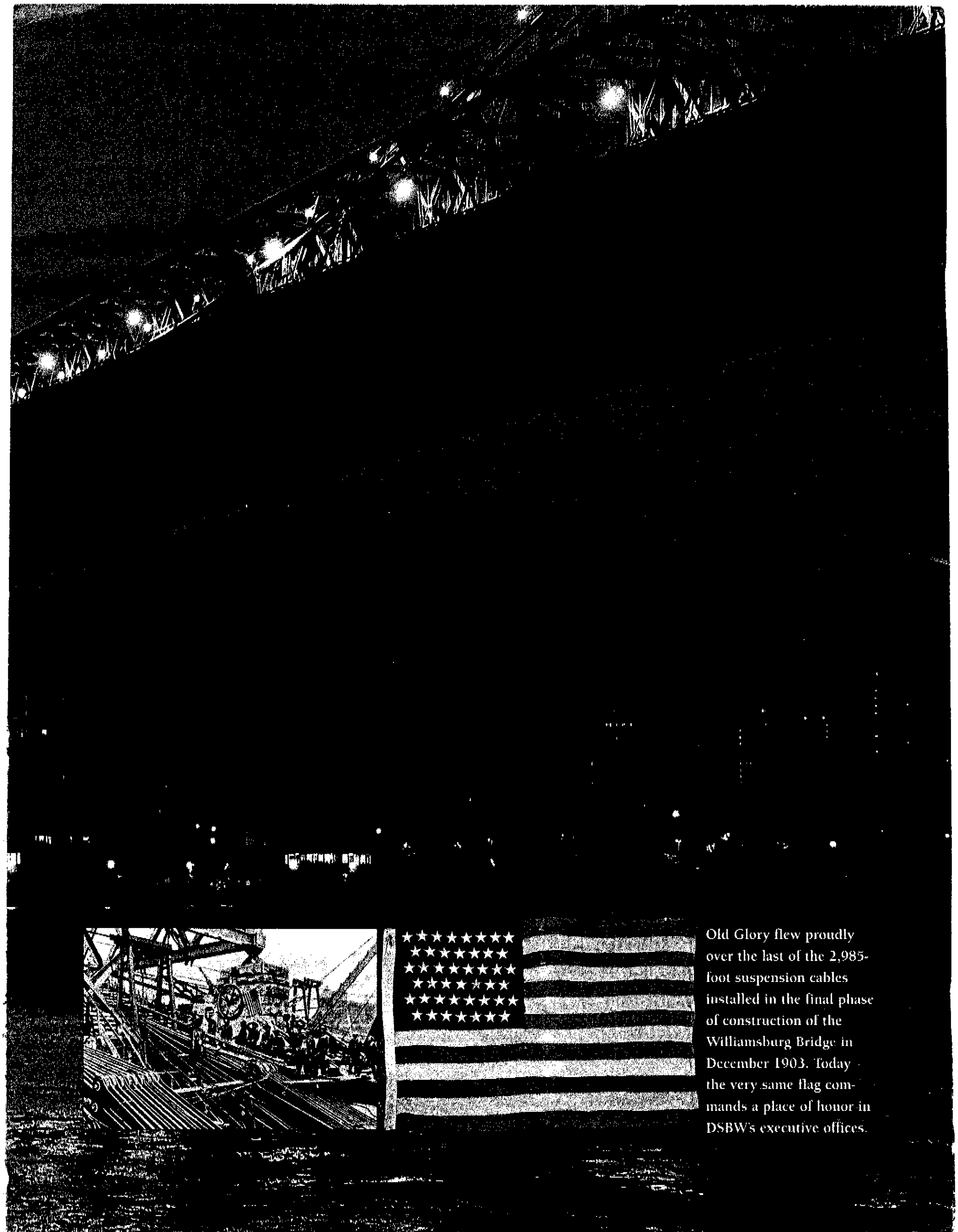
ANNUAL REPORT

2002

Dime COMMUNITY Bancshares Inc.

Understanding Our Markets.
Deepening Our Relationships.



Old Glory flew proudly over the last of the 2,985-foot suspension cables installed in the final phase of construction of the Williamsburg Bridge in December 1903. Today the very same flag commands a place of honor in DSBW's executive offices.

Dime Community Bancshares, Inc. (Nasdaq: "DCOM") is a unitary thrift holding company headquartered in the Williamsburg section of Brooklyn, New York. DCOM began trading as a public company in June 1996. DCOM's primary subsidiary is The Dime Savings Bank of Williamsburgh ("DSBW"), which was established in 1864 operating out of its first branch located in Williamsburg, Brooklyn. Trading on the Nasdaq exchange since its inception, DCOM is currently a member stock in the Russell 2000, S&P Small Cap 600 and the Nasdaq Financial 100 Indices. DCOM's assets exceeded $2.8 billion at June 30, 2002.

DSBW is widely recognized as one of the largest and most successful multi-family residential niche lenders in New York City. DSBW operates twenty retail branch locations throughout the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. DSBW offers a full range of banking services through its branch network, which has expanded since 1996 through two bank acquisitions that added 11 branches throughout Queens, Brooklyn and Nassau County, New York, and through two de novo branches established during fiscal 2002, one in Brooklyn and one in Queens.

More information on DCOM and DSBW can be found at www.dsbwdirect.com.

