior to the one year anniversary of the conversion of Dime Community Bancorp, Inc. to stock form, the Plan is approved by the holders of a majority of the total votes eligible to be cast at any duly called annual or special meeting of the Company, the Plan shall be effective as of the later of (a) December 26, 1996 or (b) the date of such approval; and

(2)if subsequent to the one year anniversary of such conversion, the Plan is approved by the affirmative vote of the holders of a majority of Shares present or represented by proxy at the meeting and entitled to vote at an annual or special meeting at which a quorum is present, the Plan shall be effective as of the later of (a) June 26, 1997, or (b) the date of such approval.

Shareholder approval shall not be obtained earlier than six months following such conversion unless permitted by the Office of Thrift Supervision. No Option shall be granted prior to shareholder approval of the Plan.

Section 9.9 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 Bancorp, Inc.
c/o The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211

Attention: Corporate Secretary

(b)If to an Option holder, to the Option holder's address as shown in the Employer's records.

RECOGNITION AND RETENTION PLAN FOR
OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES
OF
DIME COMMUNITY BANCORP, INC.

ADOPTED ON OCTOBER 8, 1996
EFFECTIVE AS OF DECEMBER 26, 1996
INCORPORATING AMENDMENT NO. 1 AND 2

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RECOGNITION AND RETENTION PLAN FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES OF DIME COMMUNITY BANCORP, INC.

ARTICLE I

PURPOSE

SECTION . GENERAL PURPOSE OF THE PLAN

The purpose of the Plan is to promote the growth and profitability of Dime Community Bancorp, Inc. and to provide eligible directors, certain key officers and employees of Dime Community Bancorp, Inc. with an incentive to achieve corporate objectives, to attract and retain directors, key officers and employees of outstanding competence and to provide such directors, officers and employees with an equity interest in Dime Community Bancorp, 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 means a grant of Shares to an Eligible Director or Eligible Employee pursuant to section 6.1 or 6.2.

Section 2.2 Award Date means, with respect to a particular Award, the date specified by the Committee in the notice of the Award issued to the Eligible Director or Eligible Employee by the Committee, pursuant to section 6.1 or 6.2.

Section 2.3 Bank means The Dime Savings Bank of Williamsburgh, a federally chartered stock savings bank, and any successor thereto.

Section 2.4 Beneficiary means the Person designated by an Eligible Director or Eligible Employee pursuant to section 7.3, to receive distribution of any Shares available for distribution to such Eligible Director or Eligible Employee, in the event such Eligible Director or Eligible Employee dies prior to receiving distribution of such Shares.

Section 2.5 Board means the Board of Directors of the Company.

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

(a) the occurrence of any event upon which any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than (A) a trustee or other fiduciary holding securities under an employee benefit plan maintained for the benefit of employees of the 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 (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); 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 Bancorp, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

Section 2.10 Disability means a condition of total incapacity, mental or physical, for further performance of duty with the Company which the Committee shall have determined, on the basis of competent medical evidence, is likely to be permanent.

Section 2.11 Disinterested Board Member means a member of the Board who (a) is not a current employee of the Company or a subsidiary, (b) does not receive remuneration from the Company or a subsidiary, either directly or indirectly, in any capacity other than as a director and (c) 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 Item 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 Rule 16b-3 promulgated under the Exchange Act.

Section 2.12 Effective Date means December 26, 1996.

Section 2.13 Eligible Director means a member of the board of directors of the Employer who is not also an employee of the Employer.

Section 2.14 Eligible Employee means any employee whom the Committee may determine to be a key officer or employee of the Employer and select to receive an Award pursuant to the Plan.

Section 2.15 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 Employee or Eligible Director, the Employer shall mean the entity which employs such person or upon whose board of directors such person serves.

Section 2.16 Exchange Act means the Securities and Exchange Act of 1934, as amended.

Section 2.17 OTS Regulations means the regulations issued by the Office of Thrift Supervision and applicable to the Plan, the Bank or the Company.

Section 2.18 Person means an individual, a corporation, a bank, a savings bank, a savings and loan association, a financial institution, a partnership, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization or institution.

Section 2.19 Plan means the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. as amended from time to time.

Section 2.20 Retirement means retirement at or after the normal or early retirement date set forth in any tax-qualified plan of the Bank.

Section 2.21 Share means a share of common stock of Dime Community Bancorp, Inc., par value \$.01 per share.

Section 2.22 Trust means the legal relationship created by the Trust Agreement pursuant to which the Trustee holds the Trust Fund in trust. The Trust may be referred to as the "Recognition and Retention Plan Trust of Dime Community Bancorp, Inc."

Section 2.23 Trust Agreement means the agreement between Dime Community Bancorp, Inc. and the Trustee therein named or its successor pursuant to which the Trust Fund shall be held in trust.

Section 2.24 Trust Fund means the corpus (consisting of contributions paid over to the Trustee, and investments there-of), and all earnings, appreciations or additions thereof and thereto, held by the Trustee under the Trust Agreement in accordance with the Plan, less any depreciation thereof and any payments made therefrom pursuant to the Plan.

Section 2.25 Trustee means the Trustee of the Trust Fund from time to time in office. The Trustee shall serve as Trustee until it is removed or resigns from office and is replaced by a successor Trustee or Trustees appointed by Dime Community Bancorp, Inc.

ARTICLE III

SHARES AVAILABLE UNDER PLAN

Section 3.1 Shares Available Under Plan.

The maximum number of Shares under the Plan shall be 581,900. An aggregate maximum of 174,570 Shares may be granted to Eligible Directors, with a maximum of 29,095 granted to any one Eligible Director.

ARTICLE IV

ADMINISTRATION

Section 4.1 Committee.

The Plan shall be administered by the members of the Compensation Committee of Dime Community Bancorp, 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.

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 Awards under the Plan, the amount of Shares, if any, to be granted pursuant to an Award, and the terms and conditions of such Award;

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

(c) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

ARTICLE V

THE TRUST FUND

Section 5.1 Contributions.

Dime Community Bancorp, Inc. shall contribute, or cause to be contributed, to the Trust, from time to time, such amounts of money or property as shall be determined by the Board, in its discretion. No contributions by Eligible Directors or Eligible Employees shall be permitted.

Section 5.2 The Trust Fund.

The Trust Fund shall be held and invested under the Trust Agreement with the Trustee. The provisions of the Trust Agreement shall include provisions conferring powers on the Trustee as to investment, control and disbursement of the Trust Fund, and such other provisions not inconsistent with the Plan as may be prescribed by or under the authority of the Board. No bond or security shall be required of any Trustee at any time in office.

Section 5.3 Investments.

The Trustee shall invest the Trust Fund in Shares and in such other investments as may be permitted under the Trust Agreement, including savings accounts, time or other interest bearing deposits in or other interest bearing obligations of the Company, in such proportions as shall be determined by the Committee; provided, however, that in no event shall the Trust Fund be used to purchase more than 581,900 Shares. Notwithstanding the immediately preceding sentence, the Trustee may temporarily invest the Trust Fund in short-term obligations of, or guaranteed by, the U.S. Government or an agency thereof, or the Trustee may retain the Trust Fund uninvested or may sell assets of the Trust Fund to provide amounts required for purposes of the Plan.

ARTICLE VI

AWARDS

Section 6.1 To Eligible Directors.

On the Effective Date, each Person who is then an Eligible Director shall be granted an Award of 15,870 Shares.

Section 6.2 To Eligible Employees.

Subject to section 6.8 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Employee may be granted an Award shall be determined by the Committee in its discretion; provided however, that in no event shall the number of Shares allocated to an Eligible Employee in an Award exceed the number of Shares then held in the Trust and not allocated in connection with other Awards.

Section 6.3 Awards in General.

Any Award shall be evidenced by a written notice issued by the Committee to the Eligible Director or Eligible Employee, which notice shall:

- (a) specify the number of Shares covered by the Award;
- (b) specify the Award Date;
- (c) specify the dates on which such Shares shall become available for distribution to the Eligible Director or Eligible Employee, in accordance with sections 7.1 and 7.2; and
- (d) contain such other terms and conditions not inconsistent with the Plan as the Board may, in its discretion, prescribe.

Section 6.4 Share Allocations.

Upon the grant of an Award to an Eligible Director or Eligible Employee, the Committee shall notify the Trustee of the Award and of the number of Shares subject to the Award. Thereafter, until such time as the Shares subject to such Award become vested or are forfeited, the books and records of the Trustee shall reflect that such number of Shares are being held for the benefit of the Award recipient.

Section 6.5 Dividend Rights.

(a) Any cash dividends or distributions declared and paid with respect to Shares in the Trust Fund that are, as of the record date for such dividend, allocated to an Eligible Director or Eligible Employee in connection with an Award shall be promptly paid to such Eligible Director or Eligible Employee. Any cash dividends declared and paid with respect to Shares that are not, as of the record date for such dividend, allocated to any Eligible Director or Eligible Employee in connection with any Award shall, at the direction of the Committee, be held in the Trust or used to pay the administrative expenses of the Plan, including any compensation due to the Trustee.

(b) Any dividends or distributions declared and paid with respect to Shares in property other than cash shall be held in the Trust Fund. If, as of the record date for such dividend or distribution, the Shares with respect to which it is paid are allocated to an Eligible Director or Eligible Employee in connection with an Award, the property so distributed shall be similarly allocated such Eligible Director or Eligible Employee in connection with such Award and shall be held for distribution or forfeiture in accordance with the terms and conditions of the Award.

Section 6.6 Voting Rights.

(a) Each Eligible Director or Eligible Employee to whom an Award has been made that is not fully vested shall have the right to direct the manner in which all voting rights appurtenant to the Shares related to such Award will be exercised while such Shares are held in the Trust Fund. Such a direction shall be given by completing and filing, with the inspector of elections, the Trustee or such other person who shall be independent of the Company as the Committee shall designate in the direction, a written direction in the form and manner prescribed by the Committee. If no such direction is given by an Eligible Director or Eligible Employee, then the voting rights appurtenant to the Shares allocated to him shall not be exercised.

(b) To the extent that the Trust Fund contains Shares that are not allocated in connection with an Award, all voting rights appurtenant to such Shares shall be exercised by the Trustee in such manner as the Committee shall direct to reflect the voting directions given by Eligible Director or Eligible Employees with respect to Shares allocated in connection with their Awards.

(c) The Committee shall furnish, or cause to be furnished, to each Eligible Director or Eligible Employee, all annual reports, proxy materials and other information furnished by Dime Community Bancorp, Inc., or by any proxy solicitor, to the holders of Shares.

Section 6.7 Tender Offers.

(a) Each Eligible Director or Eligible Employee to whom an Award has been made that is not fully vested shall have the right to direct, with respect to the Shares related to such Award, the manner of response to any tender offer, exchange offer or other offer made to the holders of Shares. Such a direction shall be given by completing and filing, with the inspector of elections, the Trustee or such other person who shall be independent of the Company as the Committee shall designate in the direction, a written direction in the form and manner prescribed by the Committee. If no such direction is given by an Eligible Director or Eligible Employee, then the Shares shall not be tendered or exchanged.

(b) To the extent that the Trust Fund contains Shares that are not allocated in connection with an Award, all responses to tender, exchange and other offers appurtenant to such Shares shall be given by the Trustee in such manner as the Committee shall direct to reflect the responses given by Eligible Director or Eligible Employees with respect to Shares allocated in connection with their Awards.

(c) The Committee shall furnish, or cause to be furnished, to each Eligible Director or Eligible Employee, all information furnished by the offeror to the holders of Shares.

Section 6.8 Limitations on Awards.

(a) Notwithstanding anything in the Plan to the contrary:

(i) No Award shall be granted under the Plan prior to the earlier of the date on which the Plan is approved by shareholders pursuant to section 9.8 or June 27, 1997;

(ii) No Eligible Employee may be granted Awards covering in excess of 145,475 Shares;

(iii) each Award shall become vested and distributable as follows:

(A) prior to the February 1 following the first anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Award shall not be vested;

(B) on the February 1 following the first anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Award will be vested as to twenty percent (20%) of the Shares subject to the Award when granted;

(C) on the February 1 following the second anniversary of the date on which the Award is granted, the Award will be vested as to an additional twenty percent (20%) of the Shares subject to the Award when granted;

(D) on the February 1 following the third anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Award will be vested as to an additional twenty percent (20%) of the Shares subject to the Award when granted;

(E) on the February 1 following the fourth anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Award will be vested as to an additional twenty percent (20%) of the Shares subject to the Award when granted; and

(F) on the February 1 following the fifth anniversary of the date on which the Plan is approved by shareholders pursuant to section 9.8, the Award will be vested as to an additional twenty percent (20%) of the Shares subject to the Award when granted;

provided, however, that such an Award shall become fully vested on the date of the Award holder's death or Disability or Retirement or Change of Control; and provided, further, that the Committee may establish a different vesting schedule for any Awards.

(b) An Award by its terms shall not be transferable by the Eligible Director or Eligible Employee 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.

ARTICLE VII

VESTING AND DISTRIBUTION OF SHARES

Section 7.1 Vesting of Shares Granted to Eligible Directors.

The Shares subject to each Award granted to Eligible Directors under the Plan shall become vested as follows: (i) twenty percent (20%) of such Shares shall become vested upon the February 1 following the first anniversary of the date the Plan is approved by shareholders pursuant to section 9.8; (ii) 20% of such Shares shall become vested upon the February 1 following the second anniversary of the date the Plan is approved by shareholders pursuant to section 8.8; (iii) 20% of such Shares shall become vested upon the February 1 following the third anniversary of the date the Plan is approved by shareholders pursuant to section 8.8; (iv) 20% of such Shares shall become vested upon the February 1 following the fourth anniversary of the date the Plan is approved by shareholders pursuant to section 8.8; and (v) 20% of such Shares shall become vested upon the February 1 following the fifth anniversary of the date the Plan is approved by shareholders pursuant to section 8.8; provided, however, that the Eligible Director has remained a director of the Employer during the entire period commencing with the date the Plan is approved by shareholders pursuant to section 8.8 and ending on the applicable anniversary of the date of shareholder approval; and provided, further, an Award shall become 100% vested upon the Award holder's death or disability or Retirement or the date of a Change in Control.

Section 7.2 Vesting of Shares Granted to Eligible Employees.

Subject to section 6.8 and the terms and conditions of the Plan, each Award to an Eligible Employee made under the Plan shall become vested at the times and upon the conditions specified by the Committee in the Award notice; provided, however, that an Award shall become fully vested on the date of the Award holder's death or disability or Retirement or the date of a Change in Control; and provided, further, that the Committee may establish a different vesting schedule for any Awards.

Section 7.3 Designation of Beneficiary.

An Eligible Director or Eligible Employee who has received an Award may designate a Beneficiary to receive any undistributed Shares that are, or become, available for distribution on, or after, 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 Director or Eligible Employee dies prior to the Eligible Director or Eligible Employee, or in the event that no Beneficiary has been designated, any undistributed Shares that are, or become, available for distribution on, or after, the Eligible Director's or Eligible Employee's death shall be paid to the executor or administrator of the Eligible Director's or Eligible Employee'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 7.4 Manner of Distribution.

(a) As soon as practicable following the date any Shares granted pursuant to an Award become vested pursuant to sections 7.1 and 7.2, the Committee shall take such actions as are necessary to cause the transfer of record ownership of the Shares that have become vested from the Trustee to the Award holder and shall cause the Trustee to distribute to the Award holder all property other than Shares then being held in connection with the Shares being distributed.

(b) The Company's obligation to deliver Shares with respect to an Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Eligible Director or Eligible Employee 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 7.5 Taxes.

The Company, the Committee or the Trustee shall have the right to require any person entitled to receive Shares pursuant to an 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 VIII

AMENDMENT AND TERMINATION

Section 8.1 Termination.

The Board may suspend or terminate the Plan in whole or in part at any time by giving written notice of such suspension or termination to the Committee; provided, however, that the Plan may not be terminated while there are outstanding Awards that may thereafter become vested. Upon the termination of the Plan, the Trustee shall make distributions from the Trust Fund in such amounts and to such persons as the Committee may direct and shall return the remaining assets of the Trust Fund, if any, to Dime Community Bancorp, Inc.

Section 8.2 Amendment.

The Board may amend or revise the Plan in whole or in part at any time.

Section 8.3 Adjustments in the Event of a Business Reorganization.

(a) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change of Control) in which Dime Community Bancorp, Inc. is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each person who is then a holder of record of Shares, the number of Shares held in the Trust Fund, including Shares covered by Awards, shall be adjusted to account for such event. Such adjustment shall be effected by multiplying such number of Shares by an amount equal to the number of Shares that would be owned after such event by a person who, immediately prior to such event, was the holder of record of one Share; provided, however, that the Committee may, in its discretion, establish another appropriate method of adjustment.

(b) In the event of any merger, consolidation, or other business reorganization (including but not limited to a Change of Control) in which Dime Community Bancorp, Inc. is not the surviving entity, the Trustee shall hold in the Trust Fund any money, stock, securities or other property received by holders of record of Shares in connection with such merger, consolidation, or other business reorganization. Any Award with respect to which Shares had been allocated to an Eligible Director or Eligible Employee shall be adjusted by allocating to the Eligible Director or Eligible Employee receiving such Award the amount of money, stock, securities or other property received by the Trustee for the Shares allocated to such Eligible Director or Eligible Employee.

ARTICLE IX

MISCELLANEOUS

Section 9.1 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 9.2 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 Director or Eligible Employee any right to a continuation of employment by the Company. The Employers reserve the right to dismiss any Eligible Director or Eligible Employee or otherwise deal with any Eligible Director or Eligible Employee to the same extent as though the Plan had not been adopted.

Section 9.3 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 9.4 Governing Law.

The Plan shall be construed and enforced in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal laws of the United States of America. The Plan shall be construed to comply with applicable OTS Regulations.

Section 9.5 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 9.6 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, except to the extent provided in a qualified domestic relations order as defined in section 414(p) of the Code.

Section 9.7 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 personally delivered or 5 days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other:

(a) If to the Stock Compensation Committee:

Dime Community Bancorp, Inc.
c/o The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211

Attention: Corporate Secretary

(b) If to an Eligible Director or Eligible Employee, to the Eligible Director's or Eligible Employee's address as shown in the Employer's records.

Section 9.8 Approval of Shareholders.

The Plan shall not be effective or implemented prior to the one year anniversary of the conversion of Dime Community Bancorp, Inc. to stock form unless approved by the holders of a majority of the total votes eligible to be cast at any duly called annual or special meeting of the Company, in which case the Plan shall be effective as of the later of (a) December 26, 1996 or (b) the date of such approval. If not effective prior to such one year anniversary, the Plan shall be effective on such later date as is specified by the Board.

agreement restricting his ability to compete or imposing other restrictive covenants.

SECTION 3. EXERCISE PRICE. During the Option Period, and after the applicable Earliest Exercise Date, the Optionee shall have the right to purchase all or any portion of the Optioned Common Stock at the Exercise Price per Share.

SECTION 4. METHOD OF EXERCISE. The Optionee may, at any time during the Option Period provided by section 2, exercise his right to purchase all or any part of the optioned Common Stock then available for purchase; PROVIDED, HOWEVER, that the minimum number of shares of optioned Common Stock which may be purchased shall be one hundred (100) or, if less, the total number of shares of optioned Common Stock then available for purchase. The Optionee shall exercise such right by:

(a) giving written notice to the Committee, in the form attached hereto as Appendix A; and

(b) delivering to the Committee full payment of the Exercise Price for the Optioned Shares to be purchased.

The date of exercise shall be the earliest date practicable following the date the requirements of this section 4 have been satisfied, but in no event more than three (3) days after such date. Payment shall be made (i) in United States dollars by certified check, money order or bank draft made payable to the order of Dime Community Bancorp, Inc., (ii) in Shares duly endorsed for transfer and with all necessary stock transfer tax stamps attached, already owned by the Optionee and having a fair market value equal to the Exercise Price, such fair market value to be determined in such manner as may be provided by the Committee or as may be required in order to comply with or conform to the requirements of any applicable laws or regulations, or (iii) in a combination of (i) and (ii).

SECTION 5. DELIVERY AND REGISTRATION OF OPTIONED SHARES. As soon as is practicable following the date on which the Optionee has satisfied the requirements of section 4, the Committee shall take such action as is necessary to cause the Company to issue a stock certificate evidencing the Optionee's ownership of the optioned Common Stock that has been purchased. The Optionee shall have no right to vote or to receive dividends, nor have any other rights with respect to optioned Common Stock, prior to the date as of which such optioned Common Stock is transferred to the Optionee 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. The obligation of the Company to deliver Common Stock under this Agreement shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the person to whom such Common Stock is 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 Common Stock or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Common Stock under this Agreement prior to (a) the admission of such Common Stock to listing on any stock exchange on which Common Stock may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the Committee shall determine to be necessary or advisable.

SECTION 6. ADJUSTMENTS IN THE EVENT OF REORGANIZATION. In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of shares of Common Stock held by each person who is then a shareholder of record, the number of shares of Common Stock subject to the option granted hereunder and the Exercise Price per share of such option shall be adjusted in accordance with section 5.3 of the Plan to account for such event. In the event of any merger, consolidation, or other business reorganization in which the Company is not the surviving entity, the option granted hereunder shall be canceled or adjusted in accordance with the Plan. In the event that the Company shall declare and pay any dividend with respect to Shares (other than a dividend payable in Shares or a regular quarterly cash dividend), including a dividend which results in a nontaxable return of capital to the holders of Shares for federal income tax purposes, or otherwise than by dividend makes distribution of property to the holders of its Shares, at the election of the Committee, the Company (i) shall make an equivalent payment to each Person holding an outstanding Option as of the record date for such dividend in accordance with section 5.3 of the Plan and (ii) the Committee, in its discretion applied uniformly to all outstanding Options, may adjust the Exercise Price per Share of outstanding Options in such a manner as the Committee may determine to be necessary to reflect the effect of the dividend or other distribution on the Fair Market Value of a Share.

SECTION 7. NO RIGHT TO CONTINUED SERVICE. Nothing in this Agreement nor any action of the Board or Committee with respect to this Agreement shall be held or construed to confer upon the Optionee any right to a continuation of service by the Company. The Optionee may be dismissed or otherwise dealt with as though this Agreement had not been entered into.

SECTION 8. TAXES. Where any person is entitled to receive shares pursuant to the exercise of the Option granted hereunder, 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 amount required to be withheld.

SECTION 9. 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 Bancorp, Inc.

Attention: COMPENSATION COMMITTEE

(b) If to the Optionee, to the Optionee's address as shown in the Company's personnel records.

SECTION 10. RESTRICTIONS ON TRANSFER. The option granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such option be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the Optionee other than by will or by the laws of descent and distribution or as otherwise permitted by the Plan.

SECTION 11. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and shall be binding upon the Company and the Optionee and their respective heirs, successors and assigns.

SECTION 12. CONSTRUCTION OF LANGUAGE. Whenever appropriate in the Agreement, 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 a section shall be a reference to a section of this Agreement, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

SECTION 13. GOVERNING LAW. This Agreement shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal law.

SECTION 14. AMENDMENT. This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time, by written agreement between the Company and the Optionee.

SECTION 15. PLAN PROVISIONS CONTROL. This Agreement and the rights and obligations created hereunder shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Agreement, the Optionee acknowledges receipt of a copy of the Plan.

SECTION 16. CHANGE IN CONTROL. This Option is granted with a related Limited Appreciation Right that is exercisable only in the event of a change in control. A "change in control" shall be as defined in the Plan.

APPENDIX A TO STOCK OPTION AGREEMENT

DIME COMMUNITY BANCORP, INC. 1996 STOCK OPTION PLAN

FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES

NOTICE OF EXERCISE OF STOCK OPTION

USE THIS NOTICE TO INFORM THE COMMITTEE ADMINISTERING THE DIME COMMUNITY BANCORP, INC. 1996 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES ("PLAN") THAT YOU ARE EXERCISING YOUR RIGHT TO PURCHASE SHARES OF COMMON STOCK ("SHARES") OF DIME COMMUNITY BANCORP, INC. ("DIME") PURSUANT TO AN OPTION ("OPTION") GRANTED UNDER THE PLAN. IF YOU ARE NOT THE PERSON TO WHOM THE OPTION WAS GRANTED ("OPTION RECIPIENT"), YOU MUST ATTACH TO THIS NOTICE PROOF OF YOUR RIGHT TO EXERCISE THE OPTION GRANTED UNDER THE STOCK OPTION AGREEMENT ENTERED INTO BETWEEN DIME AND THE OPTION RECIPIENT ("AGREEMENT"). THIS NOTICE SHOULD BE PERSONALLY DELIVERED OR MAILED BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED TO: DIME COMMUNITY BANCORP, INC., C/O THE DIME SAVINGS BANK OF WILLIAMSBURGH, 209 HAVEMEYER STREET, BROOKLYN, NEW YORK 11211, ATTENTION: CORPORATE SECRETARY. THE EFFECTIVE DATE OF THE EXERCISE OF THE OPTION SHALL BE THE EARLIEST DATE PRACTICABLE FOLLOWING THE DATE THIS NOTICE IS RECEIVED BY DIME, BUT IN NO EVENT MORE THAN THREE DAYS AFTER SUCH DATE ("EFFECTIVE DATE"). EXCEPT AS SPECIFICALLY PROVIDED TO THE CONTRARY HEREIN, CAPITALIZED TERMS SHALL HAVE THE MEANINGS ASSIGNED TO THEM UNDER THE PLAN. THIS NOTICE IS SUBJECT TO ALL OF THE TERMS AND CONDITIONS OF THE PLAN AND THE AGREEMENT.

OPTION INFORMATION IDENTIFY BELOW THE OPTION THAT YOU ARE EXERCISING BY PROVIDING THE FOLLOWING INFORMATION FROM THE STOCK OPTION AGREEMENT.

NAME OF OPTIONEE: _____

OPTION GRANT DATE: _____, _____ EXERCISE PRICE PER SHARE: \$_____.
(MONTH AND DAY) (YEAR)

EXERCISE PRICE: COMPUTE THE EXERCISE PRICE BELOW AND SELECT A METHOD OF PAYMENT.