HIGHLIGHTS

54% Earnings Per Share (EPS) Growth – FY* 2002

54% Total Shareholder Return – FY 2002

40% Core Deposit Growth – FY 2002

24% Cash Return on Tangible Shareholders' Equity – FY 2002

30% 5-Year Compounded EPS Growth Through FY 2002

31% 5-Year Compounded Cash Dividend Growth Through FY 2002

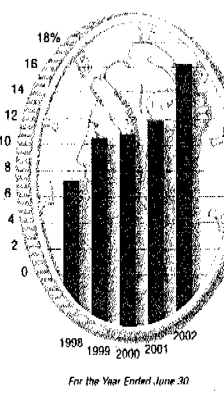
11% Current Annual Cash Dividend Yield on IPO Investment Price

21st Ranking by American Banker in EPS Growth** of 150 Largest Publicly Traded Banking Companies (Based Upon Asset Size)

12th Ranking by SNL Securities in Financial Performance of 100 Largest Thrifts (Based Upon Asset Size)

* FY represents fiscal year ended June 30th.
** Based upon financial performance for FY 2001

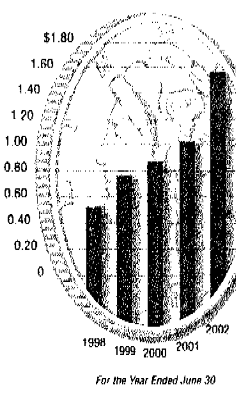
5-YEAR RETURN ON AVERAGE STOCKHOLDERS' EQUITY



For the Year Ended June 30

5-YEAR EARNINGS PER SHARE

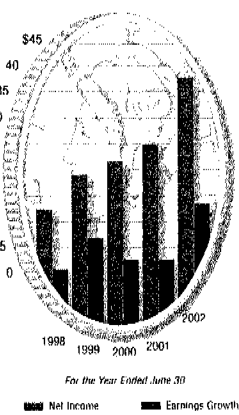
(In Dollars)



For the Year Ended June 30

5-YEAR EARNINGS GROWTH

(Dollars in Millions)



For the Year Ended June 30

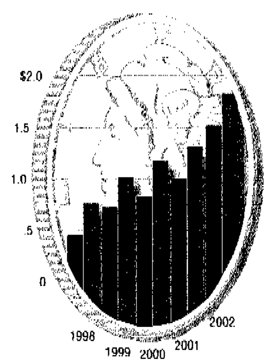
Net Income   Earnings Growth

A MESSAGE TO OUR SHAREHOLDERS

In fiscal 2002, Dime Community Bancshares, Inc. and Subsidiaries ("DCOM") achieved its fifth consecutive year of record financial results since its initial public reporting period in fiscal 1997. These record results were achieved by focusing on what we, at DCOM, do best: 1) real estate lending, with an emphasis on multi-family residential loans, and 2) retail banking in the New York City metropolitan area, widely recognized as the largest and most competitive banking market in the nation.

As a community bank, we continued to make every effort to be a part of the cultural fabric of the neighborhoods where we do business. Our success over the past five years has been based on our unique ability to provide the highest level of quality service and convenience in satisfying the needs of our diverse customer base. Since becoming a shareholder owned company in 1996, we have consistently achieved a solid performance record by focusing on community banking.

EARNINGS PER SHARE AND CASH EARNINGS PER SHARE
(In dollars)



For the Year Ended June 30

EPS   CASH EPS

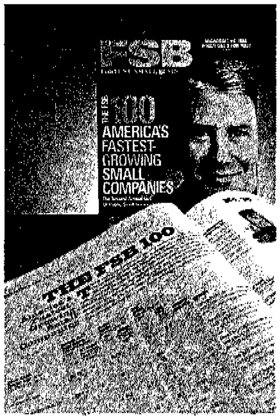
DCOM's assets, which exceeded $2.8 billion at June 30, 2002, have more than quadrupled since 1996. Nevertheless, we have long recognized that rapid growth which is not managed correctly can impede earnings growth. As a result, we have always strived to achieve measured growth in both loans and deposits within the overriding objective of maintaining sustained, reliable growth in earnings per share. Our results certainly speak for themselves. Since becoming a publicly traded company, our loans have grown from less than $500 million to $2.1 billion and our deposits have grown from approximately $550 million to $1.8 billion. During the period July 1997 through June 2002, our earnings per share have grown at a compound annual rate of 30 percent. In addition, despite the considerable growth in assets, the credit quality of our assets, particularly our loans, remains solid. We believe that in this time of financial and economic uncertainty, the conservative and straightforward characteristics of our balance sheet serve DCOM's shareholders well.

The growth of DCOM's banking franchise reflects the steady and consistent execution of a focused and proven business plan: increasing our market share by raising deposits and making loans in New York City and the neighboring communities we serve. We have pursued that plan with a commitment that is embodied in the theme of this year's annual report: ***Understanding Our Markets. Deepening Our Relationships.***

Record Financial Performance

DCOM's strong fiscal 2002 financial results included both record earnings and record earnings per diluted share. For the year, reported earnings rose 53 percent to $38.7 million from $25.2 million in fiscal 2001. Earnings per diluted share grew 54 percent to $1.54 from $1.00 in fiscal 2001. Cash earnings, the best measure of our ability to fund growth, pay cash dividends and repurchase common stock, were $42.5 million, up 26 percent from fiscal 2001. Cash return on average tangible equity approximated 24 percent in fiscal 2002.

The financial success achieved in fiscal 2002 allowed DCOM to complete two separate three-for-two stock splits, both in the form of a 50 percent stock dividend. These results additionally enabled us to increase our quarterly cash dividend 20 percent after the close of the fiscal year. Our willingness to



DCOM was included in the FSB 100 List of America's fastest-growing small companies in 2002.

increase our dividend is a strong indicator of our overall health and reflects our optimism regarding the outlook for our future performance. Declaring a second stock dividend within the fiscal year further displayed our confidence in our ability to continue to deliver steady and solid earnings going forward.

Our continually improving financial performance resulted in recognition by highly regarded financial and investment reporting indices. In addition to our listing in the Russell 2000 Index, DCOM was added to both the Nasdaq Financial 100 and S&P Small Cap 600 Indices during fiscal 2002. We were also listed among *Fortune Magazine's* 100 fastest-growing small companies in America, and ranked in the Top 25 nationally in separate peer financial performance surveys conducted by both *The American Banker* and *SNL Securities*.

Building the Consumer Banking Franchise

In 1999, shortly after completing our second bank acquisition within three years, we began to place greater emphasis on building our retail banking franchise in order to better capitalize on our expanding branch network. We saw enormous potential for deposit growth in these markets, and viewed deposit growth as critical to reducing our emphasis on borrowings as a source of funding for asset growth. A number of strategic initiatives commenced in 1999, including the implementation of a database marketing strategy, the introduction of a proactive sales culture and the initial development of a Customer Relationship Management ("CRM") system. With the strong support of our dedicated staff, we began to realize the success of these initiatives during fiscal 2000 and fiscal 2001. However, we clearly achieved our greatest success to date from the execution of these initiatives during fiscal 2002.

During fiscal 2002, deposits increased nearly 25 percent to $1.8 billion, and core (non certificate) deposits increased 40 percent to over $1.0 billion. Our highly targeted marketing campaigns were driven by a database segmentation strategy that optimized results. Consistent with our overall corporate culture, we established clearly defined and reasonable objectives prior to the execution of all of our deposit marketing strategies.

Excluding two *de novo* locations opened during the year, "same-store" average branch deposits were approximately $96 million at June 30, 2002. Even including the *de novo* branches, that were opened in March 2002 in Bay Ridge, Brooklyn, and June 2002 in Glen Oaks, Queens, average branch deposits were still an impressive $89 million.

This represents an increase of 42 percent in just two years. Given the population density surrounding our branches, we believe there remains significant potential for deposit growth at our new and existing branches.

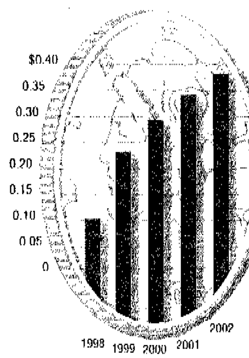
From left to right: Kenneth J. Mahon, Vincent F. Palagiano, and Michael P. Devine, DCOM's senior executives, have over 85 years of combined experience with the Company.

In addition to making ongoing improvements in the capabilities of our relationship management application, we introduced a number of new products to our retail customers over the past few years as part of our expanding retail strategy. I am pleased to report that these new products continued to experience strong customer acceptance in 2002.

- **MasterCard® Debit Card Program.** To date, we have 26,000 active debit card users, up from 18,000 at the end of fiscal 2001, a 44 percent increase.
- **Internet Banking.** While still a small channel, our DSBWDirect Internet banking service is growing rapidly. More than 3½ percent of our households use this service, which includes real-time balance inquiries, money transfer and bill payment.
- **CRM System.** During 2002, we continued to expand the functionality of our CRM system. Enhanced customer data is now available at every branch terminal location providing "cross sell" product recommendations, all of which are driven by our profile and modeling database application. Initial results have been very encouraging, as we have seen growth in both "share of wallet" (the total percentage of household deposits placed at our branch) and total services per household, a critical determinant of customer retention. In May 2002, DSBW received an award for its innovation in the implementation and execution of the sophisticated database modeling software used in the CRM application.

CASH DIVIDENDS PER SHARE

(in dollars)



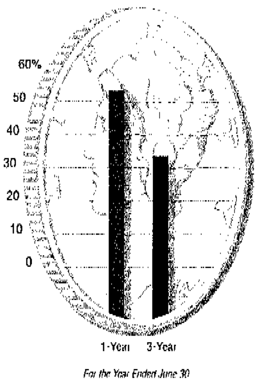
The success of our retail business strategy is evident by the growth experienced in the total number of households who bank with us, and the number of accounts and services provided by us per household. As of June 30, 2002, we provided financial services to more than 72,000 households, an increase of 7 percent from June 30, 2001. Accounts per household increased to 3.6 during fiscal 2002, and services per household stood at a very favorable level of 2.6 at June 30, 2002.

Progress in Multi-family Residential Lending

DCOM is well positioned in the aggressive multi family residential lending environment that exists in the New York City metropolitan area. Our lending expertise is highly in demand in a city that contains over two million rental apartments. Our many years of experience in multi-family residential lending, our intimate knowledge of our local lending communities and our ability to provide timely responses to loan requests clearly remain our differentiating strengths. Our track record of serving the needs of mortgage brokers (who market the great majority of our niche multi-family residential loans), helps to insure our future performance. Through the years, we have built strong and mutually rewarding relationships with all of the brokers with whom we do business.

Mr. Palagiano, Mr. Devine and Mr. Mahon celebrate the grand opening of the DSBW Bay Ridge branch.

ANNUAL SHAREHOLDER RETURN - DCOM



In fiscal 2002, we originated $533 million in multi-family residential and commercial real estate loans, as our total loan portfolio grew 8 percent to $2.1 billion. This past year was dominated by a low interest rate environment, which led to an unusually high level of loan refinancing. As with all lenders, we were not immune to a high volume of loan refinancing. However, unlike one-to-four-family mortgage lenders, we received loan prepayment fee income on our multi-family residential loans that refinanced during fiscal 2002. While not an ideal situation, the large level of loan prepayment fees presented an opportunity to restructure and reduce our borrowing costs. During fiscal 2002, we restructured a large portion of our borrowings, substantially lowering their average cost and extending their average duration, which helped insulate our future funding costs from possible interest rate increases.

We are especially proud of the credit quality of our loan portfolio, which remains extremely strong. During fiscal 2002, non-performing loans declined 31 percent. At June 30, 2002, non-performing loans stood at $2.1 million, computing to just one-tenth of one percent of total loans.

A Look to the Future

Management of DCOM remains focused on continuing to build our multi-family residential lending and retail banking franchises. We see ample opportunity to grow profitably within our existing markets and communities. In multi-family residential lending, we will strive to meet the healthy demand within our niche lending market, to nurture our relationships with brokers and building owners, and to maintain the prudent underwriting standards that have been our hallmark.

In retail banking, we will continue to emphasize increasing our market share in the 20 communities where our branches are located. We will also strive to enhance utilization and management of our database marketing process in order to maximize cross sell opportunities, and to create profitable relationships with our existing and new customers. We will also seek to offer our customers the right products, the highest quality service, and the convenience of selecting a delivery channel of their choice, whether it's brick and mortar, telephone or the Internet.