Total Exercise Price _____ x \$_____ = \$_____
(No. of Shares) (Exercise Price) Total Exercise Price

METHOD OF PAYMENT

___ I enclose a certified check, money order, or bank draft payable to the order of Dime Community Bancorp, Inc. in the amount of \$_____

___ I enclose Shares duly endorsed for transfer to Dime with all stamps attached and having a fair market value of \$_____

Total Exercise Price \$_____

ISSUANCE OF CERTIFICATES

I hereby direct that the stock certificates representing the Shares purchased pursuant to section 2 above be issued to the following person(s) in the amount specified below:

NAME AND ADDRESS	SOCIAL SECURITY NO.	NO. OF SHARES
_____	____-____-____	_____
_____	____-____-____	_____
_____	____-____-____	_____

WITHHOLDING ELECTIONS FOR EMPLOYEE OPTION RECIPIENTS WITH NON-QUALIFIED STOCK OPTIONS ONLY.

BENEFICIARIES AND OUTSIDE DIRECTORS SHOULD NOT COMPLETE.

I understand that I am responsible for the amount of federal, state and local taxes required to be withheld with respect to the Shares to be issued to me pursuant to this Notice, but that I may request Dime to retain or sell a sufficient number of such Shares to cover the amount to be withheld. I hereby request that any taxes required to be withheld be paid in the following manner [check one]:

- ___ With a certified or bank check that I will deliver to the Administrator on the day after the Effective Date of my Option exercise.
- ___ With the proceeds from a sale of Shares that would otherwise be distributed to me.
- ___ Retain shares that would otherwise be distributed to me.

I understand that the withholding elections I have made on this form are not binding on the Committee, and that the Committee will decide the amount to be withheld and the method of withholding and advise me of its decision prior to the Effective Date. I further understand that the Committee may request additional information or assurances regarding the manner and time at which I will report the income attributable to the distribution to be made to me.

I further understand that if I have elected to have Shares sold to satisfy tax withholding, I may be asked to pay a minimal amount of such taxes in cash in order to avoid the sale of more Shares than are necessary.

COMPLIANCE WITH TAX AND SECURITIES LAWS

S H I understand that I must rely on, and consult with, my own tax and
 I E legal counsel (and not Dime Community Bancorp, Inc.) regarding the
 G R application of all laws -- particularly tax and securities laws -- to
 N E the transactions to be effected pursuant to my Option and this Notice.
 I understand that I will be responsible for paying any federal, state
 and local taxes that may become due upon the sale (including a sale
 pursuant to a "cashless exercise") or other disposition of Shares
 issued pursuant to this Notice and that I must consult with my own tax
 advisor regarding how and when such income will be reportable.

 Signature

 Date

 Address

INTERNAL USE ONLY

Corporate Secretary
 Received [CHECK ONE]: ___ By Hand ___ By Mail Post Marked

 DATE OF POST MARK

By -----
 AUTHORIZED SIGNATURE

 DATE OF RECEIPT

APPENDIX B TO STOCK OPTION AGREEMENT

DIME COMMUNITY BANCORP, INC. 1996
 STOCK OPTION PLAN

FOR OUTSIDE DIRECTORS, OFFICERS AND
 EMPLOYEES

BENEFICIARY DESIGNATION FORM

GENERAL INFORMATION

USE THIS FORM TO DESIGNATE THE BENEFICIARY(IES) WHO MAY EXERCISE OPTIONS
 OUTSTANDING TO YOU AT THE TIME OF YOUR DEATH.

Name of Person
 Making a Designation _____

Social Security Number _____ - _____ - _____

BENEFICIARY DESIGNATION

COMPLETE SECTIONS A AND B. IF NO PERCENTAGE SHARES ARE SPECIFIED, EACH
 BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL HAVE AN EQUAL
 SHARE. IF ANY DESIGNATED BENEFICIARY PREDECEASES YOU, THE SHARES OF EACH
 REMAINING BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL
 BE INCREASED PROPORTIONATELY.

A. PRIMARY BENEFICIARY(IES). I hereby designate the following person
 as my primary Beneficiary under the Plan, reserving the right to change
 or revoke this designation at any time prior to my death:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total= 100%

B. CONTINGENT BENEFICIARY(IES). I hereby designate the following person(s)
 as my contingent Beneficiary(ies) under the Plan to receive benefits only
 if all of my primary Beneficiaries should predecease me, reserving the
 right to change or revoke this designation at any time prior to my death
 as to all outstanding Options:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total = 100%

S H I understand that this Beneficiary Designation shall be effective only
I E if properly completed and received by the Corporate Secretary of Dime
G R Community Bancorp, Inc. prior to my death, and that it is subject to
N E all of the terms and conditions of the Plan. I also understand that an
effective Beneficiary designation revokes my prior designation(s) with
respect to all outstanding Options.

YOUR SIGNATURE

Date

INTERNAL USE ONLY

This Beneficiary Designation was received by the Corporate Secretary of Dime Community Bancorp, Inc. on the date Indicated. Comments

By -----
AUTHORIZED SIGNATURE DATE

DIME COMMUNITY BANCORP, INC. 1996 STOCK OPTION PLAN FOR OUTSIDE
 DIRECTORS, OFFICERS AND EMPLOYEES
 STOCK OPTION AGREEMENT

 NAME OF OPTIONEE SOCIAL SECURITY NUMBER

 STREET ADDRESS

 CITY STATE ZIP CODE

This INCENTIVE Stock Option Agreement is intended to set forth the terms and conditions on which a Non-Qualified Stock Option has been granted under the Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees. Set forth below are the specific terms and conditions applicable to this Non-Qualified Stock Option. Attached as Exhibit A are its general terms and conditions.

Option Grant	(A)	(B)	(C)	(D)	(E)
Grant Date:	12/26/96	12/26/96	12/26/96	12/26/96	12/26/96
Class of Optioned Shares*	Common	Common	Common	Common	Common
No. of Optioned Shares*					
Exercise Price Per Share*	\$14.50	\$14.50	\$14.50	\$14.50	\$14.50
Option Type (ISO or NQSO)	ISO	ISO	ISO	ISO	ISO
VESTING					
Earliest Exercise Date*	12/26/97	12/26/97	12/26/97	12/26/97	12/26/97
Option Expiration Date*	12/25/2006	12/25/2006	12/25/2006	12/25/2006	12/25/2006

*SUBJECT TO ADJUSTMENT AS PROVIDED IN THE PLAN AND THE GENERAL TERMS AND CONDITIONS.

By signing where indicated below, Dime Community Bancorp, Inc. (the "Company") grants this Incentive Stock Option upon the specified terms and conditions, and the Optionee acknowledges receipt of this Incentive Stock Option Agreement, including Exhibit A, and agrees to observe and be bound by the terms and conditions set forth herein.

DIME COMMUNITY BANCORP, INC. OPTIONEE

By -----
 NAME: VINCENT F. PALAGIANO
 TITLE: CHAIRMAN OF THE BOARD AND
 CHIEF EXECUTIVE OFFICER

INSTRUCTIONS: This page should be completed by or on behalf of the Compensation Committee. Any blank space intentionally left blank should be crossed out. An option grant consists of a number of optioned shares with uniform terms and condition. Where options are granted on the same date with varying terms and conditions (for example, varying exercise prices or earliest exercise dates), the options should be recorded as a series of grants each with its own uniform terms and conditions.

EXHIBIT A

DIME COMMUNITY BANCORP, INC. 1996 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS,
 OFFICERS AND EMPLOYEES
 STOCK OPTION AGREEMENT

GENERAL TERMS AND CONDITIONS

SECTION 1. INCENTIVE STOCK OPTION. If the Option is designated as an ISO, the Company intends the Option evidenced hereby to be an "incentive stock option" within the meaning of section 422 of the Internal Revenue Code of 1986 ("Code"). If the Option does not qualify as an "incentive stock option" under the Plan or the Code, the Option or the part not qualifying shall be treated as a Non-Qualified Stock Option under the Code.

SECTION 2. OPTION PERIOD. (a) Subject to section 2(b), the Optionee shall have the right to purchase all or any portion of the optioned Common Stock at any time during the period ("Option Period") commencing on the Earliest Exercise Date and ending on the earliest to occur of the following dates:

- (i) the close of business on the last day of the 3-month period commencing on the date of the termination of all employment with the Company and the Dime Savings Bank of Williamsburgh; provided, however, that if such termination is on account of death, Disability or Retirement, such date shall be the last day of the 1-year period commencing on such termination;
- (ii) the date of termination for Cause; or

(iii) the last day of the ten-year period commencing on the date on which the Option was granted.

(c) Upon the termination of the Optionee's Service with the Company, any Option granted hereunder whose Earliest Exercise Date has not occurred is deemed forfeited. To the extent authorized pursuant to a Plan provision that is approved by the Company's shareholders after June 26, 1997, in the event of the Optionee's retirement (as defined by the Plan) or a change of control (as defined by the Plan), the date of such retirement or change of control shall be the Earliest Exercise Date of any Options that are not already exercisable.

SECTION 3. EXERCISE PRICE. During the Option Period, and after the applicable Earliest Exercise Date, the Optionee shall have the right to purchase all or any portion of the Optioned Common Stock at the Exercise Price per Share.

SECTION 4. METHOD OF EXERCISE. The Optionee may, at any time during the Option Period provided by section 2, exercise his right to purchase all or any part of the optioned Common Stock then available for purchase; PROVIDED, HOWEVER, that the minimum number of shares of optioned Common Stock which may be purchased shall be one hundred (100) or, if less, the total number of shares of optioned Common Stock then available for purchase. The Optionee shall exercise such right by:

(a) giving written notice to the Committee, in the form attached hereto as Appendix A; and

(b) delivering to the Committee full payment of the Exercise Price for the Optioned Shares to be purchased.

The date of exercise shall be the earliest date practicable following the date the requirements of this section 4 have been satisfied, but in no event more than three (3) days after such date. Payment shall be made (i) in United States dollars by certified check, money order or bank draft made payable to the order of Dime Community Bancorp, Inc., (ii) in Shares duly endorsed for transfer and with all necessary stock transfer tax stamps attached, already owned by the Optionee and having a fair market value equal to the Exercise Price, such fair market value to be determined in such manner as may be provided by the Committee or as may be required in order to comply with or conform to the requirements of any applicable laws or regulations, or (iii) in a combination of (i) and (ii).

SECTION 5. DELIVERY AND REGISTRATION OF OPTIONED SHARES. As soon as is practicable following the date on which the Optionee has satisfied the requirements of section 4, the Committee shall take such action as is necessary to cause the Company to issue a stock certificate evidencing the Optionee's ownership of the optioned Common Stock that has been purchased. The Optionee shall have no right to vote or to receive dividends, nor have any other rights with respect to optioned Common Stock, prior to the date as of which such optioned Common Stock is transferred to the Optionee 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. The obligation of the Company to deliver Common Stock under this Agreement shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the person to whom such Common Stock is 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 Common Stock or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Common Stock under this Agreement prior to (a) the admission of such Common Stock to listing on any stock exchange on which Common Stock may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the Committee shall determine to be necessary or advisable.

SECTION 6. ADJUSTMENTS IN THE EVENT OF REORGANIZATION. In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of shares of Common Stock held by each person who is then a shareholder of record, the number of shares of Common Stock subject to the option granted hereunder and the Exercise Price per share of such option shall be adjusted in accordance with section 5.3 of the Plan to account for such event. In the event of any merger, consolidation, or other business reorganization in which the Company is not the surviving entity, the option granted hereunder shall be canceled or adjusted in accordance with the Plan. In the event that the Company shall declare and pay any dividend with respect to Shares (other than a dividend payable in Shares or a regular quarterly cash dividend), including a dividend which results in a nontaxable return of capital to the holders of Shares for federal income tax purposes, or otherwise than by dividend makes distribution of property to the holders of its Shares, at the election of the Committee, the Company shall either (i) make an equivalent payment to each Person holding an outstanding Option as of the record date for such dividend in accordance with section 8.3 of the Plan or (ii) adjust the Exercise Price per Share of outstanding Options in such a manner as the Committee may determine to be necessary to reflect the effect of the dividend or other distribution, or (iii) take any other action described in section 8.3 of the Plan. Actions taken under section 8.3(c) of the Plan are subject to the approval of the Office of Thrift Supervision unless section 8.3(c) is approved by the stockholders of the Company after June 26, 1997.

SECTION 7. NO RIGHT TO CONTINUED SERVICE. Nothing in this Agreement nor any action of the Board or Committee with respect to this Agreement shall be held or construed to confer upon the Optionee any right to a continuation of service by the Company. The Optionee may be dismissed or otherwise dealt with as though this Agreement had not been entered into.

SECTION 8. TAXES. Where any person is entitled to receive shares pursuant to the exercise of the Option granted hereunder, 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 amount required to be withheld.

SECTION 9. 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 Bancorp, Inc.

Attention: COMPENSATION COMMITTEE

(b) If to the Optionee, to the Optionee's address as shown in the Company's personnel records.

SECTION 10. RESTRICTIONS ON TRANSFER. The option granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such option be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the Optionee other than by will or by the laws of descent and distribution or as otherwise permitted by the Plan. To name a beneficiary who may exercise your Options following your death, complete the attached Appendix B and file it with the Corporate Secretary of Dime Community Bancorp, Inc.

SECTION 11. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and shall be binding upon the Company and the Optionee and their respective heirs, successors and assigns.

SECTION 12. CONSTRUCTION OF LANGUAGE. Whenever appropriate in the Agreement, 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 a section shall be a reference to a section of this Agreement, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

SECTION 13. GOVERNING LAW. This Agreement shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal law.

SECTION 14. AMENDMENT. This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time, by written agreement between the Company and the Optionee.

SECTION 15. PLAN PROVISIONS CONTROL. This Agreement and the rights and obligations created hereunder shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Agreement, the Optionee acknowledges receipt of a copy of the Plan.

SECTION 16. CHANGE IN CONTROL. This Option is granted with a related Limited Appreciation Right that is exercisable only in the event of a change in control. A "change in control" shall be as defined in the Plan.

APPENDIX A TO STOCK OPTION AGREEMENT

DIME COMMUNITY BANCORP, INC. 1996 STOCK OPTION PLAN

FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES

NOTICE OF EXERCISE OF STOCK OPTION

USE THIS NOTICE TO INFORM THE COMMITTEE ADMINISTERING THE DIME COMMUNITY BANCORP, INC. 1996 STOCK OPTION PLAN FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES ("PLAN") THAT YOU ARE EXERCISING YOUR RIGHT TO PURCHASE SHARES OF COMMON STOCK ("SHARES") OF DIME COMMUNITY BANCORP, INC. ("DIME") PURSUANT TO AN OPTION ("OPTION") GRANTED UNDER THE PLAN. IF YOU ARE NOT THE PERSON TO WHOM THE OPTION WAS GRANTED ("OPTION RECIPIENT"), YOU MUST ATTACH TO THIS NOTICE PROOF OF YOUR RIGHT TO EXERCISE THE OPTION GRANTED UNDER THE STOCK OPTION AGREEMENT ENTERED INTO BETWEEN DIME AND THE OPTION RECIPIENT ("AGREEMENT"). THIS NOTICE SHOULD BE PERSONALLY DELIVERED OR MAILED BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED TO: DIME COMMUNITY BANCORP, INC., C/O THE DIME SAVINGS BANK OF WILLIAMSBURG, 209 HAVEMEYER STREET, BROOKLYN, NEW YORK 11211, ATTENTION: CORPORATE SECRETARY. THE EFFECTIVE DATE OF THE EXERCISE OF THE OPTION SHALL BE THE EARLIEST DATE PRACTICABLE FOLLOWING THE DATE THIS NOTICE IS RECEIVED BY DIME, BUT IN NO EVENT MORE THAN THREE DAYS AFTER SUCH DATE ("EFFECTIVE DATE"). EXCEPT AS SPECIFICALLY PROVIDED TO THE CONTRARY HEREIN, CAPITALIZED TERMS SHALL HAVE THE MEANINGS ASSIGNED TO THEM UNDER THE PLAN. THIS NOTICE IS SUBJECT TO ALL OF THE TERMS AND CONDITIONS OF THE PLAN AND THE AGREEMENT.

OPTION INFORMATION IDENTIFY BELOW THE OPTION THAT YOU ARE EXERCISING BY PROVIDING THE FOLLOWING INFORMATION FROM THE STOCK OPTION AGREEMENT.

NAME OF OPTIONEE: _____

OPTION GRANT DATE: _____, _____ EXERCISE PRICE PER SHARE: \$_____.
(MONTH AND DAY) (YEAR)

EXERCISE PRICE: COMPUTE THE EXERCISE PRICE BELOW AND SELECT A METHOD OF PAYMENT.

Total Exercise Price _____ x \$_____ = \$_____
(No. of Shares) (Exercise Price) Total Exercise Price

METHOD OF PAYMENT

___ I enclose a certified check, money order, or bank draft payable to the order of Dime Community Bancorp, Inc. in the amount of \$_____

___ I enclose Shares duly endorsed for transfer to Dime with all stamps attached and having a fair market value of \$_____

Total Exercise Price \$_____

ISSUANCE OF CERTIFICATES

I hereby direct that the stock certificates representing the Shares purchased pursuant to section 2 above be issued to the following person(s) in the amount specified below:

NAME AND ADDRESS	SOCIAL SECURITY NO.	NO. OF SHARES
_____	____-____-____	_____
_____	____-____-____	_____

WITHHOLDING ELECTIONS FOR EMPLOYEE OPTION RECIPIENTS WITH NON-QUALIFIED STOCK OPTIONS ONLY.

BENEFICIARIES AND OUTSIDE DIRECTORS SHOULD NOT COMPLETE.

I understand that I am responsible for the amount of federal, state and local taxes required to be withheld with respect to the Shares to be issued to me pursuant to this Notice, but that I may request Dime to retain or sell a sufficient number of such Shares to cover the amount to be withheld. I hereby request that any taxes required to be withheld be paid in the following manner [check one]:

- ___ With a certified or bank check that I will deliver to the Administrator on the day after the Effective Date of my Option exercise.
- ___ With the proceeds from a sale of Shares that would otherwise be distributed to me.
- ___ Retain shares that would otherwise be distributed to me.

I understand that the withholding elections I have made on this form are not binding on the Committee, and that the Committee will decide the amount to be withheld and the method of withholding and advise me of its decision prior to the Effective Date. I further understand that the Committee may request additional information or assurances regarding the manner and time at which I will report the income attributable to the distribution to be made to me.

I further understand that if I have elected to have Shares sold to satisfy tax withholding, I may be asked to pay a minimal amount of such taxes in cash in order to avoid the sale of more Shares than are necessary.

COMPLIANCE WITH TAX AND SECURITIES LAWS

S H I understand that I must rely on, and consult with, my own tax and
 I E legal counsel (and not Dime Community Bancorp, Inc.) regarding the
 G R application of all laws -- particularly tax and securities laws -- to
 N E the transactions to be effected pursuant to my Option and this Notice.
 I understand that I will be responsible for paying any federal, state
 and local taxes that may become due upon the sale (including a sale
 pursuant to a "cashless exercise") or other disposition of Shares
 issued pursuant to this Notice and that I must consult with my own tax
 advisor regarding how and when such income will be reportable.

 Signature

 Date

 Address

INTERNAL USE ONLY

Corporate Secretary
 Received [CHECK ONE]: ___ By Hand ___ By Mail Post Marked

 DATE OF POST MARK

By -----
 AUTHORIZED SIGNATURE

 DATE OF RECEIPT

APPENDIX B TO STOCK OPTION AGREEMENT

DIME COMMUNITY BANCORP, INC. 1996
 STOCK OPTION PLAN

FOR OUTSIDE DIRECTORS, OFFICERS AND
 EMPLOYEES

BENEFICIARY DESIGNATION FORM

GENERAL INFORMATION

USE THIS FORM TO DESIGNATE THE BENEFICIARY(IES) WHO MAY EXERCISE OPTIONS
 OUTSTANDING TO YOU AT THE TIME OF YOUR DEATH.

Name of Person
 Making a Designation _____

Social Security Number _____ - _____ - _____

BENEFICIARY DESIGNATION

COMPLETE SECTIONS A AND B. IF NO PERCENTAGE SHARES ARE SPECIFIED, EACH
 BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL HAVE AN EQUAL
 SHARE. IF ANY DESIGNATED BENEFICIARY PREDECEASES YOU, THE SHARES OF EACH
 REMAINING BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL
 BE INCREASED PROPORTIONATELY.

A. PRIMARY BENEFICIARY(IES). I hereby designate the following person
 as my primary Beneficiary under the Plan, reserving the right to change
 or revoke this designation at any time prior to my death:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total= 100%

B. CONTINGENT BENEFICIARY(IES). I hereby designate the following person(s)
 as my contingent Beneficiary(ies) under the Plan to receive benefits only
 if all of my primary Beneficiaries should predecease me, reserving the
 right to change or revoke this designation at any time prior to my death
 as to all outstanding Options:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total = 100%

S H I understand that this Beneficiary Designation shall be effective only
I E if properly completed and received by the Corporate Secretary of Dime
G R Community Bancorp, Inc. prior to my death, and that it is subject to
N E all of the terms and conditions of the Plan. I also understand that an
effective Beneficiary designation revokes my prior designation(s) with
respect to all outstanding Options.

YOUR SIGNATURE

Date

INTERNAL USE ONLY

This Beneficiary Designation was received by the Corporate Secretary of Dime Community Bancorp, Inc. on the date Indicated. Comments

By -----
AUTHORIZED SIGNATURE DATE

Section 5. VOTING RIGHTS. You shall have the exclusive right to direct the manner in which all voting rights appurtenant to Awarded Shares not forfeited will be exercised while such Awarded Shares are held in the Trust Fund. Such a direction shall be given by completing and filing a written direction, in the form and manner prescribed by the Committee, with such person as the Committee shall designate, prior to the date of the meeting of holders of Shares at which such voting rights will be exercised.

Section 6. DISTRIBUTION UPON VESTING. As soon as practicable following the date any Awarded Shares become vested pursuant to the Award Notice, the Company will issue to you, or your Beneficiary entitled to such Awarded Shares, a stock certificate evidencing ownership of the Shares. Any additional Shares attributable to stock dividends paid with respect to the Awarded Shares then being distributed pursuant to this section 6 shall also be distributed and shall be evidenced by such stock certificate. At the same time, you will receive a cash distribution of any related cash dividends and earnings thereon.

Section 7. REGISTRATION OF SHARES. The Company's obligation to deliver Shares pursuant to this Award Notice shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of you or your 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 (a) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (b) 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 8. NO RIGHT TO CONTINUED SERVICE. Nothing in this Award Notice nor any action of the Board or the Committee with respect to this Award Notice shall be held or construed to confer upon you any right to a continuation of service with the Company or any of its affiliates which retain you. You may be dismissed or otherwise dealt with to the same extent as though this Award had not been made.

Section 9. TAXES. The Company, the Committee or the Trustee shall have the right to require you to pay the amount of any tax which is required to be withheld with respect to the Awarded Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Awarded Shares to cover the amount required to be withheld.

Section 10. 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 personally delivered 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:

(a) If to the Committee:

Dime Community Bancorp, Inc.
c/o The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211

Attention: CORPORATE SECRETARY

(b) If to you, to your address as shown in the Company's personnel records.

Section 11. NO ASSIGNMENT. The Awarded Shares shall not be transferable by you other than by will or by the laws of descent and distribution, and the Awarded Shares shall be distributable only to you during your lifetime. To name a Beneficiary who may receive distribution of shares of Common Stock available for distribution after your death, complete the attached Appendix A and file it with the Corporate Secretary of Dime Community Bancorp, Inc.

Section 12. SUCCESSORS AND ASSIGNS. This Award Notice shall inure to the benefit of and shall be binding upon you and the Company and your respective heirs, successors and assigns.

Section 13. CONSTRUCTION OF LANGUAGE. Whenever appropriate in this Award Notice, 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 a section shall be a reference to a section of this Award Notice, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

Section 14. GOVERNING LAW. This Award Notice shall be construed and enforced in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal laws of the United States of America.

Section 15. AMENDMENT. This Award Notice may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time, by written agreement between you and the Company.

Section 16. PLAN PROVISIONS CONTROL. This Award Notice, and the rights and obligations created hereunder, shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Award Notice, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Award Notice, you acknowledge receipt of a copy of the Plan.

APPENDIX A TO RESTRICTED STOCK AWARD NOTICE

RECOGNITION AND RETENTION PLAN FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES OF DIME COMMUNITY BANCORP, INC.

BENEFICIARY DESIGNATION FORM

GENERAL INFORMATION

USE THIS FORM TO DESIGNATE THE BENEFICIARY(IES) WHO MAY EXERCISE OPTIONS OUTSTANDING TO YOU AT THE TIME OF YOUR DEATH.

Name of Person Award Recipient _____

Social Security Number _____ - _____ - _____

BENEFICIARY DESIGNATION

COMPLETE SECTIONS A AND B. IF NO PERCENTAGE SHARES ARE SPECIFIED, EACH BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL HAVE AN EQUAL SHARE. IF ANY DESIGNATED BENEFICIARY PREDECEASES YOU, THE SHARES OF EACH REMAINING BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL BE INCREASED PROPORTIONATELY.

A. PRIMARY BENEFICIARY(IES). I hereby designate the following person as my primary Beneficiary under the Plan, reserving the right to change or revoke this designation at any time prior to my death:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total= 100%

B. CONTINGENT BENEFICIARY(IES). I hereby designate the following person(s) as my contingent Beneficiary(ies) under the Plan to receive benefits only if all of my primary Beneficiaries should predecease me, reserving the right to change or revoke this designation at any time prior to my death as to all outstanding Options:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total = 100%

SH I understand that this Beneficiary Designation shall be effective only IE if properly completed and received by the Corporate Secretary of Dime GR Community Bancorp, Inc. prior to my death, and that it is subject to NE all of the terms and conditions of the Plan. I also understand that an effective Beneficiary designation revokes my prior designation(s) with respect to all outstanding Options.