The dedication that our staff brings to their job each day truly sets DCOM apart, and their efforts are greatly appreciated by management. Our Board of Directors and management recognize that long-term value is best achieved by the consistent and deliberate execution of a proven business plan. All of us look forward to building further upon our successful banking franchise in the year ahead. In closing, our commitments to understanding our markets and deepening our business and customer relationships remains critical to our success.

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

Michael P. Devine
President and
Chief Operating Officer

REPORT FROM THE CFO

Dear Fellow Shareholder:

In fiscal 2002, DCOM achieved record financial results, while maintaining superior credit quality and a sound financial structure.

Our results for fiscal 2002 included two notable non-recurring items: $2.1 million in gains on the sale of securities; and $4.6 million in loan prepayment fee income received on loans. We utilized all of this non recurring income to prepay $254.0 million of borrowings (primarily FHLBNY advances) during the year, incurring total prepayment expenses costs of $6.2 million. The average rate on the prepaid borrowings was 5.4 percent and their average term to maturity was slightly below one year at the time of prepayment. Most of the prepaid borrowings were replaced during fiscal 2002 with a mix of fixed-rate and adjustable-rate FHLBNY advances, which had an average interest rate of 3.5 percent and an average remaining term to maturity of approximately five years at June 30, 2002. All of the new adjustable-rate FHLBNY advances feature caps on the interest rate throughout the life of the borrowing.

A substantial portion of DCOM's core earnings growth during fiscal 2002 was attributable to increased interest margins. These increased margins resulted primarily from decreases in the average cost of our deposits, as well as an improved mix of funding that lowered our overall funding costs. In addition, a continued shift in assets toward higher-yielding real estate loans helped insulate the assets from declines in overall interest rates.

For the last two fiscal years, a major focus of DCOM has been to gather low-cost core deposits at our retail branches. To achieve this, we implemented several promotional strategies which were delivered through our CRM system. Our success has exceeded our expectations, and is evident in the strong increase in core deposits from 49 percent of total deposits to 58 percent of total deposits during the 24-month period ended June 30, 2002.

Since we have been able to grow both core deposits and certificates of deposit during this period, we have been able to reduce our reliance on borrowings in order to fund asset growth. At June 30, 2001, approximately 55 percent of our interest earning assets were funded by deposits. At June 30, 2002, thanks to the robust deposit growth experienced in fiscal 2002, this ratio improved to 67 percent.

In addition, during the period January 2001 through June 2002, while the overnight inter-bank borrowing rate targeted by the Federal Open Market Committee declined by 4.75 percentage points, the average yield on our real estate loans (the largest component of our interest earning assets) declined by only four-tenths of one percent. This difference is especially noteworthy, since $7.1 million of prepayment fee income received on real estate loans during this period was not recognized in our interest income.

As a result, our core net interest margin has expanded steadily since January 2001. During fiscal 2002, the net interest margin, excluding non-recurring borrowing prepayment costs recorded as interest expense, expanded to 3.34 percent, an increase of 55 basis points from 2.79 percent during fiscal 2001.

What we have achieved over the past few years has been a genuine foundation that supports the quality and stability of our earnings. This foundation has three primary components:

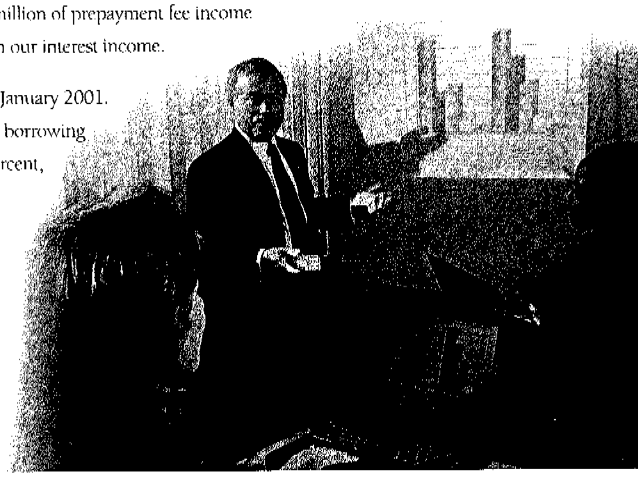
Fiscal 2002 Financial Highlights

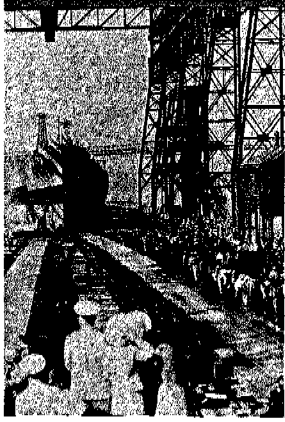
- *Earnings growth of 53 percent and EPS growth of 54 percent.*
- *Growth in core (non-certificate) deposits of 40 percent.*
- *Loan originations of $556 million.*
- *Growth of 8 percent in total loans, despite a period of unusually high refinance levels.*
- *Return on equity of 16.1 percent.*
- *Growth in cash earnings, the best measure of our ability to fund growth, pay dividends and repurchase stock, of 26 percent.*
- *Cash return on tangible equity of 24 percent.*
- *A decline of $935,000 in non-performing loans to $2.1 million, or 0.1 percent of loans at year-end.*
- *Growth in tangible equity to approximately 6.9 percent at June 30, 2002 from 6.2 percent at June 30, 2001.*
- *A decline in the loan-to-deposit ratio from 137 percent to 119 percent.*

Other Fiscal 2002 Highlights

- *Two separate 50 percent stock dividends paid to our shareholders.*
- *11 percent increase in cash dividend payments over fiscal 2001.*
- *21st consecutive quarterly cash dividend paid in July 2002.*

Mr. Mahon reviews the results of DCOM's successful core deposit growth strategies.



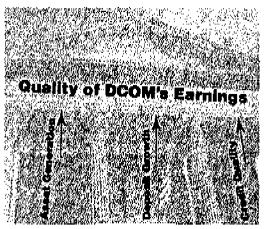


"I didn't realize it while growing up, but the ships built at the Navy Yard played a major role in the history of this country."

1) multi-family residential and commercial real estate loan generation; 2) core deposit generation; and 3) stable credit quality achieved through strict loan underwriting standards.

Additionally, our emphasis on origination of multi-family residential loans that possess lower average servicing costs than comparable single-family loans, the tremendous density of our marketplace creating large average branch deposit balances, and our utilization of a targeted database marketing strategy, that helps generate deposit and "share of wallet" growth at reduced administrative costs, have all contributed to DCOM's ranking as one of the most efficient companies nationally among its peer group. In fiscal 2002, DCOM's core efficiency ratio (which excluded amortization expense on a core deposit intangible asset acquired in 1999) approximated 36 percent.

Our success in shifting the funding mix, whereby we rely less on borrowing and more on deposits, has also positioned us for a long-term improvement in the net interest margin. Importantly, it also favorably positions and cushions DCOM's balance sheet against possible future rate increases.



Because of our solid financial performance during Fiscal 2002, we were able to pay two separate 50 percent stock dividends to our shareholders, increase our regular quarterly cash dividend payment by 11 percent, and announce a further 20 percent increase in our quarterly cash dividend in July 2002.

We also repurchased approximately 750,500 shares of our common stock into treasury during fiscal 2002, both expressing our continued confidence in our own stock as an investment, and providing market support during periods when we felt that it was being "oversold." At June 30, 2002, we still had approximately 1.4 million shares eligible for future repurchase under our previously authorized stock repurchase program.

As we look to the upcoming years, our continued growth in core deposits, emphasis on deposit growth as our primary source for funding asset growth, and the recent restructuring of a substantial portion of our borrowed funds, give our balance sheet improved insulation from the effects of either a continuation of the historic low interest rates or a possible increase in interest rates.

Our one year GAP ratio has improved from a negative 18 percent at June 30, 2001 to a negative 12 percent at June 30, 2002, indicating less susceptibility to interest rate increases. More importantly, our interest earning assets have an average estimated duration of less than 2½ years at June 30, 2002, which we believe positions us favorably in the event of possible interest rate increases, while still permitting us to maintain profitability in the current low interest rate environment.

Brooklyn borough president Marty Markowitz congratulates Mr. Mahon, along with Mr. Devine and Mr Palagiano at DSBW's Bay Ridge grand opening.

Management remains vigilant about the possibility and impact of future interest rate actions by the Federal Open Market Committee. We also continue to be focused on maintaining our outstanding credit quality, controlling costs, and building our banking franchise in order to extend DCOM's track record of growth and progress.

Kenneth J. Mahon
Executive Vice President and
Chief Financial Officer

DEEPENING OUR RELATIONSHIPS

The Dime Savings Bank of Williamsburgh ("DSBW") has worked hard to develop and grow its franchise in the neighborhoods of New York City, the world's financial capital. Just as New York City is the greatest "melting pot" of cultural and ethnic diversity in the world, it is similarly home to a full variety of financial institutions which we have successfully competed against for nearly 140 years.

Lately, the competitive banking landscape in New York City has become dominated by large, multi-state banks, while franchises such as DSBW that have "stuck to its roots" for over 140 years have become increasingly rare. Our branch locations may have close physical proximity to the large, multi-state financial services companies, but our focus and business plan are miles apart.

We, at DSBW, have a special connection with our customers. In Brooklyn and Queens, New York, where the overwhelming majority of our retail branches are located, approximately 4 out of every 10 residents are foreign born. While our customers may be foreign born, we are truly "born and raised" in our community, having established our Bank in Williamsburg, Brooklyn in 1864, and having served our retail banking and lending customers throughout the New York City metropolitan area ever since.

We've steadily grown and prospered by staying focused on understanding our markets and deepening our relationships.

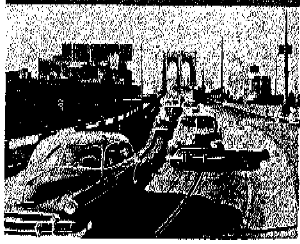
Our understanding of and commitment to our neighborhood communities have enabled us to build an exceptional banking franchise throughout the neighborhoods of New York City.

Today, DSBW provides consumer banking services to more than 72,000 households through a network of 20 branches. Our emphasis on service, convenience and the continual addition of new products has enabled us to deepen our relationships with these households.

Our multi-family residential lending business reaches even more New Yorkers. Today, buildings financed by DSBW provide homes to more than 250,000 of our fellow City residents. Many of those same buildings, in turn, are also home to a wide variety of businesses, ranging from restaurants and retailers to dry cleaners, shoe repair shops and national chains. They are the markets and meeting places that define our neighborhoods.

Our customers want a bank that truly understands and meets their needs, and who is better able to understand and meet these needs than a bank that has lived in their community for nearly 140 years.

DSBW's President Michael Devine visits Peter Luger Steak House, both a Brooklyn institution and a valued deposit customer.



"Whenever I cross this bridge into New York, I always feel a little nostalgic... and I can't wait to cross it again on my way home."

A Leader in Multi-family Residential Lending

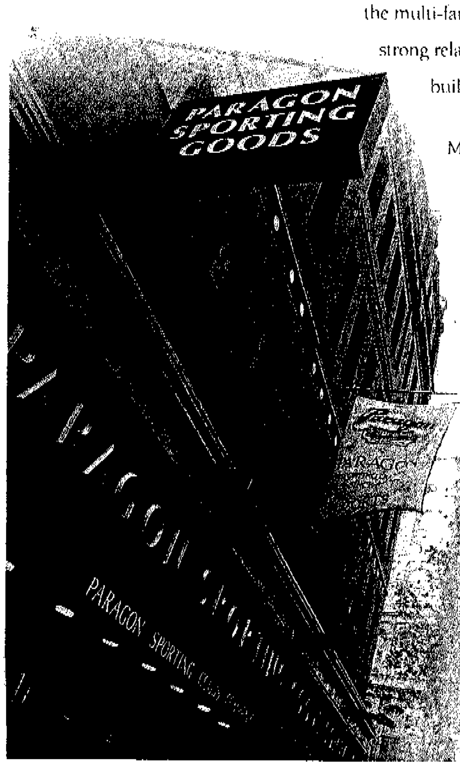
The streetscapes and skyline of New York City are unique among American cities. Nowhere else is there such a large number of apartment buildings and other dwellings with multiple residences. In fact, two out-of-three housing units in New York City are rentals, about twice the national rate. Nearly five million residents live in such buildings.