YOUR SIGNATURE

Date

INTERNAL USE ONLY

This Beneficiary Designation was received by the Corporate Secretary of Dime Community Bancorp, Inc. on the date Indicated. Comments

By -----
AUTHORIZED SIGNATURE DATE

RECOGNITION AND RETENTION PLAN
FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES
OF DIME COMMUNITY BANCORP, INC.
RESTRICTED STOCK AWARD NOTICE

NAME OF AWARD RECIPIENT-----
SOCIAL SECURITY NUMBER-----
Street Address-----
CITY-----
STATE-----
ZIP CODE

This Restricted Stock Award Notice is intended to set forth the terms and conditions on which a Restricted Stock Award has been granted under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. Set forth below are the specific terms and conditions applicable to this Restricted Stock Award. Attached as Exhibit A are its general terms and conditions.

Restricted Stock Award	(A)	(B)	(C)	(D)	(E)
Effective Date	12/26/96	12/26/96	12/26/96	12/26/96	12/26/96
Class of Shares*	Common	Common	Common	Common	Common
No. of Awarded Shares*					
Vesting Date*	2/1/98	2/1/99	2/1/2000	2/1/2001	2/1/2002

*SUBJECT TO ADJUSTMENT AS PROVIDED IN THE PLAN AND THE GENERAL TERMS AND CONDITIONS.

By signing where indicated below, Dime Community Bancorp, Inc. (the "Company") grants this Restricted Stock Award upon the specified terms and conditions, and the Optionee acknowledges receipt of this Restricted Stock Award Notice, including Exhibit A, and agrees to observe and be bound by the terms and conditions set forth herein.

DIME COMMUNITY BANCORP, INC.

AWARD RECIPIENT

By -----
NAME: VINCENT F. PALAGIANO
TITLE: CHIEF EXECUTIVE OFFICER AND CHAIRMAN
OF THE BOARD OF DIRECTORS

INSTRUCTIONS: This page should be completed by or on behalf of the Compensation Committee. Any blank space intentionally left blank should be crossed out. A Restricted Stock Award consists of a number of Awarded Shares with uniform terms and conditions. Where Awarded Shares are awarded on the same date with varying terms and conditions (for example, varying vesting dates), the awards should be recorded as a series of grants each with its own uniform terms and conditions.

EXHIBIT A

RECOGNITION AND RETENTION PLAN
FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES OF DIME COMMUNITY BANCORP, INC.
RESTRICTED STOCK AWARD

GENERAL TERMS AND CONDITIONS

Section 1. OWNERSHIP OF SHARES. The shares of Common Stock, par value \$.01 per share, of Dime Community Bancorp, Inc. ("Shares") covered by this Award ("Awarded Shares") are held in trust by Marine Midland Bank, N.A., the Trustee of the Plan, for your benefit until such time as they are distributed to you or, if earlier, until you forfeit your rights to the Awarded Shares.

Section 2. VESTING. In general the Awarded Shares shall become vested and available for distribution to you at the dates set forth in the Restricted Stock Award Notice. In the event that your service with the Company terminates on account of your death or Disability, then any Awarded Shares not therefore forfeited shall become immediately vested. In addition, to the extent authorized pursuant to a Plan provision that is approved by the Company's shareholders after June 26, 1997, in the event your service terminates due to retirement (as defined in the Plan) or in the event a change of control (as defined in the Plan) occurs, then any Awarded Shares not theretofore forfeited shall become immediately vested.

Section 3. FORFEITURES. In the event that your service with the Company terminates before all of the Awarded Shares become vested, any Awarded Shares that have not yet become vested pursuant to section 2 of this Award Notice shall be forfeited. Following such a forfeiture, you will have no rights whatsoever with respect to the Awarded Shares forfeited.

Section 4. DIVIDENDS. Any cash or stock dividends declared and paid with respect to Awarded Shares not forfeited shall be allocated to you, and such dividends (and any earnings attributable to them) shall be held in the

Trust Fund subject to such restrictions and shall become vested under the same terms and conditions as the Awarded Shares to which they pertain.

Section 5. VOTING RIGHTS. You shall have the exclusive right to direct the manner in which all voting rights appurtenant to Awarded Shares not forfeited will be exercised while such Awarded Shares are held in the Trust Fund. Such a direction shall be given by completing and filing a written direction, in the form and manner prescribed by the Committee, with such person as the Committee shall designate, prior to the date of the meeting of holders of Shares at which such voting rights will be exercised.

Section 6. DISTRIBUTION UPON VESTING. As soon as practicable following the date any Awarded Shares become vested pursuant to the Award Notice, the Company will issue to you, or your Beneficiary entitled to such Awarded Shares, a stock certificate evidencing ownership of the Shares. Any additional Shares attributable to stock dividends paid with respect to the Awarded Shares then being distributed pursuant to this section 6 shall also be distributed and shall be evidenced by such stock certificate. At the same time, you will receive a cash distribution of any related cash dividends and earnings thereon.

Section 7. REGISTRATION OF SHARES. The Company's obligation to deliver Shares pursuant to this Award Notice shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of you or your 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 (a) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (b) 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 8. NO RIGHT TO CONTINUED SERVICE. Nothing in this Award Notice nor any action of the Board or the Committee with respect to this Award Notice shall be held or construed to confer upon you any right to a continuation of service with the Company or any of its affiliates which retain you. You may be dismissed or otherwise dealt with to the same extent as though this Award had not been made.

Section 9. TAXES. The Company, the Committee or the Trustee shall have the right to require you to pay the amount of any tax which is required to be withheld with respect to the Awarded Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Awarded Shares to cover the amount required to be withheld.

Section 10. 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 personally delivered 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:

(a) If to the Committee:

Dime Community Bancorp, Inc.
c/o The Dime Savings Bank of Williamsburgh
209 Havemeyer Street
Brooklyn, New York 11211

Attention: CORPORATE SECRETARY

(b) If to you, to your address as shown in the Company's personnel records.

Section 11. NO ASSIGNMENT. The Awarded Shares shall not be transferable by you other than by will or by the laws of descent and distribution, and the Awarded Shares shall be distributable only to you during your lifetime. To name a Beneficiary who may receive distribution of shares of Common Stock available for distribution after your death, complete the attached Appendix A and file it with the Corporate Secretary of Dime Community Bancorp, Inc.

Section 12. SUCCESSORS AND ASSIGNS. This Award Notice shall inure to the benefit of and shall be binding upon you and the Company and your respective heirs, successors and assigns.

Section 13. CONSTRUCTION OF LANGUAGE. Whenever appropriate in this Award Notice, 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 a section shall be a reference to a section of this Award Notice, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

Section 14. GOVERNING LAW. This Award Notice shall be construed and enforced in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal laws of the United States of America.

Section 15. AMENDMENT. This Award Notice may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time, by written agreement between you and the Company.

Section 16. PLAN PROVISIONS CONTROL. This Award Notice, and the rights and obligations created hereunder, shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Award Notice, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Award Notice, you acknowledge receipt of a copy of the Plan.

APPENDIX A TO RESTRICTED STOCK AWARD NOTICE

RECOGNITION AND RETENTION PLAN FOR OUTSIDE DIRECTORS, OFFICERS AND EMPLOYEES OF DIME COMMUNITY BANCORP, INC.

BENEFICIARY DESIGNATION FORM

GENERAL INFORMATION

USE THIS FORM TO DESIGNATE THE BENEFICIARY(IES) WHO MAY EXERCISE OPTIONS OUTSTANDING TO YOU AT THE TIME OF YOUR DEATH.

Name of Person Award Recipient _____

Social Security Number _____ - _____ - _____

BENEFICIARY DESIGNATION

COMPLETE SECTIONS A AND B. IF NO PERCENTAGE SHARES ARE SPECIFIED, EACH BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL HAVE AN EQUAL SHARE. IF ANY DESIGNATED BENEFICIARY PREDECEASES YOU, THE SHARES OF EACH REMAINING BENEFICIARY IN THE SAME CLASS (PRIMARY OR CONTINGENT) SHALL BE INCREASED PROPORTIONATELY.

A. PRIMARY BENEFICIARY(IES). I hereby designate the following person as my primary Beneficiary under the Plan, reserving the right to change or revoke this designation at any time prior to my death:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total= 100%

B. CONTINGENT BENEFICIARY(IES). I hereby designate the following person(s) as my contingent Beneficiary(ies) under the Plan to receive benefits only if all of my primary Beneficiaries should predecease me, reserving the right to change or revoke this designation at any time prior to my death as to all outstanding Options:

NAME	ADDRESS	RELATIONSHIP	BIRTHDATE	SHARE
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
_____	_____	_____	_____	_____ %
				Total = 100%

S H I understand that this Beneficiary Designation shall be effective only I E if properly completed and received by the Corporate Secretary of Dime G R Community Bancorp, Inc. prior to my death, and that it is subject to N E all of the terms and conditions of the Plan. I also understand that an effective Beneficiary designation revokes my prior designation(s) with respect to all outstanding Options.

YOUR SIGNATURE

Date

INTERNAL USE ONLY

This Beneficiary Designation was received by the Corporate Secretary of Dime Community Bancorp, Inc. on the date Indicated. Comments

By -----
AUTHORIZED SIGNATURE DATE

DIME COMMUNITY BANCORP, INC. AND SUBSIDIARY
 STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS (1)

	FOR THE YEAR ENDED JUNE 30, 1997
Net income	\$12,316
Weighted average common shares outstanding	12,934
Common stock equivalents due to dilutive effect of stock options	47
Total weighted average common shares and common share equivalents	12,980
Earnings per common share and common share equivalents	\$0.95
Total weighted average common shares and common share equivalents	12,980
Additional dilutive shares using ending period market value versus average market value for the period when utilizing the treasury stock method regarding stock options	157
Total shares for fully diluted earnings per share	13,137
Fully diluted earnings per common share and common share equivalents	\$0.94

(1) Earnings per share information is not presented for the year ended June 30, 1996 as it not considered meaningful since the initial public offering of the Company's stock did not occur until June, 1996.

FINANCIAL HIGHLIGHTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected consolidated financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto. Earnings per share information for the Company for the fiscal years ended prior to June 30, 1996 are not meaningful since the sale of the Company's common stock and the merger of Conestoga Bancorp, Inc. into the Bank occurred on June 26, 1996.

At or for the years ended June 30,	1997	1996	1995	1994	1993
FINANCIAL CONDITION DATA:					
Total assets	\$1,315,026	\$1,371,821	\$662,739	\$646,458	\$645,899
Loans, net	739,858	575,874	424,680	427,960	458,422
Mortgage-backed securities	308,525	209,941	91,548	94,356	82,077
Investment securities	168,596	392,450	101,695	86,686	56,724
Federal funds sold	18,902	115,130	17,809	7,029	21,037
Goodwill	26,433	28,438	-	-	-
Deposits	963,395	950,114	554,841	546,761	564,110
Borrowings	139,543	27,708	17,820	17,871	11,981
Stockholders' equity	190,889	213,071	77,067	67,919	58,920
Tangible Stockholders' equity	162,361	184,188	76,321	67,646	58,577
SELECTED OPERATING DATA:					
Interest income	\$89,030	\$52,619	\$49,223	\$49,821	\$51,393
Interest expense on deposits and borrowings	41,564	23,516	18,946	17,594	21,251
Net interest income	47,466	29,103	30,277	32,227	30,142
Provision for losses	4,200	2,979	2,950	4,105	3,395
Net interest income after provision for loan losses	43,266	26,124	27,327	28,122	26,747
Non-interest income	4,133	1,375	1,773	2,267	3,195
Non-interest expense	27,492	14,021	14,053	12,714	12,214
Income before income tax expense and cumulative effect of changes in accounting principle	19,907	13,478	15,047	17,675	17,728
Income tax expense	7,591	6,181	6,621	8,211	8,530
Income before cumulative effect of changes in accounting principle	12,316	7,297	8,426	9,464	9,198
Cumulative effect on prior years of changing to a different method of accounting for:					
Income taxes	-	-	-	(383)	-
Postretirement benefits other than pensions	-	(1,032)	-	-	-
Net income	\$12,316	\$6,265	\$8,426	\$9,081	\$9,198

Since the acquisition of Conestoga was completed at June 26, 1996, its contribution to the Company's earnings and the effect upon average balance computations for fiscal year ended June 30, 1996 were not material.

At June 30, 1996, investment securities and federal funds sold include 125.0 million and \$6.1 million, respectively, of excess proceeds resulting from the oversubscription to the Company's initial public offering. The excess proceeds were refunded on July 1, 1996.

Loans, net, represents gross loans less net deferred loan fees and allowance for loan losses.

The Company has classified its securities as 'held-to-maturity' or 'available-for-sale' since July 1, 1994, when it adopted SFAS No. 115 'Accounting for Investments in Debt and Equity Securities' ('SFAS 115'). Amount includes investment in Federal Home Loan Bank of New York ("FHLBNY") capital stock.

Stockholders' Equity and tangible stockholders' equity increased from June 30, 1995 to June 30, 1996 primarily due to the initial public offering.

Excluding a non-recurring charge of \$2.0 million related to the recapitalization of the Savings Association Insurance Fund, non-interest expense was \$25.5 million during the year ended June 30, 1997. See "Impact of Recent Legislation."

Excluding non-recurring New York State and New York City income tax recoveries of \$1.9 million and \$1.0 million, respectively, income tax expense was \$10.5 million during the fiscal year ended June 30, 1997.

Pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ('SFAS 109'), on July 1, 1993, the Bank changed prospectively to the deferred method of accounting for income taxes. The effect of the adoption of this standard is reflected in the selected operating data as the cumulative effect of adopting a change in accounting principles.

The Bank adopted Statement of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions' ("SFAS 106") effective July 1, 1995. The Bank elected to record the full accumulated post retirement benefit obligation upon adoption. This resulted in a cumulative effect adjustment of \$1,032,000 (after reduction for income taxes of \$879,000) to apply retroactively to previous years the new method of accounting, which is shown in the consolidated statement of income for the year ended June 30, 1996.

At or for the fiscal years ended June 30,	1997	1996	1995	1994	1993

SELECTED FINANCIAL RATIOS AND OTHER DATA (11):					
FINANCIAL AND PERFORMANCE RATIOS:					
Return on average assets	1.00%	1.07%	1.33%	1.46%	1.47%
Return on average stockholders' equity	5.94	9.07	11.50	14.66	16.83
Return on average tangible stockholders' equity	6.84	11.84	11.53	14.66	16.83
Stockholders' equity to total assets at end of period	14.52	15.53	11.63	10.51	9.12
Tangible equity to tangible assets at end of period	12.62	13.72	11.53	10.47	9.07
Loans to deposits at end of period	77.91	61.43	77.47	78.94	81.80
Average interest rate spread	3.38	3.85	4.51	4.80	4.61
Net interest margin	4.07	4.41	4.91	5.12	4.95
Average interest earning assets to average interest bearing liabilities	119.33	115.68	113.15	111.50	109.66
Non-interest expense to average assets	2.24	2.06	2.21	1.97	1.95
Core non-interest expense to average assets	1.87	2.06	2.21	1.97	1.95
Efficiency ratio	54.32	45.98	44.11	37.63	38.18
Core efficiency ratio	45.55	45.98	44.11	37.63	38.18
PER SHARE DATA:					
Earnings per share	\$0.95	N/A	N/A	N/A	N/A
Cash dividends per share	0.045	\$-	N/A	N/A	N/A
Book value per share	14.58	14.65	N/A	N/A	N/A
Tangible book value per share	12.40	12.66	N/A	N/A	N/A
CASH EARNINGS INFORMATION:					
Cash return on average assets	1.36%	1.07%	1.33%	1.46%	1.47%
Cash return on average stockholders' equity	8.06	9.07	11.50	14.66	16.83
Cash return on average tangible stockholders' equity	9.27	9.07	11.50	14.66	16.83
Cash earnings per share	\$1.29	N/A	N/A	N/A	N/A
ASSET QUALITY RATIOS AND OTHER DATA:					
Total non-performing loans	\$3,190	\$6,551	\$5,073	\$6,248	11,632
Other real estate owned, net	1,697	1,946	4,466	8,200	7,981
Ratios:					
Non-performing loans to total loans	0.43%	1.12%	1.18%	1.45%	2.52%
Non-performing loans and real estate owned to total assets	0.37	0.62	1.44	2.23	3.04
ALLOWANCE FOR LOAN LOSSES TO:					
Non-performing loans	336.24%	119.25%	101.99%	58.15%	25.76%
Total loans	1.43	1.34	1.20	0.84	0.65
REGULATORY CAPITAL RATIOS: (Bank only)					
Tangible capital	9.86%	9.49%	11.53%	10.47%	9.07%
Core capital	9.87	9.50	11.56	10.51	9.12
Risk-based capital	19.99	21.24	22.18	19.83	14.13
FULL SERVICE BRANCHES					
	15	15	7	7	7

Excluding the effects of the Savings Association Insurance Fund ("SAIF") Special Assessment and the recovery of New York State and City deferred income taxes previously provided, net income would have been \$10.5million, and the return on average assets, return on average stockholders' equity, return on average tangible stockholders' equity, non-interest expense to average assets, the efficiency ratio, and earnings per share would have been 0.86%, 5.08%, 5.85%, 2.07%, 50.30% and \$0.81, respectively, for the year ended June 30, 1997.

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.

Income before cumulative effect of changes in accounting principles is used to calculate return on average assets and return on average equity ratios.

Average interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.

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

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.

In calculating these ratios, amortization expense related to goodwill and the SAIF recapitalization charge are excluded from non-interest expense.

In calculating these ratios, non-interest expense excludes expenses such as goodwill amortization and the after-tax effect of compensation expense related to the Company's stock benefit plans which are accretive to book value. Excluding the effects of the SAIF Special Assessment and the recovery of New York State and City deferred income taxes previously provided, cash return on average assets, cash return on average stockholders' equity, cash return on average tangible stockholders' equity, and cash earnings per share would have been 1.21%, 7.19%, 8.28%, and \$1.15 for the year ended June 30, 1997.

Non-performing loans consists of non-accrual loans; the Bank did not have any loans that were 90 days or more past due and still accruing at any of the dates presented. Non-performing loans do not include troubled-debt restructurings ('TDRs'). See "Asset Quality."

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

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

GENERAL

Dime Community Bancorp, Inc. (the "Company") is a Delaware corporation organized in December, 1995 at the direction of the Board of Directors of the Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the conversion of the Bank, on June 26, 1996, from a federal mutual savings bank to a federal stock savings bank (the "Conversion"). The Company had no operations prior to June 26, 1996.

The primary business of the Company is the operation of its wholly-owned subsidiary, the Bank. In addition to directing, planning and coordinating the business activities of the Bank, the Company retained proceeds in connection with the Conversion, which are invested primarily in federal funds and short-term, investment grade marketable securities.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing those deposits, primarily in multi-family and one- to four-family residential mortgage loans, mortgage-backed securities, and obligations of the U.S. Government and Government Sponsored Entities ("GSEs"). 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; amortization, prepayments and maturities of mortgage-backed and investment securities, borrowed funds; and, to a lesser extent, the sale of fixed-rate mortgage loans to the secondary market.

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

ACQUISITION OF CONESTOGA BANCORP, INC.

On June 26, 1996 the Bank completed the acquisition (the "Acquisition") of Conestoga Bancorp, Inc. ("Conestoga"), resulting in the merger of Conestoga's wholly-owned subsidiary, Pioneer Savings Bank, F.S.B. ("Pioneer") with and into the Bank, with the Bank as the resulting financial institution.

The Acquisition was accounted for in the financial statements using the purchase method of accounting. Under the purchase method of accounting, the acquired assets and liabilities of Conestoga are recognized at their fair value as of the date of the Acquisition. Shareholders of Conestoga were paid approximately \$101.3 million in cash, resulting in goodwill of \$28.4 million, which is being amortized on a straight line basis over a twelve year period.

Since the Acquisition occurred on June 26, 1996, its impact upon the Company's consolidated results of operations for the fiscal year ended June 30, 1996 was minimal. The full effect of the Acquisition is reflected in the Company's consolidated results of operations for the fiscal year ended June 30, 1997, as well the consolidated statements of financial condition as of June 30, 1997 and 1996.

SAIF SPECIAL ASSESSMENT

On September 30, 1996, the Deposit Insurance Funds Act of 1996 (the "Funds Act") was enacted into law, and it amended the Federal Deposit Insurance Act in several ways to recapitalize the SAIF and reduce the disparity in the assessment rates for the BIF and the SAIF. The Funds Act authorized the FDIC to impose a special assessment on all institutions with SAIF-assessable deposits in the amount necessary to recapitalize the SAIF. As implemented by the FDIC, the special assessment was \$0.657 per \$100 of an institution's SAIF-assessable deposits as of March 31, 1995. However, under the Funds Act, the Bank was entitled to reduce the amount of such deposits by 20% in computing the special assessment. Accordingly, the SAIF special assessment, which totaled \$2.0 million, was paid by the Bank in November, 1996. The SAIF special assessment, although paid in November, 1996, was recorded as non-interest expense during the three months ended September 30, 1996.

MANAGEMENT STRATEGY

The Bank's primary management strategy is to increase its household and deposit market shares in the communities it serves, either through acquisitions or purchases of deposits, or by direct marketing, and to increase its origination of, and investment in, mortgage loans, with an emphasis on multi-family loans. Multi-family lending is a significant business of the Bank and reflects the fact that much of the housing in the Bank's primary lending area is multi-family housing. The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities; seek to maintain the Bank's asset quality for loans and other investments; and use appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on the Bank's profitability and capital.

FRANCHISE EXPANSION. The Bank completed its merger of Conestoga into the Bank on June 26, 1996, providing eight additional full service branches with deposits totaling \$394.3 million at June 26, 1996. The Bank will continue to

evaluate acquisition and other growth opportunities as they become available. Additionally, management plans to supplement this strategy with direct marketing efforts designed to increase household balances and the number of the Bank's services used per household among its existing customers.

LOAN ORIGINATIONS WITH AN EMPHASIS ON MULTI-FAMILY LENDING. Management believes that multi-family loans provide advantages as portfolio investments. First, they provide a higher yield than single family loans or investment securities of comparable maturities or terms to repricing. Second, the Bank's market area generally has provided a stable flow of new and refinanced multi-family loan originations. In addition to its emphasis on multi-family lending, the Bank will continue to market and originate residential first mortgage loans secured primarily by owner-occupied, one- to four-family residences, including condominiums and cooperative apartments. Third, origination and processing costs for the Bank's multi-family loans are lower per thousand dollars of originations than comparable single family costs. In addition, to address the higher credit risk associated with multi-family lending, management has developed what it believes are reliable underwriting standards for loan applications in order to maintain a consistent credit quality for new loans.

CAPITAL LEVERAGE STRATEGY. As a result of the initial public offering in June, 1996, the Bank's capital level significantly exceeded all regulatory requirements. A portion of the "excess" capital generated by the initial public offering has been temporarily deployed through the use of a capital leverage strategy whereby the Bank invests in high quality mortgage-backed securities ("leverage assets") funded by short term borrowings from various third party lenders. The capital leverage strategy generates additional earnings for the Company by virtue of a positive interest rate spread between the yield on the leverage assets and the cost of the borrowings. Since the average term to maturity of the leverage assets exceeds that of the borrowings used to fund their purchase, the net interest income earned on the leverage strategy would be expected to decline in a rising interest rate environment. See "Market Risk." To date, the capital leverage strategy has been undertaken in accordance with limits established by the Board of Directors, aimed at enhancing profitability under moderate levels of interest rate exposure. Assets added under the capital leverage strategy were \$96.3 million, on a net basis, at June 30, 1997.

In addition to the capital leverage strategy, the Bank undertook an additional \$30.0 million in medium term borrowings from the FHLBNY during the year ended June 30, 1997 in order to fund multi-family and underlying cooperative loan originations. The Bank earns a net interest rate spread between the yield on the multi-family and underlying cooperative loans and the cost of the borrowings. Since the repricing terms on the multi-family and underlying cooperative loans and the maturities on the underlying borrowings are closely matched, the Bank has been able to reduce its exposure to interest rate risk.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, proceeds from principal and interest payments on loans, mortgage-backed securities and investments, borrowings, and, to a lesser extent, proceeds from the sale of fixed-rate mortgage loans to the secondary mortgage market. While maturities and scheduled amortization of loans and investments are a predictable source of funds, deposit flows, mortgage prepayments and mortgage loan sales are influenced by interest rates, economic conditions and competition.

The primary investing activities of the Bank are the origination of multi-family and single-family mortgage loans, and the purchase of mortgage-backed and other securities. During the year ended June 30, 1997, the Bank's loan originations totaled \$264.8 million compared to \$114.9 million for the year ended June 30, 1996. Purchases of mortgage-backed and other securities totaled \$362.9 million for the year ended June 30, 1997 compared to \$574.5 million for the year ended June 30, 1996. These activities were funded primarily by principal repayments on loans and mortgage-backed securities, maturities of investment securities, and borrowings by means of repurchase agreements and FHLB advances. Principal repayments on loans and mortgage-backed securities totaled \$132.4 million during the year ended June 30, 1997, compared to \$93.2 million for the year ended June 30, 1996. Maturities of investment securities totaled \$378.8 million and \$412.2 million, respectively, during the fiscal years ended June 30, 1997 and 1996. Loan and security sales, which totaled \$47.2 million and \$8.8 million, respectively, during the fiscal years ended June 30, 1997 and 1996, provided some additional cash flows.

Deposits increased \$13.3 million during the fiscal year ended June 30, 1997. The Bank experienced a net increase in total deposits of \$395.3 million during the fiscal year ended June 30, 1996, attributable primarily to the acquisition of \$394.3 million in deposits from Conestoga. Deposit flows are affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors. Certificates of deposit which are scheduled to mature in one year or less from June 30, 1997 totaled \$313.5 million. Based upon the Company's current pricing strategy and deposit retention experience, management believes that a significant portion of such deposits will remain with the Company. Net borrowings increased \$111.8 million during the fiscal year ended June 30, 1997, with the majority of this growth experienced in securities sold under agreement to repurchase ("Repo") transactions.

Stockholders' equity declined \$22.2 million during the year ended June 30, 1997. During the fiscal year ended June 30, 1997, the Company repurchased (the "Repurchase") 1,454,750 shares of its common stock into treasury. The aggregate cost of the Repurchase was \$27.7 million, at an average price of \$19.04 per share. Offsetting the Repurchase, was net income of \$12.3 million and amortization of the Company's Stock Plans of \$3.1 million during the fiscal year ended June 30, 1997.

On May 15, 1997, the Company declared its first quarterly cash dividend. This dividend, which totaled \$589,000, or \$.045 per share, was paid in June, 1997.

The Bank is required to maintain a minimum average daily balance of liquid

assets and short-term liquid assets as a percentage of net withdrawable deposit accounts plus short-term borrowings as defined by Office of Thrift Supervision regulations. The minimum required liquidity and short-term liquidity ratios are currently 5.0% and 1.0%, respectively. At June 30, 1997, the Bank's liquidity ratio and short-term liquid asset ratio were 14.98% and 4.15%, respectively. The levels of the Bank's short-term liquid assets are dependent on the Bank's operating, financing and investing activities during any given period.

The Bank monitors its liquidity position on a daily basis. Excess short-term liquidity is invested in overnight federal funds sales and various money market investments. In the event that the Bank should require funds beyond its ability to generate them internally, additional sources of funds are available through the use of the Bank's \$166.4 million borrowing limit at the Federal Home Loan Bank of New York ("FHLBNY"). At June 30, 1997, the Bank had \$132.6 million in short and medium term borrowings outstanding at the FHLBNY, comprised of outstanding advances of \$63.2 million and securities sold under agreement to repurchase of \$69.4 million, and a remaining unused borrowing capacity from the FHLBNY of \$33.8 million.

At June 30, 1997, the Bank was in compliance with all applicable regulatory capital requirements. Tangible capital totaled \$124.1 million, or 9.86% of total tangible assets, compared to a 1.50% regulatory requirement; core capital, at 9.87%, exceeded the required 3.0% regulatory minimum, and total risk-based capital, at 19.99% of risk weighted assets, exceeded the 8.0% regulatory requirement.

DISCUSSION OF MARKET RISK

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest earning assets, other than those which possess a short term to maturity. Since all of the Company's interest bearing liabilities and virtually all of the Company's interest earning assets are located at the Bank, virtually all of the Company's interest rate risk exposure lies at the Bank level. As a result, all significant interest rate risk management procedures are performed at the Bank level. Based upon the bank's nature of operations, the Bank is not subject to foreign currency exchange or commodity price risk. The Bank's real estate loan portfolio, concentrated primarily within New York City, is subject to risks associated with the local economy. The Company does not own any trading assets. See "Asset Quality." At June 30, 1997, the Company does not have any hedging transactions in place such as interest rate swaps and caps.

The Bank's interest rate management strategy is designed to stabilize net interest income and preserve capital over a broad range of interest rate movements and has three primary components:

ASSETS. The Bank's largest single asset type is the multi-family real estate loan. In order to manage interest rate risk, management emphasizes origination of adjustable rate multi-family loans. During the year ended June 30, 1997, approximately 75% of multi-family loans originated were adjustable rate, with repricing typically occurring after five years. In addition, management has sought to include various types of adjustable-rate single family (including cooperative apartment) whole loans and adjustable and floating-rate investment securities in its portfolio, which generally have repricing terms of 3 years or less. Adjustable-rate whole totaled \$571.0 million, or 43.4% of total assets, as of June 30, 1997, and adjustable-rate investment securities (CMO's, REMIC's and mortgage-backed securities issued by GSEs) totaled \$148.3 million, or 11.3% of total assets, at the same date.

DEPOSIT LIABILITIES. The Bank, a traditional community-based savings bank, is largely dependent upon its base of competitively priced core deposits (consisting of all deposits excepting certificates of deposit) 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 June 30, 1997 were \$421.6 million, or 43.76% of total deposits. The balance of certificates of deposit as of June 30, 1997 was \$541.8 million, or 56.24% of total deposits, of which \$228.3 million, or 23.7% of total deposits, mature after one year. Depending on market conditions, management prices its certificates of deposit in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year. Over the twelve-month period ending June 30, 1997, the Bank experienced a strong retention rate on maturing certificates of deposit.

WHOLESALE FUNDS. The Bank does not accept brokered deposits as a source of funds and has no plans to do so in the future. However, the Bank is a member of the FHLBNY which provides it with a borrowing line equal to \$166.4 million. From time to time, the Bank will borrow ("Advances") from the FHLBNY for various purposes. At June 30, 1997, the Bank had outstanding borrowings of \$132.6 million with the FHLBNY.

The Bank actively manages interest rate risk through the use of a simulation model which measures the sensitivity of future net interest income and the net portfolio value to changes in interest rates. In addition, the Bank regularly monitors interest rate sensitivity through GAP Analysis, which measures the terms to maturity or next repricing date of interest earning assets and interest bearing liabilities.

GAP ANALYSIS

The following table sets forth the amounts of the Company's consolidated interest-earning assets and interest-bearing liabilities, outstanding at June 30, 1997, 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 which reprice or mature during a particular period were determined based on the earlier of term to repricing or the term to repayment of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at June 30, 1997 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For purposes of presentation in the following table, the Bank utilized the national deposit decay rate assumptions published by the OTS as of December 31, 1992 (the latest available), which for savings accounts, NOW and Super NOW accounts and money market accounts in the one year or less category, were 17%, 37% and 79%, respectively. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated early payoffs of adjustable-and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. The amounts attributable to mortgage-backed securities reflect principal balances expected to be redeployed and/or repriced as a result of anticipated principal repayments, and as a result of contractual rate adjustments on adjustable-rate mortgage-backed securities.

	89,927	23,282	39,399	59,376	49,219	47,322	-	308,525	
Federal funds sold		18,902	-	-	-	-	-	-	18,902
FHLB capital stock		8,322	-	-	-	-	-	-	8,322
		-----	-----	-----	-----	-----	-----	-----	-----
Total interest earning assets		183,322	81,748	125,043	329,820	305,262	221,412	-	1,246,607
LESS:									
Allowance for loan losses		-	-	-	-	-	-	(10,726)	(10,726)
		-----	-----	-----	-----	-----	-----	-----	-----
Net interest-earning assets		183,322	81,748	125,043	329,820	305,262	221,412	(10,726)	1,235,881
Non-interest-earning assets		-	-	-	-	-	-	79,145	79,145
		-----	-----	-----	-----	-----	-----	-----	-----
Total assets		<u>\$183,322</u>	<u>\$81,748</u>	<u>\$125,043</u>	<u>\$329,820</u>	<u>\$305,262</u>	<u>\$221,412</u>	<u>\$68,419</u>	<u>\$1,315,026</u>

INTEREST-BEARING LIABILITIES:

Savings Accounts	\$14,636	\$14,636	\$29,272	\$88,923	\$57,970	\$138,940	\$-	\$344,377
NOW and Super NOW accounts	1,510	1,510	3,020	5,529	1,479	3,276	-	16,324
Money market accounts	6,622	6,622	13,245	3,689	1,756	1,596	-	33,530
Certificates of Deposit	116,828	88,912	107,714	213,599	14,720	-	-	541,773
Borrowed funds	77,105	4,500	2,500	16,005	20,000	19,433	-	139,543
Interest-bearing escrow	-	-	-	-	-	3,464	-	3,464
		-----	-----	-----	-----	-----	-----	-----
Total interest bearing liabilities	216,701	116,180	155,751	327,745	95,925	166,709	-	1,079,011
Checking accounts	-	-	-	-	-	-	27,391	27,391
Other non-interest bearing liabilities	-	-	-	-	-	-	17,735	17,735
Stockholders' equity	-	-	-	-	-	-	190,889	190,889
		-----	-----	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity	<u>\$216,701</u>	<u>\$116,180</u>	<u>\$155,751</u>	<u>\$327,745</u>	<u>\$95,925</u>	<u>\$166,709</u>	<u>\$236,015</u>	<u>\$1,315,026</u>
		-----	-----	-----	-----	-----	-----	-----
Interest sensitivity gap per period	<u>\$(33,379)</u>	<u>\$(34,432)</u>	<u>\$(30,708)</u>	<u>\$2,075</u>	<u>\$209,337</u>	<u>\$54,703</u>	-	
		-----	-----	-----	-----	-----	-----	-----
Cumulative interest sensitivity gap	<u>\$(33,379)</u>	<u>\$(67,811)</u>	<u>\$(98,519)</u>	<u>\$(96,444)</u>	<u>\$112,893</u>	<u>\$167,596</u>	-	
		-----	-----	-----	-----	-----	-----	-----
Cumulative interest sensitivity gap as a percent of total assets	(2.54)%	(5.16)%	(7.49)%	(7.33)%	8.58%	12.74%	-	
		-----	-----	-----	-----	-----	-----	-----
Cumulative total interest-earning assets as a percent of cumulative total interest bearing liabilities	84.60%	79.63%	79.84%	88.19%	112.37%	115.53%	-	

Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as result of anticipated pre-payments, scheduled rate adjustments, and contractual maturities.

Based upon historical repayment experience.

The Bank's balance sheet is primarily comprised of assets which mature or reprice within five years, with a significant portion maturing or repricing within one year. In addition, the Bank's deposit base is comprised primarily of savings accounts, and certificates of deposit with maturities of three years or less, representing 15.3% and 54.7%, respectively, of total deposits at June 30, 1997. As a result, at June 30, 1997, the Bank's interest-bearing liabilities maturing or repricing within one year totaled \$488.6 million, while interest earning assets maturing or repricing within one year totaled \$390.1 million, resulting in a negative one-year interest sensitivity gap of \$98.5 million, or 7.5% of total assets. The Bank's estimate of repricing liabilities for selected deposit types which do not carry contractual maturities, such as savings accounts, is based upon the decay rate tables published by the OTS.

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

Under interest rate scenarios other than that which existed on June 30, 1997, the gap ratio for the Bank's assets and liabilities could differ substantially based upon different assumptions about how core deposit decay rates and loan prepayments would change. For example, the Bank's interest rate risk management model assumes that in a rising rate scenario, by paying competitive rates on non-core deposits, a large share of core deposits will transfer to certificates of deposit and be retained, although at higher cost to the Bank. Also, loan and mortgage-backed security prepayment rates would be expected to slow, as borrowers postpone property sales or loan refinancings until rates again decline.

INTEREST RATE RISK EXPOSURE COMPLIANCE

Increases in the level of interest rates also may adversely affect the fair value of the Bank's securities and other earning assets. Generally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Bank's interest-earning assets, which could adversely affect the Bank's results of operations if sold, or, in the case of interest earning assets classified as available for sale, the Bank's stockholders' equity, if retained. Under SFAS 115, which was adopted by the Bank on July 1, 1994, changes in the unrealized gains and losses, net of taxes, on securities classified as available for sale will be reflected in the Bank's stockholders' equity. As of June 30, 1997, the Bank's securities portfolio included \$288.8 million in securities classified as available for sale. Accordingly, as a result of adoption of SFAS 115 and the magnitude of the Bank's holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in the stockholders' equity of the Bank. The Bank does not own any trading assets.

On a quarterly basis, an interest rate risk exposure compliance report is prepared and presented to the Bank's Board of Directors. This report, prepared in accordance with Thrift Bulletin #13 issued by the OTS, presents an analysis of the change in net interest income and net portfolio value resulting from an increase or decrease in the level of interest rates. All changes are measured as percentage changes from the values of projected net interest income and net projected portfolio value in the flat rate scenario. The calculated estimates of change in net interest income and net portfolio value are compared to current limits established by management and approved by the Board of Directors. The following is a summary of the interest rate exposure report as of June 30, 1997:

CHANGE IN INTEREST RATE	PERCENTAGE CHANGE IN NET INTEREST INCOME		NET PORTFOLIO VALUE	
	LIMIT	PROJECTED CHANGE	LIMIT	PROJECTED CHANGE
- 400 Basis Points	-50.00%	-10.48%	-50.00%	15.09%
- 300 Basis Points	-37.50	-3.95	-37.50	8.34
- 200 Basis Points	-25.00	0.77	-25.00	3.69
- 100 Basis Points	-12.50	3.14	-12.50	2.95
Flat Rate (1)	-	-	-	-
+100 Basis Points	-12.50	-9.50	-12.50	-8.24
+200 Basis Points	-25.00	-17.38	-25.00	-17.97
+300 Basis Points	-37.50	-25.92	-37.50	-28.52
+400 Basis Points	-50.00%	-35.31%	-50.00%	-38.83%

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flows from principal repayments on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change.

ASSET QUALITY

The Bank's real estate loan servicing policies and procedures require that the Bank initiate contact with a delinquent borrower as soon as possible after the payment is late ten days. Generally, the policy calls for a late notice to be sent 10 days after the due date of the payment. If payment has not been received within 30 days of the due date, a letter is sent to the borrower. Thereafter, periodic letters and phone calls are placed to the borrower until payment is received. In addition, Bank policy calls for the cessation of interest accruals on loans delinquent 90 days or more. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due, or work out a repayment schedule with the borrower to avoid foreclosure. Generally, foreclosure proceedings are initiated by the Bank when a loan is 90 days past due. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is generally either sold at foreclosure or sold subsequently by the Bank as soon thereafter as practicable.

Management reviews delinquent loans on a periodic basis and reports monthly to the Board of Directors regarding the status of all delinquent and non-accrual loans in the Bank's portfolio. The Bank retains outside counsel experienced in foreclosure and bankruptcy procedures to institute foreclosure and other actions on the Bank's delinquent loans. It is the policy of the Bank to initiate foreclosure proceedings after a loan becomes 90 days past due. As soon as practicable after initiating foreclosure proceedings on a loan, the Bank prepares an estimate of the fair value of the underlying collateral. It is the Bank's general policy to dispose of properties acquired through foreclosure or deeds in lieu thereof as quickly and as prudently as possible in consideration of market conditions, the physical condition of the property, and any other mitigating conditions.

The continued adherence to these procedures, as well as a strong local real estate market, resulted in a significant drop in problem loans in the Bank's portfolio, particularly multi-family and underlying cooperative loans, during the fiscal year ended June 30, 1997. Evidence of this is reflected in declines in both non-performing loans and loans delinquent 60-89 days. Non-performing loans totaled \$3.2 million at June 30, 1997, as compared to \$6.6 million at June 30, 1996. The Bank had 33 loans totaling \$603,000 delinquent 60-89 days at June 30, 1997, as compared to 33 such delinquent loans totaling \$2.3 million at June 30, 1996. Early intervention procedures implemented during the fiscal year ended June 30, 1997, have been preventing new mortgage delinquencies.

Under Generally Accepted Accounting Principles ("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 debt 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 the Bank would not otherwise consider. Debt restructurings or loan modifications for a borrower do not necessarily always constitute troubled-debt restructurings, however, and troubled-debt restructurings do not necessarily result in non-accrual loans. The Bank had four loans classified as troubled-debt restructurings at June 30, 1997, totaling \$4.7 million, and all are currently performing according to their restructured terms. The largest restructured debt, a \$2.7 million loan secured by a mortgage on an underlying cooperative apartment building located in Forest Hills, New York, was originated in 1987. The loan was first restructured in 1988, and again in 1994. The Office of Thrift Supervision's current regulations require that troubled-debt restructurings remain classified as such until the loan is either paid off or returned to its original terms. The Bank has had no new loan restructurings during the fiscal year ended June 30, 1997. All four troubled-debt restructurings as of June 30, 1997 are on accrual status as they have been performing in accordance with their restructured terms for over one year.

In the event the carrying balance of a loan, including all accrued interest, exceeds the estimate of fair value, the loan is considered to be impaired and a reserve is established pursuant to Statement of Financial Accounting Standards No. 114 "Accounting by a Creditor for Impairment of a Loan" ("SFAS 114"). The Bank adopted SFAS 114 effective July 1, 1995. SFAS 114 established guidelines for determining and measuring impairment in loans. Generally, the Bank considers non-performing loans to be impaired loans. The recorded investment in loans deemed impaired under the guidance of SFAS 114 was approximately \$4.3 million as of June 30, 1997, compared to \$7.4 million at June 30, 1996, and the average balance of impaired loans was \$4.7 million for the year ended June 30, 1997 compared to \$6.7 million for the year ended June 30, 1996. The impaired portion of these loans is represented by specific reserves totaling \$122,000 allocated within the allowance for loan losses at June 30, 1997. At June 30, 1997, one loan totaling \$2.7 million, was deemed impaired for which no reserves have been provided. This loan, which is included in troubled-debt restructurings at June 30, 1997, has performed in accordance with the provisions of the restructuring agreement signed in October, 1995. The loan has been retained on accrual status at June 30, 1997. At June 30, 1997, approximately \$1.6 million of one-to-four family, cooperative apartment and consumer loans on nonaccrual status are not deemed impaired under SFAS 114. All of these loans have outstanding balances less than \$203,000, and are considered a homogeneous loan pool not covered by SFAS 114. See "Notes to Consolidated Financial Statements" for a further discussion of impaired loans.

The balance of Other real estate owned ("OREO") was \$1.7 million at June 30, 1997 compared to \$1.9 million at June 30, 1996. During the year ended June 30, 1997, \$1.4 million in loans were transferred into OREO. Offsetting this addition, were OREO sales and charge-offs of \$1.2 million and \$305,000, respectively, during the year ended June 30, 1997. All charge-offs were recorded against the allowance for losses on real estate owned, which was \$187,000 as of June 30, 1997.

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

At Year Ended June 30,	1997	1996	1995	1994	1993
----- (Dollars In Thousands) -----					
NON-PERFORMING LOANS					
One-to four-family	\$1,123	\$1,149	\$572	\$1,276	\$3,449
Multi-family and underlying cooperative	1,613	4,734	3,978	4,363	7,265
Non-residential	-	-	-	-	-
Cooperative apartment	415	668	523	609	918
Other	39	-	-	-	-

Total non-performing loans	3,190	6,551	5,073	6,248	11,632
Other Real Estate Owned	1,697	1,946	4,466	8,200	7,981

Total non-performing assets	\$4,887	\$8,497	\$9,539	\$14,448	\$19,613
=====					
Troubled-debt restructurings	\$4,671	\$4,671	\$7,651	\$7,421	\$5,219
Total non-performing assets and troubled-debt restructurings	\$9,558	\$13,168	\$17,190	\$21,869	\$24,832
Impaired loans	\$4,294	\$7,419	N/A	N/A	N/A
RATIOS:					
Total non-performing loans to total loans	0.43%	1.12%	1.18%	1.45%	2.52%
Total non-performing assets to total assets	0.37	0.62	1.44	2.23	3.04
Total non-performing assets and troubled-debt restructurings to total assets	0.73	0.96	2.59	3.38	3.84

The Bank adopted SFAS 114 effective July 1, 1995. Impaired loans were not measured prior to adoption.

ANALYSIS OF NET INTEREST INCOME

The Company's profitability, like that of most financial institutions, is dependent to a large extent upon its net interest income, which is the difference between its interest income on interest-earning assets, such as loans and securities, and its interest expense on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them.

The following table sets forth certain information relating to the Company's consolidated statements of operations for the years ended June 30, 1997, 1996 and 1995, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields.

For the years ended June 30,	1997			1996			1995		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in Thousands)								
ASSETS:									
Interest-earning assets									
Real estate loans	\$642,913	\$54,965	8.55%	\$435,948	\$39,314	9.02%	\$427,042	\$38,375	8.99%
Other loans	5,444	460	8.45	3,497	340	9.72	3,803	307	8.07
Investment securities	215,809	13,654	6.33	107,206	5,738	5.35	84,188	4,402	5.23
Mortgage-backed securities	261,275	17,704	6.78	89,001	5,927	6.66	89,232	5,464	6.12
Federal funds sold	40,349	2,247	5.57	23,904	1,300	5.44	12,179	675	5.54
Total interest-earning assets	1,165,790	\$89,030	7.64	659,556	\$52,619	7.98%	616,444	\$49,223	7.99%
Non-interest earning assets	64,148			20,424			19,258		
Total assets	\$1,229,938			\$679,980			\$635,702		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
NOW, Super NOW and Money market accounts									
Savings accounts	\$55,327	\$1,404	2.54%	\$30,759	\$634	2.06%	\$33,583	\$716	2.13%
Certificates of deposit	349,821	8,192	2.34	232,631	5,789	2.49	264,247	6,575	2.49
Mortgagors' escrow	515,542	28,869	5.60	285,524	16,013	5.61	225,785	10,571	4.68
Borrowed funds	3,792	79	2.08	3,371	72	2.14	3,253	71	2.18
	52,495	3,020	5.75	17,854	1,008	5.65	17,922	1,013	5.65
Total interest-bearing liabilities	976,977	\$41,564	4.26%	570,139	\$23,516	4.13%	544,790	\$18,946	3.48%
Checking accounts	27,653			11,646			10,950		
Other non-interest-bearing liabilities	18,131			17,718			6,678		
Total liabilities	1,022,761			599,503			562,418		
Stockholders' equity	207,177			80,477			73,284		
Total liabilities and stockholders' equity	\$1,229,938			\$679,980			\$635,702		
Net interest income/interest rate spread		\$47,466	3.38%		\$29,103	3.85%		\$30,277	4.51%
Net interest-earning assets/net interest margin	\$188,813		4.07%	\$89,417		4.41%	\$71,654		4.91%
Ratio of interest-earning assets to interest-bearing liabilities			119.33%			115.68%			113.15%

In computing the average balance of loans, non-accrual loans have been included.

Includes securities classified 'available for sale.'

Includes interest bearing deposits in other banks and FHLB stock.

Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing

liabilities.

Net interest margin represents net interest income as a percentage of average interest-earning assets.

RATE/VOLUME ANALYSIS

Net interest income can also be analyzed in terms of the impact of changing interest rates on interest-earning assets and interest-bearing liabilities and changing the volume or amount of these assets and liabilities. The following table represents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (change in volume multiplied by prior rate), (ii) changes attributable to rate (changes in rate multiplied by prior volume), and (iii) the net change. Changes 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 JUNE 30, 1997 COMPARED TO YEAR ENDED JUNE 30, 1996 INCREASE/(DECREASE) DUE TO			Year Ended June 30, 1996 Compared to Year Ended June 30, 1995 Increase/(Decrease) Due to			Year Ended June 30, 1995 Compared to Year Ended June 30, 1994 Increase/(Decrease) Due to		
	VOLUME	RATE	NET	Volume	Rate	Net	Volume	Rate	Net
	-----	-----	-----	-----	-----	-----	-----	-----	-----
(Dollars in Thousands)									
INTEREST-EARNING ASSETS									
Real estate loans	\$18,182	\$(2,531)	\$15,651	\$802	\$137	\$939	\$(2,216)	\$(5)	\$(2,221)
Other loans	177	(57)	120	(28)	61	33	(17)	(13)	(30)
Investment securities	6,339	1,577	7,916	1,431	(95)	1,336	722	226	948
Mortgage-backed securities	11,571	206	11,777	(24)	487	463	188	418	606
Federal funds sold	905	42	947	1,036	(411)	625	(254)	353	99
Total	\$37,174	\$(763)	\$36,411	\$3,217	\$179	\$3,396	\$(1,577)	\$979	\$(598)
=====									
INTEREST-BEARING LIABILITIES:									
NOW, Super NOW and Money market accounts	\$565	\$205	\$770	\$(76)	\$(6)	\$(82)	\$(82)	\$(42)	\$(124)
Savings accounts	2,834	(431)	2,403	(976)	190	(786)	(759)	(177)	(936)
Certificates of deposit	12,893	(37)	12,856	3,846	1,596	5,442	542	1,810	2,352
Mortgagors' escrow	9	(2)	7	8	(7)	1	2	2	4
Borrowed funds	1,975	37	2,012	(6)	1	(5)	63	(7)	56
Total	18,276	(228)	18,048	2,796	1,774	4,570	(234)	1,586	1,352

Net change in interest income	\$18,898	\$(535)	\$18,363	\$421	\$(1,595)	\$(1,174)	\$(1,343)	\$(607)	\$(1,950)
=====									

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 1997 AND JUNE 30, 1996

The Company's assets totaled \$1.32 billion at June 30, 1997, a decrease of \$56.8 million from total assets of \$1.37 billion at June 30, 1996. This decline resulted primarily from the refund, on July 1, 1996, of \$131.1 million in excess proceeds related to the oversubscription to the Company's initial public offering (the "oversubscription refund"), which were included in Escrow and other deposits at June 30, 1996. The oversubscription refund was paid from the proceeds of matured investment securities of \$125.0 million, and from a reduction of \$6.1 million in federal funds sold. Removing the effects of the oversubscription refund, total assets increased \$74.3 million, reflecting the Company's capital leverage strategy.

Real estate loans and loans held for sale increased \$166.4 million, resulting primarily from originations of \$262.2 million during the year ended June 30, 1997, of which \$256.2 million were multi-family and underlying cooperative and non-residential loans. Mortgage backed securities increased 98.6 million and investment securities held to maturity increased \$58.0 million, respectively during the fiscal year ended June 30, 1997. Much of the growth in these assets was realized from the movement of earning assets from lower yielding investment securities available for sale and federal funds sold into these higher-yielding assets. In addition, in order to fund the growth in these assets, borrowings increased \$111.8 million and deposits increased \$13.3 million. At June 30, 1996, the Company had an unsettled security purchase totaling \$34.0 million, which was funded in July, 1996. No such unsettled trades existed as of June 30, 1997.