DSBW's lending business includes a full array of mortgage and consumer loan products to individuals, including single family home loans and home equity lines of credit, and participation in first-time homebuyer and other affordable housing programs sponsored by Federal and New York State mortgage agencies.

However, DSBW has built a leading presence in financing apartment buildings and mixed-use residential and commercial properties that contain the form of housing for the majority of New York City residents. Loans on such properties represent over 80 percent of our $2.1 billion portfolio.

In fiscal 2002, total loan originations were a record $556 million and represented 28 percent of the beginning loan portfolio. Multi-family residential and commercial real estate loans were 90 percent of fiscal 2002 originations. The average amount of our multi-family and commercial real estate loans approximates $1.0 million. Substantially all of these loans are less than $3 million.

DSBW provides commercial real estate loans on buildings housing countless community-based businesses throughout the New York City metropolitan area.



Multi-family lending plays to our strength as a community bank with a strong local presence. DSBW's leadership in multi-family residential lending has been built by an understanding of the dynamics of the multi-family residential real estate market in New York City. It has also been enhanced by the strong relationships that the members of our lending group have developed with both brokers and building owners throughout the local communities.

Multi-family residential lending is an attractive niche. These loans typically have lower servicing costs per loan than one- to four-family residential loans, and include built-in prepayment fees. All of this makes them less costly to originate and more resistant to price depreciation throughout the interest rate cycle. The relatively low costs associated with multi-family originations, combined with our focus on controlling costs throughout our operations, has made us one of the most efficient banking companies of our size in the nation. DCOM's consolidated efficiency ratio was 36.4 percent during the most recent fiscal year.

Another favorable market dynamic is the rent regulation that is a major factor in the New York City market, where vacancy rates are always low. Approximately 55 percent of all rental units within New York City are subject to price regulations.

Rents in such buildings tend to be within reach of most families, including those with low to moderate incomes. This tends to promote stability in this segment of the market.

Having actively served our niche multi-family residential market for over 30 years, we recognize that success comes from much more than providing simple financing. The majority of our multi-family residential loans are reached through mortgage brokers who shop for the best possible loan on behalf of the building owner. Occasionally, individual building owners will seek financing independently with the Bank, and we are eager to respond to their requests.

Our track record with both the mortgage brokers and individual real estate owners to whom we lend has been, and continues to be, solid. What sets DSBW apart in a market where rates have become extremely competitive? The efficient organization and execution of our underwriting process allows us to both generate timely commitment offers to our prospective borrowers and subsequently generate rapid turnaround in bringing accepted commitment offers to close.

The best measure of our success has been the fact that the majority of our lending continues to come from existing customers.

In addition, as established business people in our local community, we recognize the importance of integrity. Our underwriters have a recognized reputation with their customers for honoring the terms of their initial commitment offer.

At DSBW, we believe that our underwriting standards are the cornerstone of our loan portfolio. Our extremely prudent lending policies and procedures are based upon a frequent reevaluation of economic conditions, trends and other factors that could impact real estate values. Our property valuation methodologies have been an effective tool in mitigating risk from changing real estate prices.

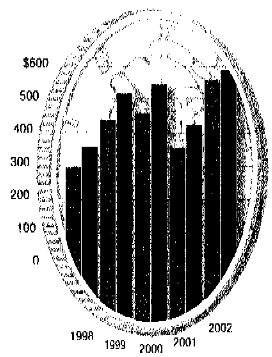
The best measure of our success has been, and continues to be, the fact that the majority of our lending continues to come from existing customers.

The outstanding credit quality maintained by DSBW reflects our strong underwriting standards. Non-performing loans at June 30, 2002 were $2.1 million, or one-tenth of one percent of total loans, down 31 percent from $3.1 million at the end of fiscal 2001.

Looking forward, our successful track record and lending experience in the New York real estate market provide us confidence in the stability and credit quality of our loan portfolio. In addition, the overall stability of our multi-family lending market should provide us ample opportunity to continue our niche lending presence throughout our community.

LOAN ORIGINATIONS

(Dollars in Millions)



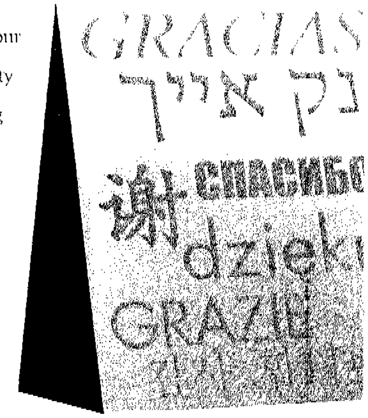
Senior Mortgage Officer Vincent Martucci (left) discusses a multi-family loan with lending customer James Kinsey, a respected real estate owner and developer.

"Family is the number one priority in our neighborhood. Everyone looks out for everybody else, and our traditions are woven into daily life to create a multi-hued patchwork."

Relationship Bankers Edizon Pinos-Pinos and Ana Garcia review product alternatives with a customer at the Jackson Heights branch.

Retail Banking

DSBW successfully serves the consumer banking needs of the people in our communities, who want and expect the right mix of products, high quality service and convenience. We have successfully built a consumer banking business that offers all that and more.