Stockholders' equity totaled \$190.9 million at June 30, 1997, a decrease of \$22.2 million from June 30, 1996. The decrease resulted primarily from the \$27.7 million repurchase of the Company's common stock into treasury, and the \$10.8 million open market purchase of the Company's common stock by the Recognition and Retention Plan ("RRP") during the year ended June 30, 1997. Offsetting these items was net income of \$12.3 million, an increase of \$1.7 million in the equity component of the unrealized gain on available for sale securities and a direct contribution to stockholders' equity of \$3.1 million related to the benefit expense associated with the Company's ESOP and RRP Plans.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 1996 AND JUNE 30, 1995

The Company's assets grew \$709.1 million during the fiscal year ended June 30, 1996, increasing to \$1.37 billion at June 30, 1996 from \$662.7 million at June 30, 1995. The growth resulted primarily from increases of \$406.3 million and \$151.2 million in investment and mortgage-backed securities and loans, respectively. Both investment and loan growth were enhanced by the acquisition of Conestoga, which provided \$295.2 million and \$113.1 million of investments and mortgage-backed securities and loans, respectively.

In addition, the Company's investment in federal funds sold increased by \$97.3 million, due primarily to net proceeds of \$141.4 million raised in the Company's initial public offering, as well as excess proceeds of \$131.1 million resulting from the oversubscription to the Company's initial public offering, which were refunded to subscribers on July 1, 1996.

The Company continued its strategy of emphasizing multi-family lending with multi-family loan originations of \$94.4 million during the fiscal year ended June 30, 1996. As a result, multi-family loans grew to \$296.6 million or 21.6% of at June 30, 1996 from \$252.4 million at June 30, 1995. In addition, the Company increased its non-residential loans by \$10.7 million. Growth in both of these segments were attributable to more competitive loan pricing during the period. Offsetting this growth were declines of \$2.4 million and \$14.2 million in one-to-four family residential loans (excluding loans acquired from Conestoga) and cooperative apartment loans, as the Company originated only \$6.6 million of one-to-four family and cooperative apartment loans, the majority of which were fixed rate loans sold in the secondary market.

The acquisition of Conestoga provided \$124.4 million of mortgage-backed securities, of which \$70.0 million were GNMMAs, and \$170.8 of investment securities, comprised of \$119.1 million and \$51.7 million, respectively. The growth in the securities portfolio also reflected the proceeds from the initial public offering and the excess subscription proceeds.

The growth in assets was funded primarily through increased stockholders' equity of \$136.0 million and the excess subscription proceeds of \$131.1 million included in escrow and other deposits at June 30, 1996. The growth in stockholders' equity was due primarily to \$141.4 million in net proceeds received from the Company's initial public offering and \$6.3 million in net income for the year. Offsetting these increases to equity was the purchase of the Company's Common Stock by the ESOP totaling \$11.6 million. Total stockholders' equity was \$213.1 million, or 15.53% of total assets at June 30, 1996.

The Company acquired deposits totaling \$394.3 million from Conestoga. Removing this effect, deposits increased by \$1.0 million during the year ended June 30, 1996, as net outflows of \$21.6 million offset interest credits of \$22.7 million. Liabilities at June 30, 1996 reflect a purchase by the Company of \$34.0 million of investment securities available for sale dated June 28, 1996, for which the proceeds were not disbursed until after July 1, 1996.

The Company utilized the proceeds raised in the initial public offering to fund the Merger Consideration of \$101.3 million for the Bank's acquisition of Conestoga. The Acquisition resulted in goodwill of \$28.4 million, which is currently being amortized over a twelve year period.

COMPARISON OF OPERATING RESULTS FOR THE FISCAL YEARS ENDED JUNE 30, 1997 AND 1996

GENERAL. Net income for the fiscal year ended June 30, 1997 totaled \$12.3 million compared to \$6.3 million during the fiscal year ended June 30, 1996. Net income for the fiscal year ended June 30, 1997 was affected by the New York State and New York City income tax recoveries of \$1.9 million and \$1.0 million, respectively, and the one-time special assessment of \$1.1 million, after taxes, for the recapitalization of the SAIF of the Federal Deposit Insurance Corporation ("FDIC") recorded during the quarter ended September 30, 1996. Net income for the fiscal year ended June 30, 1997, excluding these non-recurring items, was \$10.5 million.

Also affecting the comparison of the fiscal years ended June 30, 1997 and 1996 was the Bank's adoption, on July 1, 1995 of Statement of Financial Accounting Standards No. 106, "Accounting for Post-Retirement Benefits Other than Pensions," whereby the Bank elected to record the full accumulated post-retirement medical benefit obligation upon adoption. Adoption of this standard resulted in a cumulative effect reduction of net income of approximately \$1.0 million for the fiscal year ended June 30, 1996. Income before cumulative effect of change in accounting principles for the fiscal year ended June 30, 1996 was \$7.3 million.

NET INTEREST INCOME. Net interest income totaled \$47.5 million during the year ended June 30, 1997 compared to \$29.1 million. This increase was attributable primarily to an increase of \$506.2 million in average balance of interest earning assets, offset by a decline in the net interest rate spread of 47 basis points. The net interest margin declined 34 basis points from 4.41% for the year ended June 30, 1996 to 4.07% for the year ended June 30, 1997.

INTEREST INCOME. Interest income for the year ended June 30, 1997 was \$89.0 million, an increase of \$36.4 million from \$52.6 million during the year ended June 30, 1996. The largest components contributing to this increase were interest income on real estate loans, investment securities, and mortgage-backed securities, which increased by \$15.7 million, \$7.9 million, and \$11.8 million, respectively. The increase in interest income on real-estate loans was attributable primarily to an increase of \$207.0 million in the average balance of real estate loans, resulting from both the acquisition of \$113.1 million of loans from Conestoga on June 26, 1996, and new loan originations of \$262.2 million during the fiscal year ended June 30, 1997, offset by a 47 basis point decrease in the average yield as compared to the prior year. The

increases in interest income on investment securities and mortgage-backed securities were also attributable primarily to increases in average balances of \$108.6 million and \$172.3 million, respectively, during the fiscal year ended June 30, 1997 compared to the fiscal year ended June 30, 1996. The acquisition of \$170.8 million and \$124.4 million of investment securities and mortgage-backed securities, respectively, from Conestoga, contributed significantly to these average balance increases. In addition, the average yield on investment securities and mortgage-backed securities increased by 98 basis points and 12 basis points, respectively, during the fiscal year ended June 30, 1997, compared to the fiscal year ended June 30, 1996, contributing significantly to the increase in interest income. This increase in yields resulted primarily from both higher yields on securities acquired or repricing during the fiscal year ended June 30, 1997, as well as the acquisition of higher yielding investment and mortgage-backed securities from Conestoga.

INTEREST EXPENSE. Interest expense increased \$18.1 million, to \$41.6 million during the fiscal year ended June 30, 1997, from \$23.5 million during the fiscal year ended June 30, 1996. This increase resulted primarily from increases of \$12.9 million, \$2.4 million and \$2.0 million in interest expense on Certificate of Deposit accounts, Savings accounts and borrowed funds, respectively, which resulted from increased average balances of \$230.0 million, \$117.2 million and \$34.6 million, respectively, during the fiscal year ended June 30, 1997, compared to the fiscal year ended June 30, 1996. The acquisition of \$216.3 million and \$129.2 million of Certificate of Deposit accounts and Savings accounts, respectively, from Conestoga contributed significantly to these average balance increases. The increase in borrowing resulted from the capital leverage strategy instituted during the current fiscal year. See "Management Strategy." Overall, the average cost of interest bearing liabilities increased 13 basis points from 4.12% during the fiscal year ended June 30, 1996, to 4.25% during the fiscal year ended June 30, 1997, due primarily to an increase of 48 basis points in the average cost on NOW, Super Now and money market accounts, which resulted from increased rates offered on these deposits under management's deposit pricing strategy, as well as an increase of 10 basis points on the cost of borrowed funds resulting from the current year borrowing activity.

PROVISION FOR LOAN LOSSES. The Provision for Loan Losses increased \$1.2 million to \$4.2 million for the fiscal year ended June 30, 1997 from \$3.0 million for the fiscal year ended June 30, 1996. The Allowance for Loan Losses increased by \$2.9 million during the fiscal year ended June 30, 1997, as the loan loss provision of \$4.2 million was partially offset by net charge-offs of \$1.3 million. While the allowance for loan losses increased, non-performing loans declined from \$6.6 million at June 30, 1996, to \$3.2 million at June 30, 1997. The Allowance for Loan Losses as a percentage of non-performing loans and total loans was 336.24% and 1.43%, respectively, at June 30, 1997, compared to 119.25% and 1.34%, respectively, at June 30, 1996. In management's judgment, it was prudent to continue the loan loss provision in order to supplement the loan loss allowance, based upon the Bank's growing volume of multi-family loan originations, the composition of its loan portfolio and the Bank's historical charge-off experience. See "Asset Quality."

NON-INTEREST INCOME. Non-interest income increased \$2.7 million to \$4.1 million during the fiscal year ended June 30, 1997 compared to \$1.4 million during the fiscal year ended June 30, 1996. This increase was attributable primarily to increases of \$1.0 million and \$733,000 in service charges and other fees, and other income, respectively. Contributing to the increase in service charges and other fees were increased income of \$465,000 related to deposit accounts attributable to the growth in deposits from the acquisition of Conestoga, and increases of \$272,000 and \$162,000, respectively, related to safe deposit boxes and the Bank's funding of official checks. The increase in other income was attributable primarily to increased rental income of \$241,000 received from retail and other commercial premises acquired from Conestoga. Also contributing to the increase in other income were increases of \$170,000 and \$120,000 on Federal Home Loan Bank of New York capital stock dividend income and loan prepayment penalty income, respectively. In addition, net gains on sale of assets totaled \$984,000 during the year ended June 30, 1997 compared to a net loss of \$18,000 during the year ended June 30, 1996. Sales of assets occur periodically in response to management's review of portfolio assets in light of current market conditions.

NON-INTEREST EXPENSE. Non-interest expense increased \$13.5 million to \$27.5 million during the fiscal year ended June 30, 1997 from \$14.0 million during the fiscal year ended June 30, 1996. Several factors contributed to this increase, including an increase of \$2.3 million in federal deposit insurance premium expense. As a result of the Acquisition of Pioneer the Bank acquired \$394.3 million in deposits which were insured by the SAIF. The Bank paid higher assessment rates on these deposits during the three months ended September 30, 1996. In addition, the Bank was required to pay \$2.0 million, before taxes, related to the SAIF Special Assessment paid during the three months ended September 30, 1996 on all of its SAIF deposits, which were primarily comprised of the deposits obtained from Pioneer. As a result of the recapitalization of SAIF, the Bank, which currently has a Bank Insurance Fund ("BIF")/SAIF deposit ratio of 54/46, has experienced a reduction in FDIC insurance expense during all fiscal quarters subsequent to September 30, 1996. See "Impact of Recent Legislation." Should the Bank maintain its status as a well-capitalized institution, given the current FDIC assessment rates, this reduction in quarterly FDIC insurance expense is expected to continue. During the fiscal year ended June 30, 1996, the Bank received a refund from the FDIC of \$319,000 related to the Bank's insurance expense, which reduced its federal deposit insurance premium expense for the period to \$109,000. During the fiscal year ended June 30, 1996, virtually all of the Bank's deposits were insured by the BIF. See "Impact of Recent Legislation."

Salary and employee benefits, occupancy and equipment, data processing, and other operating expenses increased \$2.4 million, \$1.3 million, \$443,000, and \$1.8 million, respectively, resulting from both the acquisition of Conestoga and increased costs associated with activities as a public company. In addition, during the fiscal year ended June 30, 1997, the Bank incurred increased expenses of \$2.9 million related to Employee Stock Ownership Plan ("ESOP") and RRP benefits, and \$2.4 million related to goodwill amortization resulting from its acquisition of Conestoga. Only minor expenses were recorded during the fiscal year ended June 30, 1996 related to these items, as the Bank completed its initial public offering (from which the ESOP and RRP were generated) and its acquisition of Conestoga (from which goodwill was generated) on June 26, 1996. Partially offsetting these increased expenses was a decrease of \$136,000 related to losses on other real estate owned, resulting from management's periodic review of reserves established for losses on other real estate owned. Overall, non-interest expense was 2.24% of average assets for the fiscal year ended June 30, 1997. Excluding the effects of the non-recurring SAIF charge, non-interest expense was 2.07% of average assets during the fiscal year ended June 30, 1997 compared to 2.06% for the fiscal year ended

INCOME TAX EXPENSE. Income tax expense totaled \$7.6 million. Income tax expense was reduced by \$2.9 million during the fiscal year ended June 30, 1997, due to New York State and New York City recoveries of \$1.9 million and \$1.0 million, respectively, related to the Bank's deferred tax liability. Both of these recoveries resulted from recent tax legislation passed by both New York State and New York City. See "Impact of Recent Legislation." Income tax expense, exclusive of these recoveries, totaled \$10.5 million during the fiscal year ended June 30, 1997, compared to \$6.2 million during the fiscal year ended June 30, 1996, an increase of \$4.3 million. This increase was attributable to both an increase of \$6.4 million in pre-tax income and an increase in the effective tax rate from 45.9% for the fiscal year ended June 30, 1996, to 52.6% for the fiscal year ended June 30, 1997. The increased effective tax rate during the fiscal year ended June 30, 1997, (before recoveries) resulted primarily from the acquisition of Conestoga being accounted for as a tax-free transaction, resulting in the Company receiving no tax benefit for goodwill expense. In addition, the Company received no tax deduction for \$666,000 of ESOP compensation expense related to the excess of the average fair market value of the Company's stock during the fiscal year ended June 30, 1997, over the original purchase price of the stock by the ESOP. Excluding the effects of these items, the effective tax rate for the fiscal year ended June 30, 1997 was 45.6%.

COMPARISON OF OPERATING RESULTS FOR THE FISCAL YEARS ENDED JUNE 30, 1996 AND 1995

GENERAL. Net income for the fiscal year ended June 30, 1996 was \$6.3 million as compared to \$8.4 million for the fiscal year ended June 30, 1995. Income before cumulative effect of change in accounting principles for the year ended June 30, 1996 was \$7.3 million, a decrease of \$1.1 million from \$8.4 million for the prior year. Decreases of \$1.2 million and \$398,000 in net interest income and non-interest income, respectively, were offset by a \$440,000 decrease in income tax expense.

INTEREST INCOME. Interest income amounted to \$52.6 million for the year ended June 30, 1996, representing an increase of \$3.4 million from the prior year. The increase was the result of the effect of a \$43.1 million increase in average interest-earning assets, as the average yield on interest-earning assets decreased by 1 basis point. The largest components of the increase in interest income were interest income on real estate loans, investment securities and federal funds sold, of \$939,000, \$1.3 million and \$625,000, respectively. All of these increases were driven primarily by the increases in average interest-earning assets of \$8.9 million, \$23.0 million and \$11.7 million, in real estate loans, investment securities and federal funds sold, respectively. Average yields on real estate loans, and investment securities increased by 3 basis points and 12 basis points respectively, while the average yield on federal funds sold declined by 10 basis points. The small increase in yields on these assets resulted from general increase in interest rates during the year ended June 30, 1996, offset by a shift of funds to shorter-term, lower yielding investments and competitive loan pricing, which reduced rates slightly on loan originations. Since much of the real estate loan originations occurred during the fourth fiscal quarter, the effect upon average balance and interest income for the year ended June 30, 1996 was minor.

INTEREST EXPENSE. Interest expense was \$23.5 million for the year ended June 30, 1996, an increase of \$4.6 million from the prior year. Interest-bearing liabilities averaged \$570.1 million for the year ended June 30, 1996, representing an increase of \$25.3 million, or 4.65%, over the prior year. The average rate paid on interest-bearing liabilities increased 64 basis points, from 3.48% to 4.12%. The increase in the average rate paid on interest-bearing liabilities resulted from the higher interest rate environment and from a steady shift of deposits out of savings accounts and into higher costing certificates of deposit. Management's strategy of paying competitive interest rates on certificates of deposit with maturities in excess of one year, which management believes should help to stabilize the Bank's cost of funds over the longer term, contributed to a higher cost of funds in the current period. Average savings account balances decreased by \$31.6 million from \$264.2 million for the year ended June 30, 1995, to \$232.6 million for the year ended June 30, 1996, at the same time the average certificates of deposit balance increased by \$59.7 million, from \$225.8 million for the year ended June 30, 1995, to \$285.5 million for the year ended June 30, 1996. The average rate paid on certificates of deposit increased by 93 basis points over the same period.

PROVISION FOR LOAN LOSSES. The provision for loan losses increased slightly to \$2.97 million for the year ended June 30, 1996, from \$2.95 million for the year ended June 30, 1995. The Allowance for Loan Losses increased from \$5.2 million at June 30, 1995 to \$7.8 million at June 30, 1996, reflecting net charge-offs of \$1.0 million during the fiscal year ended June 30, 1996, compared to \$1.4 million for the fiscal year ended June 30, 1995, the provision for loan losses, and the addition for Conestoga allowance for loan losses of \$668,000. In management's judgment, it was prudent to continue to increase the loan loss allowance based upon an evaluation of the adequacy of the reserve in the context of the Bank's historical loan loss experience and to reflect the growing volume of multi-family loan originations during 1996. Although charge-offs declined during fiscal 1996 from fiscal 1995, the Bank experienced an increase in non-performing loans of \$1.5 million, from \$5.1 million at June 30, 1995 to \$6.6 million at June 30, 1996. See "Asset Quality."

NON-INTEREST INCOME. Non-interest income declined \$398,000 to \$1.4 million for the year ended June 30, 1996, from \$1.8 million for the year ended June 30, 1995. This decrease reflects a \$53,000 reduction in net gain on the sale of Other Real Estate Owned ("OREO"), a decrease of \$258,000 on net gains on sales of stock, and a decline of \$136,000 in income provided from service charges. The decrease in net gain on sale of stocks was attributable primarily to a loss of \$195,000 on the sale of preferred stocks in December, 1995. The decrease in income provided by service charges resulted primarily from a change in the manner in which the Bank accounts for income from the rental of safe deposit

boxes. In addition, declines of \$34,000 and \$39,000 occurred in dividends on FHLBNY stock and annuity fees, respectively. Offsetting these declines, was an increase of \$106,000 in net gains on sale of bonds.

NON-INTEREST EXPENSE. Non-interest expense declined \$32,000 from \$14.1 million for the year ended June 30, 1995, to \$14.0 million for the year ended June 30, 1996, attributable primarily to a decrease of \$1.1 million in insurance premiums paid to the Federal Deposit Insurance Corporation ("FDIC"). This decrease resulted from a reduction in the BIF rate paid by the Bank to the FDIC for deposit insurance premiums, combined with a refund from the FDIC for BIF premiums previously paid in the amount of \$319,000. The decrease in deposit insurance expense was partially offset by a \$594,000 increase in compensation and benefits expense, which was attributable to an increase in employee bonuses and normal salary increases, and a \$586,000 provision for losses attributable to the Bank's holding of OREO. Beginning with the fiscal year ended June 30, 1996, periodic provisions to the OREO valuation reserve are recorded as non-interest expense.

INCOME TAX EXPENSE. Income tax expense totaled \$6.2 million for the year ended June 30, 1996, compared to \$6.6 million for the year ended June 30, 1995, a decline of \$440,000. The decline was attributable primarily to a decrease of \$1.6 million in pre-tax income, offset by an increase in the effective tax rate from 44.0% for the year ended June 30, 1995 to 45.9% for the year ended June 30, 1996. The lower effective tax rate during the year ended June 30, 1995, resulted substantially from the utilization of capital gains tax loss carryforwards totaling \$183,000 during the fiscal year.

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES. On July 1, 1995, the Bank adopted SFAS 106, which requires accrual of post-retirement benefits, such as health care benefits, during the years an employee provides services. The cumulative effect of the adoption of SFAS 106 on prior years was \$1,032,000, after a reduction for income taxes of \$879,000. As permitted by the Standard, the Bank elected to record this liability at the time of adoption.

IMPACT OF INFLATION AND CHANGING PRICES

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

IMPACT OF RECENT LEGISLATION

SAIF RECAPITALIZATION. The is currently a member of the BIF. The FDIC also maintains another insurance fund, the SAIF, which primarily insures the deposits of savings and loan associations, but also insures the deposits acquired by a BIF-insured institution from a SAIF-insured institution. With the consummation of the acquisition of Conestoga, the Bank acquired the deposits of Pioneer (the "Pioneer Deposits"), a member of the SAIF, which deposits totaled approximately \$394.3 million at June 26, 1996. The Bank is now required to pay SAIF assessments with respect to the Pioneer Deposits. In addition, the Bank is required to pay SAIF assessments on all previously acquired SAIF deposits ("Oakar Deposits").

Under law and regulation in effect at June 30, 1996, BIF-assessable deposits were assessed at a rate of \$2,000 per year while SAIF-assessable deposits were assessed at rates ranging from \$0.23 to \$0.31 per \$100 of SAIF-assessable deposits. This disparity resulted from the BIF's achievement of the required 1.25% reserve ratio while the SAIF had not reached the required 1.25% reserve, due primarily to the fact that a significant portion of SAIF assessments had been and were then being used to make payments on bonds ("FICO bonds") issued in the late 1980s by the Financing Corporation.

On September 30, 1996, the Deposit Insurance Funds Act of 1996 (the "Funds Act") was enacted into law, and it amended the Federal Deposit Insurance Act in several ways to recapitalize the SAIF and reduce the disparity in the assessment rates for the BIF and the SAIF. The Funds Act authorized the FDIC to impose a special assessment on all institutions with SAIF-assessable deposits in the amount necessary to recapitalize the SAIF. As implemented by the FDIC, the special assessment was \$0.657 per \$100 of an institution's SAIF-assessable deposits as of March 31, 1995. As applied to the Bank, the special assessment was imposed with respect to the Pioneer deposits, because Pioneer no longer exists as a corporate entity, as well as \$39.3 million of Oakar Deposits. However, under the Funds Act, the Bank was entitled to reduce the amount of such deposits by 20% in computing the special assessment. Accordingly, the SAIF special assessment, which totaled \$2.0 million, was paid by the Bank in November, 1996. The SAIF special assessment, although paid in November, 1996, was recorded as non-interest expense during the three months ended September 30, 1996.

In view of the recapitalization of the SAIF and consistent with certain requirements of the Funds Act, the FDIC announced, in December, 1996, a reduction in the annual assessment rates on SAIF-assessable deposits for periods beginning on October 1, 1996 to 0 to 27 basis points for the quarterly period beginning October 1, 1996, with the rate of 0 basis points applied to well-capitalized institutions in the top supervisory group, such as the Bank. This rate range was identical to the rates previously approved for BIF members. In addition to the rate change, the FDIC elected to refund the Bank's regular assessment expense of \$251,000 recorded during the three months ended September 30, 1996. This refund was recorded in other income during the three months ended December 31, 1996. As a result of this ruling, the Bank, as a well-capitalized institution in the top supervisory group, incurred, on a net basis, no expense beyond the SAIF special assessment charge for deposit insurance during the year ended June 30, 1997.

Based upon the above, as long as the Bank maintains its current regulatory status, the Bank will either not have to pay, or will pay substantially lower, regular SAIF assessments compared to those paid prior to and including the three months ended September 30, 1996, assuming that the designated reserve ratio of 1.25% is maintained by the SAIF.

In addition, the Funds Act expanded the assessment base for the payments on the FICO bonds to include, beginning January 1, 1997, the deposits of both BIF members and SAIF members. Until December 31, 1999, or such earlier date on which the last savings association ceases to exist, the rate of assessment for the FICO bonds on BIF-assessable deposits shall be one-fifth of the rate imposed on SAIF-assessable deposits. The rate of assessments for the FICO bonds beginning on January 1, 1997, was \$0.013 per \$100 of BIF-assessable deposits and \$0.0648 per \$100 of SAIF-assessable deposits. During the year ended June 30, 1997, the Bank incurred \$172,000 of expense related to the FICO bond assessments, which has been included in Federal deposit insurance premium expense in the consolidated statement of operations. For the semi-annual period beginning on July 1, 1997, the rates of assessment for the FICO bonds are 0.0126% for BIF-assessable deposits and 0.0630% for SAIF-assessable deposits.

The Funds Act also provides for the merger of the BIF and SAIF on January 1, 1999, with such merger being conditioned upon the prior elimination of the thrift charter. The Secretary of the Treasury was required to conduct a study of relevant factors with respect to the development of a common charter for all insured depository institutions and abolition of separate charters for banks and thrifts and to report the Secretary's conclusions and findings to the Congress. The Secretary of Treasury has recommended to the Congress that the separate charter for thrifts be eliminated only if other legislation is adopted

that permits bank holding companies to engage in certain non-financial activities. Absent legislation permitting bank holding companies to engage in such non-financial activities, the Secretary of the Treasury recommended that the thrift charter be retained. Several bills have been introduced in Congress to eliminate the federal thrift charter, but no determination has been made as to the enactment of legislation with respect to the thrift charter.

RECAPTURE OF BAD DEBT RESERVES. Prior to the enactment, on August 20, 1996, of the Small Business Job Protection Act of 1996 (the "1996 Act"), for federal income tax purposes, thrift institutions such as the Bank, which met certain definitional tests primarily relating to their assets and the nature of their business, were permitted to establish tax reserves for bad debts and to make annual additions thereto, which additions could, within specified limitations, be deducted in arriving at their taxable income. The Bank's deduction with respect to "qualifying loans," which are generally loans secured by certain interests in real property, could be computed using an amount based on a six-year moving average of the Bank's actual loss experience (the "Experience Method"), or a percentage equal to 8.0% of the Bank's taxable income (the "PTI Method"), computed without regard to this deduction and with additional modifications and reduced by the amount of any permitted addition to the non-qualifying reserve. Similar deductions for additions to the Bank's bad debt reserve were permitted under the New York State Bank Franchise Tax and the New York City Banking Corporation Tax; however, for purposes of these taxes, the effective allowable percentage under the PTI method was 32% rather than 8%.

Under the 1996 Act, the PTI Method was repealed and the Bank, as a "large bank" (one with assets having an adjusted basis of more than \$500 million), will be unable to make additions to its tax bad debt reserve, will be permitted to deduct bad debts only as they occur and will be required to recapture (I.E., take into income) over a six-year period, beginning with the Bank's taxable year beginning July 1, 1996, the excess of the balance of its bad debt reserves (other than the supplemental reserve) as of June 30, 1997 over the greater of the balance of such reserves as of December 31, 1987 (or over a lesser amount if the Bank's loan portfolio decreased since June 30, 1988). However, under the 1996 Act, such recapture requirements will be suspended for each of the two successive taxable years beginning July 1, 1996 in which the Bank originates a minimum amount of certain residential loans during such years that is not less than the average of the principal amounts of such loans made by the Bank during its six taxable years preceding July 1, 1996. 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 this legislation.

On July 30, 1996, New York State (the "State") enacted legislation, effective January 1, 1996, which generally retains the percentage of taxable income method for computing allowable bad debt deductions and does not require the Bank to recapture into income State tax bad debt reserves unless one of the following events occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends in excess of the Bank's earnings and profits or distributions in liquidation or in redemption of stock; 2) the Bank fails to qualify as a thrift as provided by the State tax law, or 3) there is a change in state tax law. The Bank had a deferred tax liability of approximately \$1.9 million recorded for the excess of State tax bad debt reserves over its reserve at December 31, 1987 in accordance with SFAS 109. In December, 1996 after evaluating the State tax legislation, as well as relevant accounting literature and industry practices, management of the Bank concluded that this liability was no longer required to be recorded, and recovered the full deferred tax liability. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

On March 11, 1997, New York City enacted legislation, effective January 1, 1996, which conformed its tax law regarding bad debt deductions to New York State's tax law. As a result of this legislation, the Bank, in March, 1997, recovered a deferred tax liability of approximately \$1.0 million previously recorded for the excess of New York City tax bad debt reserves over its base year reserve at December 31, 1987. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

IMPACT OF RECENT ACCOUNTING STANDARDS

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are borrowings. SFAS 125 also requires that liabilities and derivatives incurred or obtained as part of a transfer be measured initially at fair value. This statement also provides guidance on measurement of servicing rights on assets transferred and derecognition of liabilities transferred. SFAS 125 is effective for all transfers, servicing, or extinguishments occurring after December 31, 1996, except for certain provisions relating to the accounting for secured borrowings and collateral and the accounting for transfers and servicing of repurchase agreements, dollar rolls, securities lending and similar transactions, for which the effective date was deferred until January 1, 1998, in accordance with Statement of Financial Accounting Standards No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" ("SFAS 127"). The Company adopted SFAS 125 as amended by SFAS 127 effective January 1, 1997. The adoption of this standard did not have a material impact on the financial condition or results of operations of the Bank.

In February, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 establishes new standards for computing and presenting earnings per share. SFAS 128 is applicable to all U.S. entities with publicly held common stock or potential common stock, and requires disclosure of basic earnings per share and diluted earnings per share, for entities with complex capital structures, on the face of the income statement, along with a reconciliation of the numerator and denominator of basic and diluted earnings per share. SFAS 128 replaces APB Opinion No. 15, issued by the American Institute of Certified Public Accountants in 1971, as the authoritative guidance for calculation and disclosure of earnings per share, but does not

amend the provisions of SOP 93-6 related to the inclusion of allocated and unallocated ESOP shares when calculating average shares outstanding. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. Early adoption is not permitted, and restatement of prior periods is required. Basic and diluted earnings per share, if computed under the standards of SFAS 128, would have been \$0.95 and \$0.95, respectively, for the year ended June 30, 1997.

In June, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 requires that financial statements report and display comprehensive income in the same prominence as net income, but permits the statement of comprehensive income to be presented either together with or apart from the income statement. Comprehensive income, as defined by SFAS 130 includes revenues, expenses, and gains and losses which, under current GAAP, bypass net income and are typically reported as a component of stockholders' equity. SFAS 130 is applicable for all entities which present a full set of financial statements and is effective for fiscal years beginning after December 15, 1997, with early adoption permitted.

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In June, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 introduces a new model for segment reporting entitled the "management approach," which focuses upon the manner in which the chief operating decision makers organize segments within a company for making operating decisions and assessing performance. Under the management approach, reportable segments can be based upon, but are not limited to, products and services, geography and legal or management structure. SFAS 131 requires full financial disclosure for each segment, but only requires limited quarterly segment disclosure. SFAS 131 is applicable for all public, for-profit companies, and is effective for fiscal years beginning after December 15, 1997, with early application encouraged. Management of the Company is currently evaluating SFAS 131.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors of
the Dime Community Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated statements of condition of the Dime Community Bancorp, Inc. and Subsidiary (the "Company") as of June 30, 1997 and 1996, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Dime Community Bancorp, Inc. and Subsidiary as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997 in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 15, effective July 1, 1995, the Company changed its method of accounting for postretirement benefits other than pensions to comply with Statement of Financial Accounting Standards No. 106.

/S/ DELOITTE & TOUCHE LLP

New York, New York
August 8, 1997

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

JUNE 30,	1997	1996
<hr/>		
ASSETS:		
Cash and due from banks	\$19,198	\$17,055
Investment securities held-to-maturity (estimated market value of \$102,024 and \$43,428 at June 30, 1997 and 1996, respectively) (Notes 2, 4, and 12)	101,587	43,552
Investment securities available for sale (Notes 2, 4, and 12):		
Bonds and notes (amortized cost of \$52,426 and \$338,141 at June 30, 1997 and 1996, respectively)	52,798	338,089
Marketable equity securities (historical cost of \$4,912 and \$2,977 at June 30, 1997 and 1996, respectively)	5,889	3,205
Mortgage-backed securities held-to-maturity (estimated market value of \$79,075 and \$52,596 at June 30, 1997 and 1996, respectively) (Notes 5 and 12)	78,388	52,580
Mortgage backed securities available for sale (amortized cost of \$227,776 and \$156,962 at June 30, 1997 and 1996, respectively)(Notes 5 and 12)	230,137	157,361
Federal funds sold (Note 2)	18,902	115,130
Loans (Note 6):		
Real estate	744,246	577,663
Other loans	6,076	5,564
Less allowance for loan losses (Note 7)	(10,726)	(7,812)
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Total loans, net	739,596	575,415
<hr/>		
Loans held for sale	262	459
Premises and fixed assets (Note 9)	13,995	14,399
Federal Home Loan Bank of New York capital stock (Note 10)	8,322	7,604
Other real estate owned, net (Note 7)	1,697	1,946
Goodwill (Note 3)	26,433	28,438
Other assets (Notes 14 and 15)	17,822	16,588
<hr/>		
TOTAL ASSETS	\$1,315,026	\$1,371,821
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LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Due to depositors (Note 11)	\$963,395	\$950,114
Escrow and other deposits (Note 2)	14,974	141,732
Securities sold under agreements to repurchase (Note 12)	76,333	11,998
Federal Home Loan Bank of New York advances	63,210	15,710
Payable for securities purchased (Note 12)	-	33,994
Accrued postretirement benefit obligation (Note 15)	2,546	2,381
Other liabilities (Note 1 and 15)	3,679	2,821
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TOTAL LIABILITIES	1,124,137	1,158,750
<hr/>		
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDERS' EQUITY		
Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at June 30, 1997 and June 30, 1996)	-	-
Common stock (\$0.01 par, 45,000,000 shares authorized, 14,547,500 shares issued, 13,092,750 and 14,547,500 shares outstanding at June 30, 1997 and 1996, respectively)	145	145
Additional paid-in capital	141,716	141,240
Unallocated common stock of Employee Stock Ownership Plan (Note 15)	(10,324)	(11,541)
Unearned common stock of Recognition and Retention Plan (Note 15)	(9,671)	-
Treasury stock, at cost (1,454,750 shares at June 30, 1997) (Note 18)	(27,703)	-
Retained earnings (Note 2 and 14)	94,695	82,916
Unrealized gain on securities available for sale, net of deferred taxes	2,031	311
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TOTAL STOCKHOLDERS' EQUITY	190,889	213,071
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,315,026	\$1,371,821
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See notes to consolidated financial statements.

DIME COMMUNITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except share amounts)

FOR THE YEARS ENDED JUNE 30,	1997	1996	1995
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INTEREST INCOME:			
Loans secured by real estate	\$54,965	\$39,314	\$38,375
Other loans	460	340	307
Investment securities	13,654	5,738	4,402
Mortgage-backed securities	17,704	5,927	5,464
Federal funds sold	2,247	1,300	675
<hr/>			
TOTAL INTEREST INCOME	89,030	52,619	49,223
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INTEREST EXPENSE:			
Deposits and escrow	38,544	22,508	17,933
Borrowed funds	3,020	1,008	1,013
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TOTAL INTEREST EXPENSE	41,564	23,516	18,946
NET INTEREST INCOME	47,466	29,103	30,277
Provision for loan losses	4,200	2,979	2,950
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NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	43,266	26,124	27,327
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NON-INTEREST INCOME:			
Service charges and other fees	1,934	911	1,047
Net gain on sales and redemptions of securities and other assets	859	(30)	159
Net gain on sales of loans	125	12	33
Other	1,215	482	534
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TOTAL NON-INTEREST INCOME	4,133	1,375	1,773
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NON-INTEREST EXPENSE:			
Salaries and employee benefits	9,794	7,359	6,879
ESOP and RRP compensation expense	3,058	114	-
OCCUPANCY AND EQUIPMENT	3,084	1,775	1,610
SAIF special assessment	2,032	-	-
Federal deposit insurance premiums	423	109	1,245
Data processing costs	1,000	557	481
Provision for losses on Other real estate owned	450	586	-
Goodwill amortization	2,405	25	-
Other	5,246	3,496	3,838
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TOTAL NON-INTEREST EXPENSE	27,492	14,021	14,053
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INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	19,907	13,478	15,047
Income tax expense	7,591	6,181	6,621
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INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	12,316	7,297	8,426
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CUMULATIVE EFFECT ON PRIOR YEARS OF CHANGING TO A DIFFERENT METHOD OF ACCOUNTING FOR:			
Postretirement benefits other than pensions	-	(1,032)	-
<hr/>			
NET INCOME	\$12,316	\$6,265	\$8,426
<hr/>			
EARNINGS PER SHARE:			
PRIMARY	\$0.95	N/A	N/A
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FULLY DILUTED	\$0.94	N/A	N/A
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See Notes to consolidated financial statements.
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DIME COMMUNITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS EXCEPT PER SHARE DATA)

FOR THE YEARS ENDED JUNE 30,	1997	1996	1995

COMMON STOCK (PAR VALUE \$0.01):			
Balance at beginning of period	\$145	\$-	\$-
Issuance of common stock in initial public offering (14,547,500 shares)	-	145	-

Balance at end of period	145	145	-

ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of period	141,240	-	-
Issuance of common stock in initial public offering	-	145,330	-
Cost of issuance of common stock	(190)	(4,107)	-
Amortization of excess fair value over cost - ESOP stock	666	17	-

Balance at end of period	141,716	141,240	-

EMPLOYEE STOCK OWNERSHIP PLAN:			
Balance at beginning of period	(11,541)	-	-
Common stock acquired by ESOP	-	(11,638)	-
Amortization of earned portion of ESOP stock	1,217	97	-

Balance at end of period	(10,324)	(11,541)	-

RECOGNITION AND RETENTION PLAN:			
Balance at beginning of period	-	-	-
Common stock acquired by RRP	(10,846)	-	-
Amortization of earned portion of RRP stock	1,175	-	-

Balance at end of period	(9,671)	-	-

TREASURY STOCK:			
Balance at beginning of period	-	-	-
Purchase of 1,454,750 shares, at cost	(27,703)	-	-

Balance at end of period	(27,703)	-	-

RETAINED EARNINGS:			
Balance at beginning of period	82,916	76,651	68,225
Net income for the period	12,316	6,265	8,426
CASH DIVIDENDS DECLARED AND PAID	(537)	-	-

Balance at end of period	94,695	82,916	76,651

MARKETABLE EQUITY SECURITIES VALUATION RESERVE:			
Balance at beginning of period	-	-	(306)
Effect of adoption of SFAS 115, net of deferred taxes	-	-	306

Balance at end of period	-	-	-

UNREALIZED GAIN ON SECURITIES AVAILABLE FOR SALE, NET:			
Balance at beginning of period	311	416	-
Effect of adoption of SFAS 115, net of deferred taxes	-	-	(146)
Change in unrealized gain on securities available for sale during the period, net of deferred taxes	1,720	(105)	562

Balance at end of period	\$2,031	\$311	\$416

See notes to consolidated financial statements.
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DIME COMMUNITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

FOR THE YEARS ENDED JUNE 30,	1997	1996	1995

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$12,316	\$6,265	\$8,426
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net gain on investment and mortgage backed securities called	-	(79)	-
Net (gain) loss on investment and mortgage backed securities sold	(768)	164	11
Net gain on sale of loans held for sale	(125)	(12)	(33)
Net gain on sale of other assets	(19)	-	-
Net depreciation and amortization (accretion)	(958)	102	1,509
ESOP and RRP compensation expense	3,058	114	-
Provision for loan losses	4,200	2,979	2,950
Goodwill amortization	2,405	25	-
Decrease (increase) in loans held for sale	322	(310)	580
(Increase) decrease in other assets and other real estate owned	(2,401)	3,040	3,762
Increase in accrued postretirement benefit obligation	165	2,115	-
(DECREASE) INCREASE IN PAYABLE FOR SECURITIES PURCHASED	(33,994)	33,994	-
Increase in other liabilities	858	1,677	291

Net cash (used in) provided by Operating Activities	(14,941)	50,074	17,496

CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) in Federal funds sold	96,228	(52,253)	(10,780)
Proceeds from maturities of investment securities held to maturity	19,075	13,065	2,060
Proceeds from maturities of investment securities available for sale	359,710	399,135	26,300
Proceeds from calls of investment securities held to maturity	5,000	11,056	-
Proceeds from calls of investment securities available for sale	26,011	11,323	-
Proceeds from sales of investment securities available for sale	27,253	501	-
Proceeds from sales of mortgage backed securities held to maturity	-	2,555	1,067
Proceeds from sales of mortgage backed securities available for sale	16,713	-	-
Purchases of investment securities held to maturity	(82,010)	(9,292)	(1,000)
Purchases of investment securities available for sale	(126,741)	(541,951)	(43,251)
Purchases of mortgage backed securities held to maturity	(38,842)	(11,714)	(6,093)
Purchases of mortgage backed securities available for sale	(115,265)	(11,554)	(5,053)
Principal collected on mortgage backed securities held to maturity	12,820	9,995	7,905
Principal collected on mortgage backed securities available for sale	28,201	15,877	5,690
Net increase in loans	(168,381)	(41,856)	(215)
Cash disbursed in acquisition of Conestoga Bancorp, net of cash acquired	(400)	(93,074)	-
Purchases of fixed assets	(652)	(779)	(125)
Purchase of Federal Home Loan Bank stock	(718)	(123)	188

Net cash provided by (used in) Investing Activities	58,002	(299,089)	(23,307)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in Due to depositors	13,281	1,019	8,080
Net decrease (increase) in escrow and other deposits	(126,758)	128,625	(1,187)
Proceeds from Federal Home Loan Bank of New York Advances	47,500	-	-
Increase (decrease) in securities sold under agreements to repurchase	64,335	(111)	(51)
Proceeds from issuance of common stock, net of ESOP stock purchase	-	133,837	-
Cash disbursed for expenses related to issuance of common stock	(190)	(4,107)	-
Purchase of common stock by the Recognition and Retention Plan	(10,846)	-	-
Cash dividends paid to stockholders	(537)	-	-
Purchase of treasury stock	(27,703)	-	-

Net cash (used in) provided by Financing Activities	(40,918)	259,263	6,842

INCREASE IN CASH AND DUE FROM BANKS	2,143	10,248	1,031
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	17,055	6,807	5,776

CASH AND DUE FROM BANKS, END OF PERIOD	\$19,198	\$17,055	\$6,807
=====			
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for income taxes	\$8,486	\$6,993	\$5,996
Cash paid for interest	\$41,270	\$23,744	\$18,932
TRANSFER OF LOANS TO OTHER REAL ESTATE OWNED	\$1,407	\$1,069	2,795
Transfer of investment and mortgage backed securities held-to-maturity to available for sale	\$-	\$3,300	70,000
Change in unrealized gain on available for sale securities, net of deferred taxes	\$1,720	\$(105)	562

On June 26, 1996, the Bank acquired all of the outstanding common stock of Conestoga Bancorp, Inc. for cash. In connection with this acquisition, the following assets were acquired and liabilities assumed:

Fair Value of Investments, Loans and Other Assets Acquired, net	\$507,023
Cash paid for Common Stock	(101,272)

Deposits and Other Liabilities Assumed	\$405,751
=====	

DIME COMMUNITY BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - Dime Community Bancorp, Inc. (the "Company") is a Delaware corporation organized by the Bank for the purpose of acquiring all of the capital stock of The Dime Savings Bank of Williamsburgh (the "Bank") issued in the Conversion on June 26, 1996. Presently, the significant assets of the Company are the capital stock of the Bank, the Company's loan to the Bank's ESOP, and investments of the net conversion proceeds retained by the Company. 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. On November 1, 1995, the Bank converted to a federal mutual savings bank. The Bank has been, and intends to continue to be, a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburgh section of the borough of Brooklyn. Fourteen additional offices are located in the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County.

Since the sale of the Company's stock and the merger of Conestoga Bancorp, Inc. into the Bank occurred on June 26, 1996, the Company's results of operations for the years ended June 30, 1996 and 1995 are comprised of the results of operations of the Bank. Earnings per share information for the Company for the years ended June 30, 1996 and 1995 are not meaningful.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - The accounting and reporting policies of the Company conform to generally accepted accounting principles. The following is a description of the significant policies:

PRINCIPLES OF CONSOLIDATION - The accompanying 1997, 1996 and 1995 consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary, the Bank. All financial statements presented include the accounts of the Bank's three wholly-owned subsidiaries, Havemeyer Equities Corp. ('HEC'), Boulevard Funding Corp. ('BFC') and Havemeyer Brokerage Corp. ('HBC'). Prior to April, 1997, HBC was engaged in the sale of insurance and annuity products primarily to the Bank's customers and members of the local community. In April, 1997 HBC was changed from a service corporation to an operating subsidiary, whose primary function is the management of an investment securities portfolio. BFC and HEC were established in order to invest in real estate joint ventures and other real estate assets. BFC and HEC had no investments in real estate at June 30, 1997 and are currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

INVESTMENT SECURITIES AND MORTGAGE-BACKED SECURITIES - Purchases and sales of Investments 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.

On July 1, 1994, the Bank adopted SFAS No. 115, 'Accounting for Investments in Debt and Equity Securities' ('SFAS 115'). The Statement requires that debt and equity securities that have readily determinable fair values be 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 reporting entity has a positive intent and ability to hold these securities to maturity. If not classified as held to maturity, such securities are classified as securities available for sale or as trading securities. Unrealized holding gains or losses on securities available for sale are excluded from earnings and reported net of income taxes as a separate component of stockholders' equity. The effect of adopting this statement was not material. At June 30, 1997, 1996 and 1995, all equity securities are classified as available for sale. At June 30, 1994, all debt securities were carried at amortized cost and all equity securities were carried at lower of cost or market.

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 market value.

ALLOWANCE FOR LOAN LOSSES - It is the policy of the Bank to provide a valuation allowance for estimated losses on loans based on the Bank's past loan loss experience, known and inherent risks in the portfolio, 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. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse

situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management uses available information to estimate losses on loans, future additions to 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 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 adequate to absorb losses inherent in the portfolio.

On July 1, 1995, the Bank adopted Statement of Financial Accounting Standards No. 114, 'Accounting by Creditors for Impairment of a Loan' ('SFAS 114'). The Statement 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. The adoption of SFAS 114, as amended by SFAS 118, did not have a material effect on the Bank's financial condition or results of operations.

LOAN INCOME RECOGNITION - Interest income on loans is recorded under the level yield method. Under this method, discount accretion and premium amortization are included in interest income.

Accrual of interest is discontinued when its receipt is in doubt but no later than when a loan becomes ninety days past due as to principal or interest. When interest accruals are discontinued, any interest credited to income in the current year is reversed. Payments on nonaccrual loans are applied to principal. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of collateral is sufficient to cover the principal balance and accrued interest. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions.

LOAN FEES - Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms.

OTHER REAL ESTATE OWNED, NET - Properties acquired as a result of foreclosure on a mortgage loan are classified as Other real estate owned and are recorded at the lower of the recorded investment in the related loan or the fair value of the property at the date of acquisition, with any resulting write down charged to the allowance for loan losses. Subsequent write downs are charged to the valuation allowance for possible losses on Other real estate owned.

Prior to July 1, 1995, the Bank was required to include in Other real estate owned loans which have been in substance foreclosed. Effective July 1, 1995, the Bank adopted SFAS 114. The provisions of this Statement eliminated the Bank's requirement to include in substance foreclosed loans in other real estate owned, except where the Bank has completed foreclosure proceedings. In substance foreclosed real estate is not material to the financial condition or results of operations of the Bank.

PREMISES AND FIXED ASSETS - Land is stated at original cost. Buildings and furniture 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 and equipment	10% per year

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

EARNINGS PER SHARE ("EPS")- Primary and fully diluted EPS for the year ended June 30, 1997 are computed by dividing net income by the average number of common shares outstanding during the period, adjusted for common stock equivalents related to stock options granted. The dilutive effect of stock options is computed using the average market price of the common stock for primary EPS and the greater of the average market price or closing market price for fully diluted EPS. Unallocated shares owned by the ESOP and treasury stock are excluded from the number of shares outstanding. RRP shares are included in the number of shares outstanding. The average shares utilized for primary and fully diluted earnings per share were 12,980,190 and 13,137,482, respectively, for the year ended June 30, 1997. Earnings per share information is not presented for the years ended June 30, 1996 and 1995 as it is not considered meaningful since the initial public offering of the Company's stock did not occur until June 26, 1996.

GOODWILL - Goodwill generated from the Bank's acquisition of Conestoga Bancorp, Inc. on June 26, 1996 is recorded on a straight line basis over a twelve year period. In March 1995, the FASB issued SFAS No. 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of' which requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment and reported at the lower of carrying amount or fair value, less cost to sell, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Since June 26, 1996, no such event or change in circumstance has occurred which has caused the Company to review the recorded level of goodwill associated with assets

acquired from Conestoga.

INCOME TAXES - Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ("SFAS 109") which requires that deferred taxes be provided for temporary differences between the book and tax basis of assets and liabilities.

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

EMPLOYEE BENEFITS - The Company maintains a Retirement Plan and 401(k) Plan for substantially all of its employees, both of which are tax qualified under the Employee Retirement Income Security Act of 1974 (ERISA).

The Company maintains a separate plan which provides additional postretirement benefits to employees, which is recorded in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). This Statement requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The Company adopted SFAS 106 on July 1, 1995. As permitted by SFAS 106, the Bank elected to record the full cumulative liability at the time of adoption, which resulted in a cumulative effect adjustment of \$1,032, after reduction for income taxes of \$879, which was charged to operations during the fiscal year ended June 30, 1996.

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The Company maintains an Employee Stock Ownership Plan for employees ("ESOP"). Compensation expense related to the ESOP is recorded in accordance with SOP 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.

In December, 1996, the Company adopted a Recognition and Retention Plan for employees and outside directors ("RRP") and Stock Option Plan for Employees and Outside Directors (the "Stock Option Plan"), which are subject to the accounting requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("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 has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB 25"). Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. To date, no compensation expense has been recorded for stock options, since, for all granted options, the market price on the date of grant equals the amount employees must pay to acquire the stock. In accordance with APB 25, compensation expense related to the RRP is recorded for all shares earned by participants during the period at \$18.64 per share, the average historical cost of the shares of all RRP shares acquired.

FINANCIAL INSTRUMENTS - Statement of Financial Accounting Standards No. 119 "Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments became effective in 1994 and requires disclosures about financial instruments, which are defined as futures, forwards, swap and option contracts and other financial instruments with similar characteristics. On balance sheet receivables and payables are excluded from this definition. The Company did not hold any derivative financial instruments as defined by SFAS 119 at June 30, 1997, 1996 or 1995.

RECENTLY ISSUED ACCOUNTING STANDARDS- In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, 'Accounting for Transfers of Financial Assets and Extinguishments of Liabilities' ("SFAS 125"). SFAS 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are borrowings. SFAS 125 also requires that liabilities and derivatives incurred or obtained as part of a transfer be measured initially at fair value. This statement also provides guidance on measurement of servicing rights on assets transferred and derecognition of liabilities transferred. SFAS 125 is effective for all transfers, servicing, or extinguishments occurring after December 31, 1996, except for certain provisions relating to the accounting for secured borrowings and collateral and the accounting for transfers and servicing of repurchase agreements, dollar rolls, securities lending and similar transactions, for which the effective date was deferred until January 1, 1998, in accordance with Statement of Financial Accounting Standards No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" ("SFAS 127"). The Company adopted SFAS 125 as amended by SFAS 127 effective January 1, 1997. The adoption of this standard did not have a material impact on the financial condition or results of operations of the Bank.

In February, 1997 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 establishes new standards for computing and presenting earnings per share. SFAS 128 is applicable to all U.S. entities with publicly held common stock or potential common stock, and requires disclosure of basic earnings per share and diluted earnings per share, for entities with complex capital structures, on the face of the income statement, along with a reconciliation of the numerator and denominator of basic and diluted earnings per share. SFAS 128 replaces APB Opinion No. 15, issued by the American Institute of Certified Public Accountants in 1971, as the authoritative guidance for calculation and disclosure of earnings per share, but does not amend the provisions of SOP 93-6 related to the inclusion of allocated and unallocated ESOP shares when calculating average shares outstanding. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. Early adoption is not permitted, and restatement of prior periods is required. Basic and diluted earnings per share, if computed under the standards of SFAS 128, would have been \$0.95 and \$0.95, respectively, for the year ended June 30, 1997.