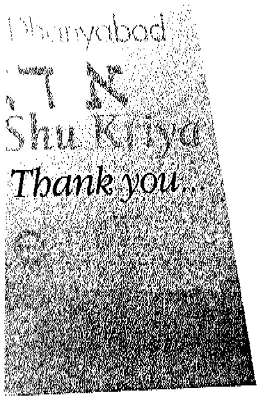
Above all, we recognize that maintaining a successful community bank requires strong community ties. The neighborhoods that DSBW serves truly represent a cross section of the different racial, ethnic and cultural groups throughout the world. As a result, our markets are not one contiguous market, but many individual markets with different dynamics and needs. Success in serving our markets depends on much more than simply offering a variety of products and services or having advanced technological tools. It requires a "non-commoditized" delivery mechanism to ensure that the products meet the diverse needs of our customers.

We genuinely understand our market because we interact regularly with our customers, and listen to what they say they want.

We believe that this genuinely sets us apart from the larger institutions in our market. The communities in which our branches operate are truly our communities also. Whenever our customers call upon us, we are there. We place equal importance upon lending our support to the various low-profile fundraisers, leadership recognition events and little league sports events throughout our communities, as we do to supporting higher profile events such as the return of baseball to Brooklyn or St. John's University Red Storm basketball. Our dedicated staff, the majority of whom live within the neighborhoods in which they serve, make every effort to both foster and further the spirit of all of the communities that DSBW serves.

Flushing Branch Manager Sylvia Duval answers questions from "in-store" customer on DSBW's various products and services.

We genuinely understand our market because we interact regularly with our customers, and listen to what they say they want. As a result, we are able to utilize this knowledge base to develop the right products and services to meet their needs.



DSBW is both happy and proud to thank the customers of its many ethnic communities in their native language.

Over the past year, we have introduced a package of products and services aimed at deepening our relationship with our customers.

Our MasterCard® debit card, launched in 2001, has more than 26,000 active users, up from 18,000 a year ago.

In addition, to provide customers the greatest convenience, DSBW also recently began emphasizing Internet banking. Users of our Internet banking service have grown steadily since we initiated the service in July 2001. We have utilized a "hands-on" approach in marketing the service, as every branch location has both access to our web site, and the expertise to guide new or existing customers through the sign-up process. Many customers enjoy the convenience of obtaining real-time balances "on-line" or transferring money among accounts "24/7." But a growing number of these customers are also signing up for the bill payment function offered by the Internet banking service. Over time, we believe this will be an increasingly popular delivery channel for our customers.

Similarly, our Total Automated Banking Service ("TABS") service has increasingly been accessed by customers, as they seek 24/7 access to their banking information. Besides providing convenience to banking customers, TABS also is cost effective for us, as routine inquiries such as current balance and checks cashed are satisfied without the overhead cost of a relationship manager.

Over the past year, we have introduced a package of products and services aimed at deepening our relationships with our customers.

Our Deposit Market:
Kings,* Queens, Nassau and Bronx Counties in New York
- *Total population: 7.4 million*
- *Approximately 40 percent of the total population of New York State.*
- *Total population of the four counties is larger than 38 of the remaining 49 States in the United States.*
- *Brooklyn, Bronx and Queens rank second, third and fourth respectively in county population density in all of the U.S. (Manhattan ranks first). Nassau County ranks in the top 20.*
- *The median annual income in Nassau County is approximately $72,000. This is more than 25 percent higher than the state with the highest median annual income in the U.S.*
- *Over one-third of the total population in these four counties is foreign born (46 percent in Queens — our largest deposit borough, and 38 percent in Brooklyn).*
- *The Asian population in Queens County alone is 636,000. This is larger than any state's total Asian population except California.*

Our Lending Market:
- *There are over three million housing units in New York City.*
- *80 percent of the total housing units are located in Manhattan, Brooklyn, and Queens (75 percent of DSBW's loans are on properties in these three boroughs).*
- *68 percent of total housing units are rental units.*
- *75 percent of rental units (approximately 1.5 million) are located in buildings with five or more rental units.*
- *4.8 million occupants live in rental units.*
- *Manhattan, Queens and Brooklyn house 80 percent of New York City's rental population.*
- *55 percent of rental units are rent-stabilized or rent-controlled*

Rent-controlled and Rent-stabilized Units:
- *97 percent have been rent-controlled/stabilized since 1969*
- *75 percent have been rent-controlled/stabilized since 1947*

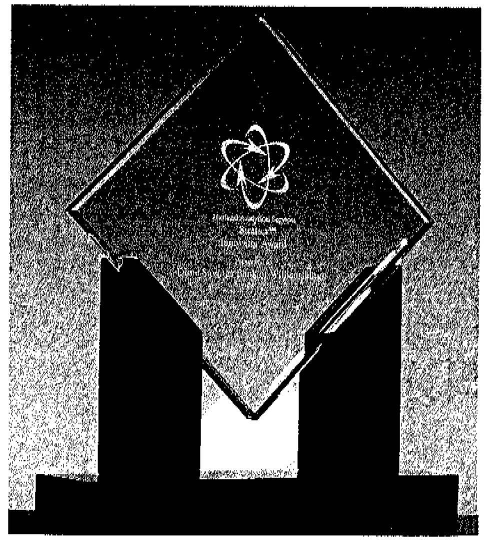
Sources: U.S. Census Bureau — New York City Housing and Vacancy Survey - 1999
** Kings county represents the New York City borough of Brooklyn.*

DSBW is at home in many ethnic communities throughout the New York region, such as Williamsburg's Chassidic community.

"Nathan's in Coney Island became more than a destination; it was a way of life."

We're also reaching out to our small business customers. DSBW's network of branch locations provides a strong infrastructure to expand the services it offers small businesses.

The new products and services we have offered consumers have clearly prospered over the past few years, and we will continue to add new products and services to our customers as the market dictates. A critical element in advancing our overall retail banking strategy is our Customer Relationship Management ("CRM") system. The sophisticated CRM system, which was launched during fiscal 2001, and became fully functional in fiscal 2002, is a versatile tool that helps us communicate with customers through any channel they prefer. The system is able to identify not only the products that will likely appeal to a customer, but whether they generally bank by ATM and telephone, the Internet, or in person at the branch. As a result, we can more effectively and efficiently target our marketing efforts.