In June, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes

standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 requires that financial statements report and display comprehensive income in the same prominence as net income, but permits the statement of comprehensive income to be presented either together with or apart from the income statement. Comprehensive income, as defined by SFAS 130 includes revenues, expenses, and gains and losses which, under current GAAP, bypass net income and are typically reported as a component of stockholders' equity. SFAS 130 is applicable for all entities which present a full set of financial statements and is effective for fiscal years beginning after December 15, 1997, with early adoption permitted.

In June, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 introduces a new method for segment reporting referred to as the "management approach," which focuses upon the manner in which the chief operating decision makers organize segments within a company for making operating decisions and assessing performance. Under the management approach, reportable segments can be based upon, but are not limited to, products and services, geography and legal or management structure. SFAS 131 requires full financial disclosure for each segment, but only requires limited quarterly segment disclosure. SFAS 131 is applicable for all public, for-profit companies, and is effective for fiscal years beginning after December 15, 1997, with early application encouraged. Management of the Company is currently evaluating SFAS 131.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, the carrying value of other real estate, purchase accounting adjustments related to the acquisition of Conestoga and the fair value of financial instruments.

RECLASSIFICATION - Certain June 30, 1996, and 1995 amounts have been reclassified to conform to the June 30, 1997 presentation.

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. As part of the conversion, the Company was incorporated under Delaware law for the purpose of acquiring and holding all of the outstanding stock of the Bank. On June 26, 1996, the Company completed its initial public offering and issued 14,547,500 shares of common stock (par value \$.01 per share) at a price of \$10.00 per share, resulting in net proceeds of approximately \$141,368 prior to the acquisition of stock by the Employee Stock Ownership Plan. The Company retained approximately \$53,397 of the net proceeds and used the remaining net proceeds to purchase all of the outstanding stock of the Bank. Costs related to the conversion were charged against the Company's proceeds from the sale of the stock.

The Company received approximately \$131,078 of excess proceeds resulting from the oversubscription of the Company's initial public offering. In accordance with the terms of the offering, these funds were refunded on July 1, 1996 inclusive of interest earned at the Bank's existing passbook rate for the period held. The excess proceeds were recorded in Escrow and other deposits, and were invested in short-term Investment securities and Federal funds sold at June 30, 1996.

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

As discussed in Note 3, the Company acquired Conestoga Bancorp, Inc. on June 26, 1996. The liquidation account previously established by Conestoga's subsidiary, Pioneer Savings Bank, F.S.A. during its initial public offering in March, 1993, was assumed by the Company in the acquisition.

The Bank 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.

3. BUSINESS ACQUISITIONS

On June 26, 1996, the Bank completed the acquisition of Conestoga Bancorp, Inc., the holding company for the Pioneer Savings Bank, F.S.B. The Bank received approximately \$170,836, \$124,411 and \$111,991 of investment securities, mortgage-backed securities and loans, respectively, at fair value and assumed approximately \$394,250 of customer deposit liabilities. Approximately \$10,000 of investment securities acquired were classified as held-to-maturity at June 30, 1996. All other securities acquired were classified as available for sale. Total cash paid for the acquisition was \$101,272. The goodwill generated in the transaction of \$28,438 is being amortized on a straight line basis over 12 years for financial reporting purposes.

This acquisition was recorded using the purchase method of accounting; accordingly, the purchase price is allocated to the respective assets acquired and liabilities assumed based on their estimated fair values.

All operations of Conestoga acquired by the Bank are reflected in the consolidated statement of operations of the Company for the year ended June 30, 1997. The consolidated statements of financial condition as of June 30, 1997 and 1996 include the assets acquired from Conestoga. The information below presents, on an unaudited pro forma basis, the consolidated statement of operations for the Company for the years ended June 30, 1996 and 1995. All information below is adjusted for the acquisition of Conestoga, as if the transaction had been consummated on July 1, 1995 and 1994 respectively for the years ended June 30, 1996 and 1995.

Pro Forma for Year Ended June 30,	1996	1995
Net interest income	\$43,129	\$44,658
Provision for possible loan losses	3,083	2,914
Non-interest income	3,965	3,603
Non-interest expense:		
Goodwill amortization	2,350	2,347
Other non-interest expense	20,540	19,833

Total non-interest expense	22,890	22,180
-----	-----	-----
Income before income taxes	\$21,121	\$23,167
=====	=====	=====

4. INVESTMENT SECURITIES HELD TO MATURITY AND AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated market value of investment securities held to maturity at June 30, 1997 were as follows:

Investment Securities Held to Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
DEBT SECURITIES:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$86,036	\$498	\$(116)	\$86,418
Obligations of state and political subdivisions	1,974	43	-	2,017
Corporate securities	13,327	28	(14)	13,341
Public utilities	250	-	(2)	248
	-----	-----	-----	-----
	\$101,587	\$569	\$(132)	\$102,024
	=====	=====	=====	=====

The amortized cost and estimated market value of investment securities held to maturity at June 30, 1997, 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 penalties.

	Amortized Cost	Estimated Market Value
-----	-----	-----
Due in one year or less	\$5,248	\$5,255
Due after one year through five years	83,962	84,367
Due after five years through ten years	11,132	11,157
Due after ten years	1,245	1,245
-----	-----	-----
	\$101,587	\$102,024
=====	=====	=====

During the year ended June 30, 1997, proceeds from the calls of investment securities held to maturity totaled \$5,000. No gain or loss was realized on these calls. There were no sales of investment securities held to maturity during the year ended June 30, 1997.

The amortized/historical cost, gross unrealized gains and losses and estimated market value of investment securities available for sale at June 30, 1997 were as follows:

Investment Securities Available for Sale				
	Amortized/Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
DEBT SECURITIES:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$33,706	\$130	\$(28)	\$33,808
Corporate securities	17,471	277	(5)	17,743
Public utilities	1,249	12	(14)	1,247
-----	-----	-----	-----	-----
	52,426	419	(47)	52,798
EQUITY SECURITIES:	4,912	980	(3)	5,889
-----	-----	-----	-----	-----
	\$57,338	\$1,399	\$(50)	\$58,687
=====	=====	=====	=====	=====

The amortized cost and estimated market value of investment securities available for sale at June 30, 1997, 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 penalties.

	Amortized Cost	Estimated Market Value
-----	-----	-----
Due in one year or less	\$10,490	\$10,527
Due after one year through five years	36,442	36,722

Due after five years through ten years

5,494

5,549

\$52,426

\$52,798

=====

=====

During the year ended June 30, 1997, proceeds from the sales and calls of investment securities available for sale totaled \$27,253 and \$26,011, respectively. A loss of \$273 and gain of \$11 resulted from the sales and calls, respectively.

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The amortized cost, gross unrealized gains and losses and estimated market value of investment securities held to maturity at June 30, 1996 were as follows:

Investment Securities Held to Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
DEBT SECURITIES:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$18,705	\$-	\$(58)	\$18,647
Obligations of state and political subdivisions	2,048	31	-	2,079
Corporate securities	20,531	34	(117)	20,448
Public utilities	2,268	-	(14)	2,254
	-----	-----	-----	-----
	\$43,552	\$65	\$(189)	\$43,428
	=====	=====	=====	=====

During the year ended June 30, 1996, proceeds from the calls of investment securities held to maturity totaled \$11,056. A gain of \$56 was realized on these calls. There were no sales of investment securities held to maturity during the year ended June 30, 1996.

The amortized/historical cost, gross unrealized gains and losses and estimated market value of investment securities available for sale at June 30, 1996 were as follows:

Investment Securities Available for Sale				
	Amortized/Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
DEBT SECURITIES:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$277,240	\$20	\$(80)	\$277,180
Corporate securities	58,652	27	-	58,679
Public utilities	2,249	9	(28)	2,230
	-----	-----	-----	-----
	338,141	56	(108)	338,089
EQUITY SECURITIES:				
Mutual funds	2,977	229	(1)	3,205
	-----	-----	-----	-----
	\$341,118	\$285	\$(109)	\$341,294
	=====	=====	=====	=====

During the year ended June 30, 1996, proceeds from the sales and calls of investment securities available for sale totaled \$501 and \$11,323, respectively. A loss of \$195 and gain of \$24 resulted from the sales and calls respectively.

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

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities held to maturity at June 30, 1997 were as follows:

Mortgage-Backed Securities Held to Maturity				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
GNMA pass-through certificates	\$15,100	\$562	\$(2)	\$15,660
FHLMC pass-through certificates	40,528	127	(56)	40,599
FNMA pass-through certificates	22,760	120	(64)	22,816
	-----	-----	-----	-----
	\$78,388	\$809	\$(122)	\$79,075
	=====	=====	=====	=====

There were no sales of mortgage-backed securities held to maturity during the fiscal year ended June 30, 1997.

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities available for sale at June 30, 1997 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Collateralized mortgage obligations	\$72,343	\$333	\$(176)	\$72,500
GNMA pass-through certificates	88,874	1,903	(6)	90,771
FHLMC pass-through certificates	17,698	293	(54)	17,937
FNMA pass-through certificates	48,861	416	(348)	48,929
-----	-----	-----	-----	-----
	\$227,776	\$2,945	\$(584)	\$230,137
=====	=====	=====	=====	=====

Proceeds from the sale of mortgage-backed securities available for sale were \$16,713 during the year ended June 30, 1997. A gain of \$495 was recognized on these sales.

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities held to maturity at June 30, 1996 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
GNMA pass-through certificates	\$17,997	\$437	\$(8)	\$18,426
FHLMC pass-through certificates	27,296	15	(274)	27,037
FNMA pass-through certificates	7,287	2	(156)	7,133
	-----	-----	-----	-----
	\$52,580	\$454	\$(438)	\$52,596
	=====	=====	=====	=====

Proceeds from the sale of mortgage-backed securities held to maturity were approximately \$2,555 for the year ended June 30, 1996. A gain of approximately \$31 was realized on these sales. The securities sold met the DE MINIMUS exemption in SFAS 115, as the unpaid principal at the date of sale was less than 15% of their acquired par value.

The amortized cost, gross unrealized gains and losses and the estimated market value of mortgage-backed securities available for sale at June 30, 1996 were as follows:

Mortgage-Backed Securities Available for Sale

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Collateralized mortgage obligations	\$8,566	\$23	\$-	\$8,589
GNMA pass-through certificates	70,136	-	-	70,136
FHLMC pass-through certificates	28,826	344	(54)	29,116
FNMA pass-through certificates	49,434	118	(32)	49,520
	-----	-----	-----	-----
	\$156,962	\$485	\$(86)	\$157,361
	=====	=====	=====	=====

There were no sales of mortgage-backed securities available for sale during the year ended June 30, 1996.

6. LOANS

The Company's real estate loans are comprised of the following:

At June 30,	1997	1996
One-to-four family	\$140,536	\$169,723
Multi-family and underlying cooperative	498,536	296,630
Nonresidential	43,180	37,708
F.H.A. insured mortgage loans	12,275	14,132
V.A. insured mortgage loans	1,878	2,554
Co-op loans	50,931	59,083
	-----	-----
Net unearned fees	747,336 (3,090)	579,830 (2,167)
	-----	-----
	\$744,246	\$577,663
	=====	=====

The Bank originates both adjustable and fixed interest rate real estate loans. At June 30, 1997, the approximate composition of these loans was as follows:

Fixed Rate		Variable Rate	
Period to Maturity or Next Repricing	Book Value	Period to Maturity or Next Repricing	Book Value
1 month-1 year	\$1,196	1 month-1 year	\$118,874
1 year-3 years	8,991	1 year-3 years	136,427
3 years-5 years	5,288	3 years-5 years	274,223
5 years-10 years	71,740	5 years-10 years	31,361
Over 10 years	89,141	Over 10 years	10,095
	-----	-----	-----
	\$176,356		\$570,980
	=====		=====

The adjustable rate loans have interest rate adjustment limitations and are generally indexed to the Federal Home Loan Bank of New York five-year borrowing funds rate, the one-year constant maturity Treasury index, or the Federal Home Loan Bank national mortgage contract rate.

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 New York City and Long Island.

The Company's other loans are comprised of the following:

At June 30,	1997	1996
Student loans	\$1,005	\$1,307
Passbook loans (secured by savings and time deposits)	2,801	3,044
Home improvement loans	1,243	891
Consumer installment and other loans	1,027	323
Unearned discount	6,076	5,565
	-	(1)
	\$6,076	\$5,564

Loans on which the accrual of interest has been discontinued were \$3,190 and \$6,551 at June 30, 1997 and 1996, respectively. If interest on those loans had been accrued, interest income would have been increased by approximately \$247 and \$410 for the years ended June 30, 1997 and 1996, respectively.

The Bank had outstanding loans considered troubled-debt restructurings of \$4,671 at both June 30, 1997 and 1996, respectively. Income recognized on these loans was approximately \$357 and \$344 for the years ended June 30, 1997 and 1996, respectively, compared to interest income of \$471 and \$471 calculated under the original terms of the loans, for the years ended June 30, 1997 and 1996, respectively.

The recorded investment in loans for which impairment has been recognized under the guidance of SFAS 114 was approximately \$4,294 and \$7,419 at June 30, 1997 and 1996, respectively. The average balance of impaired loans was approximately \$4,736 and \$6,696 for the years ended June 30, 1997 and 1996, respectively. Write-downs of \$985 and \$553 were taken on impaired loans during the years ended June 30, 1997 and 1996, respectively. At June 30, 1997 and 1996, specific reserves totaling \$122 and \$955 were allocated within the allowance for loan losses for impaired loans. Net principal received and interest income recognized on impaired loans during the years ended June 30, 1997 was not material. At June 30, 1997 and 1996, one loan totaling \$2,681, was deemed impaired for which no reserves have been provided. This loan, which is included in troubled-debt restructurings at June 30, 1997 and 1996, has performed in accordance with the provisions of the restructuring agreement signed in October, 1995. The loan was on accrual status at both June 30, 1997 and 1996. All other loans deemed impaired, which total 6 and 10 loans as of June 30, 1997 and 1996, respectively, have reserves allocated towards their outstanding balance.

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

HOMOGENOUS LOANS - One-to-four family residential mortgage loans and loans on cooperative apartments having a balance of less than \$203 and consumer loans are considered to be small balance homogenous loan pools and, accordingly, are not covered by SFAS 114.

LOANS EVALUATED FOR IMPAIRMENT - All non-homogeneous loans greater than \$1,000 are individually evaluated for potential impairment. Additionally, residential mortgage loans exceeding \$203 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. Factors considered by management include the property location, economic conditions, and any unique circumstances affecting the loan. Except as noted above, at June 30, 1997 and 1996, all impaired loans were on nonaccrual status. In addition, at June 30, 1997 and 1996, respectively, approximately \$1,577 and \$1,817 of one to four family residential mortgage loans and loans on cooperative apartments with a balance of less than \$203 were on nonaccrual status. These loans are considered as a homogeneous loan pool not covered by SFAS 114.

RESERVES AND CHARGE-OFFS - The Bank allocates a portion of its total allowance for loan losses to loans deemed impaired under SFAS 114. All charge-offs on impaired loans are recorded as a reduction in both loan principal and the allowance for loan losses. Management evaluates the adequacy of its allowance for loan losses on a regular basis. At June 30, 1997, management believes that its allowance is adequate to provide for losses inherent in the total loan portfolio, including impaired loans.

MEASUREMENT OF IMPAIRMENT - Since all impaired loans are collateralized by real estate properties, the fair value of the collateral is utilized to measure impairment.

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

7. ALLOWANCE FOR LOAN LOSSES AND POSSIBLE LOSSES ON OTHER REAL ESTATE OWNED

Changes in the allowance for loan losses were as follows:

For the year ended June 30,	1997	1996	1995
Balance at beginning of period	\$7,812	\$5,174	\$3,633
Provision charged to operations	4,200	2,979	2,950
Loans charged off	(1,388)	(1,023)	(1,656)
Recoveries	102	14	247
Reserve acquired in purchase of Conestoga	-	668	-
	\$10,726	\$7,812	\$5,174

Changes in the allowance for possible losses on real estate owned were as follows:

For the year ended June 30,	1997	1996
Balance at beginning of period	\$114	\$-
Provision charged to operations	450	586
Charge-offs, net of recoveries	(377)	(472)
	\$187	\$114

Prior to July 1, 1995, no valuation allowance for possible losses on Other real estate owned was maintained by the Bank.

8. MORTGAGE SERVICING ACTIVITIES

At June 30, 1997 and 1996, the Bank was servicing loans for others having principal amounts outstanding of approximately \$69,648 and \$91,050 respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. In connection with these loans serviced for others, the Bank held borrowers' escrow balances of approximately \$652, \$1,055 and \$1,440 at June 30, 1997, 1996 and 1995, respectively.

9. PREMISES AND FIXED ASSETS

The following is a summary of premises and fixed assets:

At June 30,	1997	1996
Land	\$3,964	\$3,964
Buildings	12,778	12,527
Leasehold improvements	1,190	1,190
Furniture and equipment	7,105	6,673
	25,037	24,354
Less: accumulated appreciation and amortization	(11,042)	(9,955)
	\$13,995	\$14,399

Depreciation and amortization expense amounted to approximately \$1,076, \$501, and \$459 for the years ended June 30, 1997, 1996 and 1995, respectively.

10. FEDERAL HOME LOAN BANK OF NEW YORK CAPITAL STOCK

The Bank is a Savings Bank Member of the Federal Home Loan Bank of New York (FHLBNY). Membership requires the purchase of shares of FHLBNY capital stock at \$100 per share. The Bank owned 83,215 and 76,043 shares at June 30, 1997 and 1996, respectively. The FHLBNY paid dividends on the capital stock of 6.4%, 6.9%, and 7.5% during the years ended June 30, 1997, 1996 and 1995, respectively.

11. DUE TO DEPOSITORS

The deposit accounts of each deposit household are insured up to \$100 by either the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC").

Deposits are summarized as follows:

June 30,	1997	1996

	EFFECTIVE COST	LIABILITY	Effective Cost	Liability
-----	-----	-----	-----	-----
Savings accounts	2.27%	\$344,377	2.50%	\$365,146
Certificates of deposit	5.61	541,773	5.50	495,755
Money market accounts	2.96	33,530	2.65	45,948
NOW accounts	1.24	15,817	1.51	15,029
Super NOW accounts	1.24	507	1.51	552
Non-interest bearing checking accounts	-	27,391	-	27,684
	4.09%	\$963,395	4.09%	\$950,114
		=====		=====

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

At June 30,	1997	1996
Maturity in three months or less	\$116,828	\$124,903
Over 3 through 6 months	88,912	96,316
Over 6 through 12 months	107,714	138,137
Over 12 months	228,319	136,399
Total certificates of deposit	\$541,773	\$495,755

The aggregate amount of Certificates of deposits with a minimum denomination of \$100 was approximately \$46,806 and \$40,065 at June 30, 1997 and 1996, respectively.

12. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

At or for the year ended June 30,	1997	1996
Balance outstanding at end of period	\$76,333	\$11,998
Average interest cost at end of period	5.69%	6.00%
Average balance outstanding	\$32,374	\$2,148
Average interest cost during the year	5.73%	7.13%
Carrying value of underlying collateral	\$83,778	\$13,433
Estimated market value of underlying collateral	\$84,172	\$13,660
Maximum balance outstanding at month end during period	\$76,333	\$11,998

13. FEDERAL HOME LOAN BANK OF NEW YORK ADVANCES

The Bank had borrowings ('Advances') from the Federal Home Loan Bank of New York totaling \$63,210 and \$15,710 at June 30, 1997 and 1996, respectively. The average cost of FHLB advances was 5.79% and 5.40%, respectively, during the years ended June 30, 1997 and 1996, and the average interest rate on outstanding FHLB advances was 6.18% and 5.40%, respectively, at June 30, 1997 and 1996. At June 30, 1997, in accordance with the Advances, Collateral Pledge and Security Agreement, the Bank maintained in excess of \$69,531 of qualifying collateral (principally bonds and mortgage-backed securities), as defined, to secure such advances.

14. INCOME TAXES

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

Year Ended June 30,	1997			1996			1995		
	FEDERAL	STATE AND CITY	TOTAL	Federal	State and City	Total	Federal	State and City	Total
Current	\$6,047	\$4,541	\$10,588	\$4,218	\$2,563	\$6,781	\$4,328	\$2,416	\$6,744
Deferred	2,153	(5,150)	(2,997)	(332)	(268)	(600)	(314)	191	(123)
	\$8,200	\$(609)	\$7,591	\$3,886	\$2,295	\$6,181	\$4,014	\$2,607	\$6,621

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 June 30,	1997		1996	
	FEDERAL	STATE AND CITY	Federal	State and City
DEFERRED TAX ASSETS:				
Deferred loan fees	\$33	\$21	\$47	\$30
Excess book bad debt over tax bad debt reserve	2,417	1,880	2,300	-
Net operating loss carryforward	305	-	-	-
Accumulated postretirement benefit obligation	735	448	598	374
Tax effect of purchase accounting fair value adjustments	1,173	715	1,173	735
Other	114	98	70	56
Total deferred tax assets	4,777	3,162	4,188	1,195
Less: Valuation allowance on deferred tax assets	-	-	-	-
Deferred tax assets after valuation allowance	\$4,777	\$3,162	\$4,188	\$1,195
DEFERRED TAX LIABILITIES:				
Excess tax bad debt over book bad debt	\$-	\$-	\$-	\$2,083
Difference in book and tax carrying value of fixed assets	265	164	309	196
Tax effect of unrealized gain on securities available for sale	1,057	623	160	104
Total deferred tax liabilities	\$1,322	\$787	\$469	\$2,383
Net deferred tax asset (liability)	\$3,455	\$2,375	\$3,719	\$(1,188)

During the year ended June 30, 1997, deferred tax liabilities include an increase of \$1,416 resulting from adjustments pursuant to SFAS 115.

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

Year ended June 30,	1997	1996	1995
Tax at Federal statutory rate	\$6,967	\$4,717	\$5,266
State and local taxes, net of Federal income tax benefit	(396)	1,492	1,694
Goodwill amortization	843	-	-
Amortization of excess fair value over cost - ESOP stock	233	-	-
Reserve for losses on sale of loans	-	-	(185)
Utilization of capital loss on sale of securities	-	-	(86)
Other, net	(56)	(28)	(68)
Effective tax rate	38.13%	45.9%	44.0%

Savings banks that meet certain definitions, tests, and other conditions prescribed by the Internal Revenue Code are allowed to deduct, with limitations, a bad debt deduction. Prior to August, 1996, this deduction could be computed as a percentage of taxable income before such deduction ("PTI Method") or based upon actual loss experience for Federal, New York State and New York City income taxes.

Pursuant to SFAS 109, the Bank is not required to provide deferred taxes on its tax loan loss reserve as of December 31, 1987 ("base year reserve"). The amount of this reserve on which no deferred taxes have been provided is approximately \$12,153. This reserve could be recognized as taxable income and create a current tax liability using the income tax rates then in effect if one of the following occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends or distributions in liquidation; 2) the Bank fails to qualify as a Bank as provided by the Internal Revenue Code, or 3) there is a change in federal tax law.

On August 20, 1996, Federal legislation was signed into law which repealed the reserve method of accounting for bad debts, including the percentage of taxable income method used by the Bank. This repeal is effective for the Bank's taxable year beginning January 1, 1996. In addition, the legislation requires the Bank to include in taxable income its bad debt reserves in excess of its base year reserve over a 6 to 8 year period depending upon the maintenance of certain loan origination levels. Since the percentage of taxable income

method tax bad debt deduction and the corresponding increase in the tax bad debt reserve in excess of the base year have been treated as temporary differences pursuant to SFAS 109, this change in tax law will have no effect on the Company's future consolidated statement of operations. Since the Bank's bad debt reserve exceeds its base year reserve by \$3,100, approximately \$176 will be currently payable as a result of the legislation.

In anticipation of the Federal legislation, on July 30, 1996, New York State (the "State") enacted legislation, effective January 1, 1996, which generally retains the percentage of taxable income method for computing allowable bad debt deductions and does not require the Bank to recapture into income State tax bad debt reserves unless one of the following events occur: 1) the Bank's retained earnings represented by the reserve is used for purposes other than to absorb losses from bad debts, including dividends in excess of the Bank's earnings and profits or distributions in liquidation or in redemption of stock; 2) the Bank fails to qualify as a thrift as provided by the State tax law, or 3) there is a change in state tax law. The Bank had a deferred tax liability of approximately \$1.9 million recorded for the excess of State tax bad debt reserves over its reserve at December 31, 1987 in accordance with SFAS 109. In December, 1996 after evaluating the State tax legislation, as well as relevant accounting literature and industry practices, management of the Bank concluded that this liability was no longer required to be recorded, and recovered the full deferred tax liability. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

On March 11, 1997, New York City enacted legislation, effective January 1, 1996, which conformed its tax law regarding bad debt deductions to New York State's tax law. As a result of this legislation, the Bank, in March, 1997, recovered a deferred tax liability of approximately \$1.0 million previously recorded for the excess of New York City tax bad debt reserves over its reserve at December 31, 1987. This recovery resulted in a reduction of income tax expense during the year ended June 30, 1997 for the full amount of the recovered deferred tax liability.

15. EMPLOYEE BENEFIT PLANS

EMPLOYEE RETIREMENT PLAN - The Bank is a participant in a noncontributory defined benefit retirement plan with the Savings Bank Retirement System. Substantially all full-time employees are eligible for participation after one year of service. In addition, a participant must be at least 21 years of age at the date of enrollment.

The retirement cost (benefit) for the pension plan includes the following components:

For the year ended June 30,	1997	1996	1995
Service cost	\$400	\$206	\$216
Interest cost	727	488	455
Actual return on plan assets	(838)	(546)	(227)
Net amortization and deferral	(224)	(82)	(325)
	\$65	\$66	\$119

The funded status of the plan was as follows:

At June 30,	1997	1996
Accumulated benefit obligation, including vested benefits of \$8,976 and \$8,613, respectively	\$9,031	\$8,848
Projected benefit obligation	\$10,015	\$9,960
Plan assets at fair value (investments in trust funds managed by RSI and comingled New York State Retirement Fund)	11,121	10,594
Excess of plan assets over projected benefit obligation	1,106	634
Additional employer contribution	126	-
Unrecognized loss from experience different from that assumed	380	967
Unrecognized transition asset	(72)	(167)
Unrecognized net past service liability	(239)	(271)
Prepaid retirement expense included in other assets	\$1,301	\$1,163

Major assumptions utilized were as follows:

At June 30,	1997	1996
Discount rate	8.00%	7.50%
Rate of increase in compensation levels	6.00	5.50
Expected long-term return on plan assets	9.00	9.00

BENEFITS MAINTENANCE PLAN AND DIRECTORS' RETIREMENT PLAN - During the fiscal year ended June 30, 1994, The Bank established a Supplemental Executive Retirement Plan ('SERP') for its

executive officers. The SERP was established to compensate the executive officers for any curtailments in benefits due to the statutory limitations on benefit plans. The SERP exists as a nonqualified plan which supplements the existing qualified plans. Defined benefit and defined contribution costs are incurred annually related to the SERP. During the year ended June 30, 1997, the SERP was renamed the Benefits Maintenance Plan ("BMP"). No significant changes to the plan's provisions occurred.

Effective July 1, 1996, The Company established a non-qualified Retirement plan for all of its Outside Directors, which will provide benefits to each eligible Outside Director commencing upon his termination of Board service or at age 65. Each Outside Director who serves or has agreed to serve as an outside director will automatically become a participant in the plan.

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The retirement cost (benefit) for the defined benefit portion of the BMP and Directors' Retirement plan include the following components:

For the year ended June 30,	1997	1996	1995
Service cost	\$203	\$56	\$51
Interest cost	211	88	75
Net amortization and deferral	178	49	54
	\$592	\$193	\$180

The defined contribution costs incurred by the Bank related to the BMP/SERP for the years ended June 30, 1997, 1996 and 1995 were \$305, \$25 and \$20, respectively. During the fiscal year ended June 30, 1997, benefits related to the Employee Stock Ownership Plan were added to the defined contribution cost of the BMP.

The funded status of the defined benefit portion of the plans was as follows:

At June 30,	1997	1996
Accumulated benefit obligation, including vested benefits of \$1,530 and \$450 respectively	\$1,808	\$450
Projected benefit obligation	\$3,276	\$1,690
Plan assets at fair value	-	-
Deficiency of plan assets over projected benefit obligation	(3,276)	(1,690)
Unrecognized loss from experience different from that assumed	834	884
Unrecognized net past service liability	1,350	317
Accrued expense prior to additional minimum liability included in other liabilities	(1,092)	(489)
Additional minimum liability	(931)	-
Accrued expense after minimum liability	\$(2,023)	\$(489)

Major assumptions utilized were as follows:

At June 30,	1997		1996
	BMP	DIRECTORS' RETIREMENT PLAN	SERP
Discount rate	7.50%	7.25%	7.50%
Rate of increase in compensation levels	5.50	4.00	5.50

401(K) PLAN - The Bank also has a 401(k) plan which covers substantially all employees. Prior to May 31, 1996, under such plan the Bank matched 50% of each participant's contribution up to 6% of the participant's annual compensation for the first four years of participation and thereafter 100% of the participant's contribution up to a maximum of 6%. Effective May 31, 1996, the plan was amended whereby the Bank ceased all contributions to the plan. Participation in the 401(k) plan is voluntary. A salaried employee becomes eligible for the plan after completion of one year of service. The Bank contributed approximately \$181 and \$190 for the years ended June 30, 1996 and 1995, respectively, to the plan. The 401(k) plan owns participant investments in the Company's common stock which totaled \$4,758 and \$2,092 at June 30, 1997 and 1996, respectively.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - The Bank offers additional postretirement benefits to its retired employees who have provided at least five (5) consecutive years of credited service and were active employees prior to April 1, 1991, as follows:

(1) Employees who retired prior to April 1, 1991 receive full medical coverage in effect until their death at no cost to such retirees;

(2) Eligible employees retiring after April 1, 1991 will be eligible for continuation of their medical coverage in effect at the time of such employees' retirement until their death. Throughout an employee's retirement, the Bank will continue to pay the premiums for this coverage up to the premium amount paid for the first year of retirement coverage. Should the premiums increase, the employee will have to pay the differential to maintain full medical coverage. Postretirement medical benefits are only available to those full-time employees who, upon termination of service, start collecting retirement benefits immediately from the Bank. The

Bank reserves the right at any time, and to the extent permitted by law, to change, terminate or discontinue any of the group benefits, and can exercise the maximum discretion permitted by law, in administering, interpreting, modifying or taking any other action with respect to the plan or benefits.

The Bank accrues the cost of such benefits during the years an employee renders the necessary service. The Bank adopted SFAS 106 effective July 1, 1995. The Bank elected to record the full accumulated postretirement benefit obligation upon adoption. This resulted in a cumulative effect adjustment of \$1,032 (after reduction for income taxes of \$879), which is shown in the consolidated statement of income for the year ended June 30, 1996.

The postretirement cost includes the following components:

For the year ended June 30,	1997	1996
-----	-----	-----
Service cost	\$75	\$62
Interest cost	192	167
-----	-----	-----
	\$267	\$229
=====	=====	=====

The funded status of the postretirement benefit plan was as follows:

At June 30,	1997	1996
Accumulated benefit obligation:		
Retirees	\$1,229	\$1,364
Fully eligible active participants	163	173
Other active participants	963	1,005
Total	2,355	2,542
Plan assets at fair value	-	-
Deficiency of plan assets over accumulated benefit obligation	2,355	2,542
Unrecognized loss (gain) from experience different from that assumed	191	(161)
Accrued postretirement benefit obligation	\$2,546	\$2,381

The assumed medical cost trend rates used in computing the accumulated postretirement benefit obligation was 7.5% in 1997 and was assumed to decrease gradually to 5.0% in 2003 and to remain at that level thereafter. Increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by approximately \$162.

The assumed discount rate and rate of compensation increase used to measure the accumulated postretirement benefit obligation at June 30, 1997 were 8.0% and 6.0%, respectively. The assumed discount rate and rate of compensation increase used to measure the accumulated postretirement benefit obligation at June 30, 1996 were 7.5% and 5.5%, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN - In connection with the conversion, the Board of Directors of the Company adopted the Dime Community Bancorp Employee Stock Ownership Plan (the "ESOP"). The ESOP borrowed \$11,638 from the Company and used the funds to purchase 1,163,800 shares of the Company's common stock. The loan will be repaid principally from the Bank's discretionary contributions to the ESOP over a period of time not to exceed 10 years. The Bank's obligation to make such contributions is reduced by any investment earnings realized on such contributions or any dividends paid by the Company on stock held in the unallocated account. The loan had an outstanding balance of \$10,324 and \$11,541, respectively at June 30, 1997 and 1996, and a fixed rate of 8.0%.

Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants on the basis of compensation, as described in the plan, in the year of allocation. The ESOP vests at a rate of 25% per year of service beginning after two years with full vesting after five years, or upon attainment of age 65, death, disability, retirement or change of control. Shares of common stock allocated to participating employees totaled 121,702 and 9,698 during the years ended June 30, 1997 and 1996. The ESOP benefit expense recorded in accordance with SOP 93-6 for allocated shares totaled \$1,883 and \$114, respectively, for the years ended June 30, 1997 and 1996.

STOCK BENEFIT PLANS

RECOGNITION AND RETENTION PLAN ("RRP") - In December, 1996, the shareholders approved the RRP, which is designed to encourage key officers and directors of the Company and Bank to remain with the Company, as well as to provide these persons with a proprietary interest in the Company. During the year ended June 30, 1997, the Bank contributed \$7.2 million to the RRP, which purchased 581,900 shares of the Company's common stock in open market transactions. As of June 30, 1997, all of the shares under the RRP have been allocated to officers or directors of the Company or Bank. The RRP shares vest on February 1st of each year over a total period of five years. Shares become 100% vested in the event of death or disability of the participant. As of June 30, 1997, 15,870 shares have vested under the RRP. During the year ended June 30, 1997, the Company recognized compensation expense of \$1,175, which related primarily to the earned portion of shares scheduled to vest on February 1, 1998 during the period February 1, 1997 to June 30, 1997.

The Company continues to account for compensation expense under the RRP under APB 25, measuring compensation cost based upon the average acquisition value of the RRP shares. Had the Company recorded compensation expense under the fair value methodology encouraged under SFAS 123, compensation expense would have decreased by \$315 and net income and EPS would have increased by \$173 and \$.01, respectively. The effects of applying SFAS 123 for disclosing compensation cost may not be representative of the effect on reported net income for future years.

STOCK OPTION PLAN - In November, 1996, the Company adopted the Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (the "1996 Stock Option Plan"), which permits the Company to grant up to 1,454,750 incentive or non-qualified stock options to outside directors, officers and other employees of the Company or the Bank. The Compensation Committee of the Board of Directors administers the Stock Option Plan and authorizes all share grants. A total of 1,454,750 shares were authorized for grant under the 1996 Stock Option Plan.

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On December 26, 1996, 1,393,425 stock options were granted to outside directors, officers and certain employees. All stock options granted under the 1996 Stock Option Plan, expire on December 26, 2006. One-fifth of the shares granted to participants under the 1996 Stock Option Plan become exercisable to participants on December 26, 1997, 1998, 1999, 2000 and 2001, respectively. Stock-based compensation for the fiscal year ended June 30, 1997 is as follows:

	FISCAL YEAR ENDED JUNE 30, 1997

Options outstanding - beginning of year	-
Options granted	1,393,425
Options exercised	-
Options outstanding - end of year	1,393,425
Remaining options available for grant under the plan	61,325

The exercise price on all stock options granted during the year ended June 30, 1997 was \$14.50, which, under the terms of the Stock Option Plan, was equivalent to the fair market value of the Company's stock as of the close of business on the grant date. At June 30, 1997, 39,675 shares are currently exercisable due to the death of a participant.

The weighted average fair value per option at the date of grant for stock options granted during the fiscal year ended June 30, 1997 was estimated to be \$5.72 using the Binomial Option Pricing model with the following assumptions:

	FISCAL YEAR ENDED JUNE 30, 1997

Expected life (in years)	10
Interest rate	5.79%
Volatility	22.89
Dividend yield	1.40

The Company continues to account for Stock Options under APB 25, accordingly no compensation cost has been recognized. Had the Company recorded compensation expense under the fair value methodology encouraged under SFAS 123, compensation expense would have increased by \$532 and net income and EPS would have decreased by \$287 and \$0.02, respectively. The effects of applying SFAS 123 for disclosing compensation cost may not be representative of the effect on reported net income for future years.

16. COMMITMENTS AND CONTINGENCIES

MORTGAGE LOAN COMMITMENTS AND LINES OF CREDIT - At June 30, 1997 and 1996, the Bank had outstanding commitments to make mortgage loans aggregating approximately \$115,076 and \$81,252, respectively.

At June 30, 1997, commitments to originate fixed rate and adjustable rate mortgage loans were \$86,549 and \$28,527 respectively. Interest rates on fixed rate commitments ranged between 7.13% to 8.88%. Substantially all of the Bank's commitments will expire within two months. A concentration risk exists with these commitments as virtually all of the outstanding mortgage loan commitments involve properties located within New York City.

The Bank had available at June 30, 1997 unused lines of credit with the Federal Home Loan Bank of New York totaling \$100,000, expiring on August 8, 1997. These credit lines were renewed on August 8, 1997 for one year.

LEASE COMMITMENTS - At June 30, 1997, aggregate net minimum annual rental commitments on leases are as follows:

Year Ended June 30,	Amount
-----	-----
1998	\$392
1999	401
2000	422
2001	423
2002	376
Thereafter	1,810

Net rental expense for the years ended June 30, 1997, 1996 and 1995 approximated \$197, \$278, and \$267, respectively.

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

OUTSTANDING CLAIMS WITH NATIONAR - On February 8, 1995 the New York State Banking Department took possession of Nationar, a check clearing and trust company. At that time, the Bank had \$2,500 invested in Nationar, comprised of approximately \$1,900 in cash demand accounts and Federal funds sold and approximately \$567 in debenture bonds and stock. During the year ended June 30, 1995, the Bank established reserves for possible losses related to investments in Nationar. The following is a summary of activity in the reserve account:

Year ended June 30,	1997	1996	1995
-----	-----	-----	-----
Beginning balance	\$216	\$640	\$-
Provision for losses, net of recoveries received	(216)	143	640
Charge-off of investments deemed uncollectible	-	(567)	-
-----	-----	-----	-----
Ending balance	\$-	\$216	\$640
=====	=====	=====	=====

During the year ended June 30, 1996, management of the Bank deemed the investments in debentures worthless, and accordingly charged-off all outstanding amounts against the established reserve. During the year ended June 30, 1996, the Bank received approximately \$1,700 in refunds from the New York State Banking Department which was related primarily to its cash demand accounts. During the year ended June 30, 1997, the Bank received additional refunds of \$388 for settlement of all remaining outstanding claims, which were recorded as a reduction of operating expenses during the year. Upon receipt of the refunds for the remaining claims, the Bank reduced the outstanding reserve balance to zero.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Standards No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

CASH AND DUE FROM BANKS - The fair value is assumed to be equal to their carrying value as these amounts are due upon demand.

INVESTMENT SECURITIES AND MORTGAGE-BACKED SECURITIES - The fair value of these securities is based on quoted market prices obtained from an independent pricing service.

FEDERAL FUNDS SOLD - The fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due to their short maturity.

FEDERAL HOME LOAN BANK OF NEW YORK (FHLB NY) STOCK - The fair value of FHLB NY 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 FHLB NY.

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 to new borrowers with similar terms. This methodology is applied to all loans, inclusive of impaired and non-accrual loans.

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, OTHER DEPOSITS AND BORROWED FUNDS - The estimated fair value of escrow, other deposits and borrowed funds is assumed to be the amount payable at the reporting date.

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

The estimated fair values of the Bank's financial instruments at June 30, 1997 and 1996 were as follows:

June 30, 1997	Carrying Amount	Fair Value
ASSETS:		
Cash and due from banks	\$19,198	\$19,198
Investment securities held to maturity	101,587	102,024
Investment securities available for sale	58,687	58,687
Mortgage-backed securities held to maturity	78,388	79,075
Mortgage-backed securities available for sale	230,137	230,137
Loans and loans held for sale	739,858	738,958
Federal funds sold	18,902	18,902
FHLB stock	8,322	8,322
LIABILITIES:		
Savings, money market, NOW Super NOW and checking accounts	\$421,622	\$421,622
Certificates of Deposit	541,773	540,319
Escrow , other deposits and borrowed funds	154,517	154,517
Other liabilities	6,225	6,225
Off-balance sheet liability-commitments to extend credit	\$-	\$(1,179)

June 30, 1996	Carrying Amount	Fair Value
ASSETS:		
Cash and due from banks	\$17,055	\$17,055
Investment securities held to maturity	43,552	\$43,428
Investment securities available for sale	341,294	341,294
Mortgage-backed securities held to maturity	52,580	52,596
Mortgage-backed securities available for sale	157,361	157,361
Loans and loans held for sale	575,874	571,942
Federal funds sold	115,130	115,130
FHLB stock	\$7,604	\$7,604
LIABILITIES:		
Savings, money market, NOW Super NOW and checking accounts	\$454,359	\$454,359
Certificates of Deposit	495,755	494,975
Escrow , other deposits and borrowed funds	169,440	169,440
Other liabilities	36,816	36,816
Off-balance sheet liability-commitments to extend credit	\$-	\$(664)

18. TREASURY STOCK

During the fiscal year ended June 30, 1997, the Company repurchased 1,454,750 shares of its common stock into treasury. The average cost of all shares repurchased was \$19.04, for an aggregate cost of \$27,703. All shares were repurchased in accordance with applicable regulations of the Office of Thrift Supervision and Securities and Exchange Commission.

19. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts 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%, core capital (as defined) of 3%, and total risk-based capital (as defined) of 8%. The Bank is also subject to prompt corrective action requirement regulations set forth by the FDIC. The FDIC requires the Bank to maintain minimum of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 1997, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 1997, the most recent notification from the OTS categorized the Bank 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, Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

As of June 30, 1997			For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital:	\$124,118	9.86%	\$18,873	1.5%	N/A	N/A
Core capital:	124,182	9.87	37,748	3.0%	N/A	N/A
Total risk-based capital (to risk weighted assets)	132,465	19.99	53,009	8.0%	\$66,261	10.00%
Tier I risk-based capital (to risk weighted assets)	124,182	18.74	N/A	N/A	39,756	6.00
Tier I leverage capital (to average assets)	124,182	10.35	N/A	N/A	59,980	5.00

As of June 30, 1996	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital:	\$119,125	9.49%	\$18,828	1.5%	N/A	N/A
Core capital:	119,259	9.50	37,659	3.0%	N/A	N/A
Total risk-based capital (to risk weighted assets)	126,715	21.24	47,718	8.0%	\$59,659	10.00%
Tier I risk-based capital (to risk weighted assets)	119,259	19.99	N/A	N/A	35,795	6.00
Tier I leverage capital (to average assets)	119,259	16.58	N/A	N/A	35,970	5.00

The following is a reconciliation of generally accepted accounting principles (GAAP) capital to regulatory capital for the Bank:

At June 30,	1997			1996		
	TANGIBLE CAPITAL	CORE CAPITAL	RISK-BASED CAPITAL	Tangible Capital	Core Capital	Risk-Based Capital
GAAP capital	\$152,198	\$152,198	\$152,198	\$148,008	\$148,008	\$148,008
Non-allowable assets:						
Core deposit intangible	(64)	-	-	(134)	-	-
Unrealized gain on available for sale securities	(1,583)	(1,583)	(1,583)	(311)	(311)	(311)
Goodwill	(26,433)	(26,433)	(26,433)	(28,438)	(28,438)	(28,438)
General valuation allowance	-	-	8,283	-	-	7,456
Regulatory capital	124,118	124,182	132,465	119,125	119,259	126,715
Minimum capital requirement	18,873	37,748	53,009	18,828	37,659	47,718
Regulatory capital excess	\$105,245	\$86,434	\$79,456	\$100,297	\$81,600	\$78,997

20. QUARTERLY FINANCIAL INFORMATION

The following represents the unaudited results of operations for each of the quarters during the fiscal years ended June 30, 1997 and 1996. Since the Bank's conversion to a public company occurred substantially at year end (June 26, 1996), earnings per share information during the year ended June 30, 1996 is not considered meaningful.

For the three months ended	September 30, 1996	December 31, 1996	March 31, 1997	June 30, 1997
Net interest income	\$11,165	\$11,969	\$12,116	\$12,216
Provision for loan losses	1,050	1,050	1,050	1,050
Net interest income after provision for loan losses	10,115	10,919	11,066	11,166
Non-interest income	757	1,052	781	1,543
Non-interest expense:	8,132	5,604	6,741	7,015
Income before income taxes	2,740	6,367	5,106	5,694
Income tax expense	1,516	1,428	1,608	3,039
Net income	\$1,224	\$4,939	\$3,498	\$2,655
EARNINGS PER SHARE (1):				
Primary	\$0.09	\$0.37	\$0.26	\$0.22
Fully diluted	\$0.09	\$0.37	\$0.26	\$0.21
SUPPLEMENTAL DISCLOSURE:				
SAIF special assessment charge	\$2,032	\$-	\$-	\$-
Income tax recovery	-	1,848	1,034	-
Fully diluted EPS excluding SAIF special assessment and income tax recoveries	\$0.17	\$0.23	\$0.19	\$0.21

For the three months ended	September 30, 1995	December 31, 1995	March 31, 1996	June 30, 1996
Net interest income	\$6,913	\$7,379	\$7,171	\$7,640
Provision for loan losses	600	351	900	1,128
Net interest income after provision for loan losses	6,313	7,028	6,271	6,512
Non-interest income	414	186	379	396
Non-interest expense:	2,922	3,478	3,901	3,720
Income before income taxes and cumulative effect of change in accounting principle	3,805	3,736	2,749	3,188
Income tax expense	1,741	1,705	1,266	1,469
Income before cumulative effect of change in accounting principle	2,064	2,031	1,483	1,719
Cumulative effect of change in accounting principle	(1,032)	-	-	-
Net income	\$1,032	\$2,031	\$1,483	\$1,719
EARNINGS PER SHARE (1):				
Primary	N/A	N/A	N/A	N/A
Fully diluted	N/A	N/A	N/A	N/A

(1) The quarterly earnings per share amounts, when added, total \$0.94 for the year ended June 30, 1997. This amount differs from earnings per share for the year ended June 30, 1997 in the consolidated statement of operations due to differences in the computed weighted average shares outstanding as well as rounding differences.

21. CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS:

The Company began operations on June 26, 1996. The following statements of condition as of June 30, 1997 and 1996, and the related statements of operations and cash flows for the years ended June 30, 1997 and 1996, reflect the Company's investment in its wholly-owned subsidiary, the Bank, using the equity method of accounting:

DIME COMMUNITY BANCORP, INC.
CONDENSED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands except share amounts)

At June 30,	1997	1996

ASSETS:		
Cash and due from banks	\$17	\$117
Investment securities available for sale	22,363	33,994
Federal funds sold	6,040	53,623
ESOP loan to subsidiary	10,324	11,541
Investment in subsidiary	152,198	148,008
Other assets	344	23

TOTAL ASSETS	\$191,286	\$247,306
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Payable for securities purchased	\$-	\$33,994
Other liabilities	397	241
Stockholders' equity	190,889	213,071

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY:	\$191,286	\$247,306
=====		

DIME COMMUNITY BANCORP, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Dollars in thousands except share amounts)

For the year ended June 30,	1997	1996

Interest income	\$3,585	\$27
Gain on sales of securities	11	-
Non-interest expense	446	-

Income before income taxes and equity of undistributed earnings of subsidiary	3,150	27
Income tax expense	1,487	-

Income before equity of undistributed earnings of subsidiary	1,663	27
Equity in undistributed earnings of subsidiary	10,653	6,238

NET INCOME	\$12,316	\$6,265
=====		

DIME COMMUNITY BANCORP, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands except share amounts)

For the year ended June 30,	1997	1996

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$12,316	\$6,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiary	(10,653)	(6,238)
Gain on sale of investment securities available for sale	(11)	-
Net accretion of discount on investment securities available for sale	(1,130)	-
Increase in other assets	(321)	(23)
Increase in payable for securities purchased	(33,994)	33,994
(Decrease)Increase in other liabilities	(225)	241

Net cash (used in) provided by operating activities	(34,018)	34,239
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (Increase) in federal funds sold	47,583	(53,623)
Proceeds from sale of investment securities available for sale	10,011	-
Proceeds from calls and maturities of investment securities available for sale	120,595	-
Purchases of investment securities available for sale	(117,006)	(33,994)
Principal repayments on ESOP loan	1,165	97
Cash disbursed in purchase of subsidiary stock	-	(76,332)

Net cash provided by (used in) investing activities	62,348	(163,852)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	-	129,730
Cash disbursed for expenses related to issuance of common stock	(190)	-
CASH DIVIDENDS PAID TO STOCKHOLDERS	(537)	-
PURCHASE OF TREASURY STOCK	(27,703)	-

NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(28,430)	129,730

NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(100)	117
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	117	-

CASH AND DUE FROM BANKS, END OF PERIOD	\$17	\$117
=====		

MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Dime Community Bancorp, Inc. Common Stock is traded on the Nasdaq National Market and quoted under the symbol "DIME."

The following table shows the high and low sales price during the period indicated. The Company's Common stock began trading on June 26, 1996, the date of the initial public offering.

Quarter Ended	Fiscal Year End June 30, 1997		Fiscal Year End June 30, 1996	
	High	Low	High	Low
September 30th	\$14	11{3/4}	N/A	N/A
December 31st	15{1/8}	13{1/4}	N/A	N/A
March 31st	19{5/8}	14{1/2}	N/A	N/A
June 30th	\$20	\$16{5/8}	\$11{3/4}	\$11{11/16}

On June 30, 1997, the last trading date in the fiscal year, the Company's stock closed at \$20. At September 22, 1997 the Company had approximately 1,200 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. There were 13,092,750 shares of common stock outstanding at June 30, 1997.

On May 15, 1997, the Company declared its first cash dividend of 4{1/2} cents per share for all shareholders of record as of the close of business on June 2, 1997. The dividend was paid on June 27, 1997. No dividends have been declared subsequently. The Board of Directors of the Company plans to maintain a regular quarterly dividend in the future, and will continue to review the dividend payment amount in relation to the Company's earnings, financial condition or other relevant factors.

As the principal asset of the Company, the Bank could be called upon to provide the principal source of funds for payment of dividends by the Company. The Bank will not be permitted to pay dividends on its capital stock if its stockholders' equity would be reduced below applicable regulatory requirements or the amount required for the liquidation account established during the Bank's conversion. See Note 2 to the Consolidated Financial Statements of the Company for a further discussion of the liquidation account. The OTS capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements, generally limit dividend payments in any year to the greater of (i) 100% of year-to-date net income plus an amount that would reduce surplus capital by one-half or (ii) 75% of net income for the most recent four quarters. Surplus capital is the excess of actual capital at the beginning of the year over the institution's minimum regulatory capital requirement. In addition, capital distributions from the Bank to the Company, if in excess of established limits, could result in recapture of the Bank's New York State and City bad debt reserves. See Note 14 to the Consolidated Financial Statements of the Company for a further discussion of this tax matter.

Unlike the Bank, the Company is not subject to OTS regulatory restrictions on the payment of dividends to its shareholders, although the source of such dividends will be dependent on the net proceeds retained by the Company and earnings thereon and may be dependent, in part, upon dividends from the Bank. The Company is subject, however, to the requirements of Delaware law, which generally limit dividends to an amount equal to the excess of the net assets of the Company (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year.

YEAR
JUN-30-1997
JUN-30-1997 19198
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