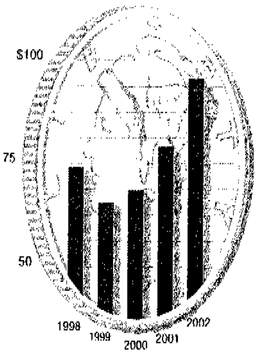


Effective direct marketing distinguished DSBW as a respected innovator in reaching target demographics.

Two years ago, DSBW's cross-sell ratio was 1.9. By June 30, 2002, it had risen to 2.5, moving closer to our target of 3.0.

DEPOSIT PER BRANCH

(Dollars in Millions)



Excludes Bay Ridge and Glen Oaks branches, which have been operational less than 12 months.

DEPOSIT PER BRANCH

Our marketing strategies now include email and direct mail as well as more traditional referrals made at the teller window. Because of the diversity of the people in our market, and the density of population surrounding our retail banking offices, it is imperative that we implement cost-effective ways to market our products and services to our "in store" customers. CRM has proven to be a tremendous resource in this effort.

Regional Manager Dorene Finnegan (left) visits with a small-business owner in Glen Oaks.

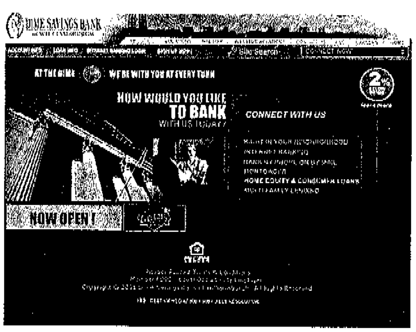
However, the CRM system truly enables us to enhance service levels for all customers. Now, however and whenever our customers contact they can receive the most up-to-date information.

Our marketing strategies now include email and direct mail as well as more traditional referrals made at the teller window.

Continuity and creativity are evident throughout DSBW's product and service offerings.

The early results from the CRM system have been extremely encouraging. Furthermore, we were honored that the successful application of the CRM system was recognized by a leading analytical marketing services firm. Our focus in the coming year will be to further utilize this system for the mutual benefit of our customers and our banking franchise.

The success of our dedicated service, improved mix of products and successful CRM application are truly reflected in our results. We continue to gain "share of wallet" (the percentage of the total deposit funds of our customers). Another measure of our consumer banking success has been the growing number of bank services and accounts utilized by households. Two years ago, our cross sell ratio was 1.9. By June 30, 2002, it had risen to 2.5, moving closer to our target of 3.0. All of these metrics reflect success in deepening relationships, and we believe that deeper relationships build customer loyalty and improve customer retention.



DSBW's interactive and informative Internet site brings community banking to everyone's home or office computer.

DSBWDirect's Allen Grosser reviews results of database direct marketing.

"In many respects this was the heart of Brooklyn. Whatever took place in the rest of the world seemed insignificant, as long as the Dodgers were in town... and winning."

We're outpacing our peers in retail deposit growth. In fiscal 2002, total branch deposits rose nearly 25 percent to $1.8 billion dollars and core (non-certificate) deposits grew 40 percent. Over the past two years, average branch deposits (including two *de novo* branches opened in fiscal 2002) have increased 42 percent to $89 million. Two new branches opened in fiscal 2002 have also exceeded our expectations. By June 30, 2002, our new location in Bay Ridge, Brooklyn, which opened in March 2002, had already attracted $30 million in deposits. Deposits at a second new location, which opened in June 2002 in Glen Oaks, Queens, totaled $20 million by June 30, 2002.

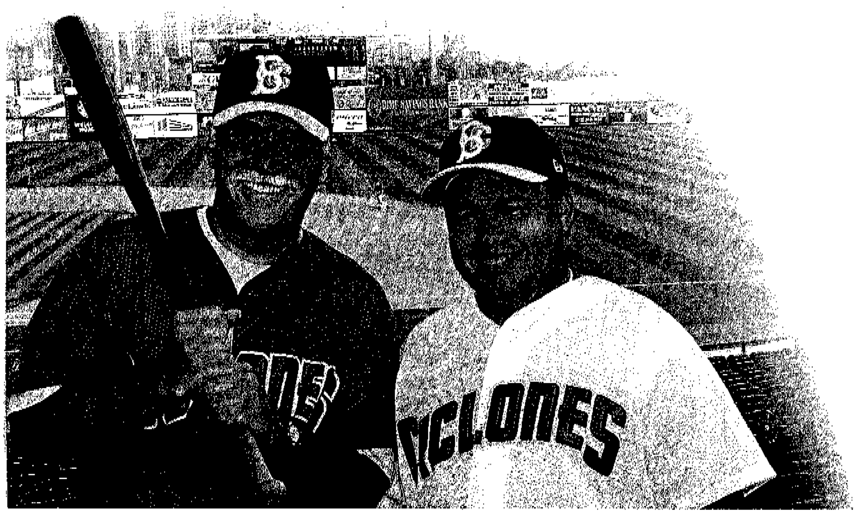
Our relationship bankers offer options to help their customers today and tomorrow.

Growth in retail deposits is important because it represents a significant source of low-cost funding for DSBW's lending activities, which enhances our net interest margins and helps protect us from significant increases or decreases in short term interest rates.

As we look to the future, we remain focused on steadily expanding our consumer banking franchise. In order to achieve this goal, we will continue to do the very same things that have made us successful over the past few years: maintain deep ties with our communities and customers; develop and implement marketing campaigns aimed at gathering retail deposits; maximize the potential of our CRM system; continue our branch renovation program launched in fiscal 2002; expand our branch presence in our contiguous neighborhoods; and add new product offerings and services to meet the changing needs of our customers.

Growth in retail deposits is important because it represents a significant source of low-cost funding for DSBW's lending activities.

Branch Administration Officers Rick Aceste (left) and Howard Keyes participate in community recognition event at KeySpan Park in Coney Island.

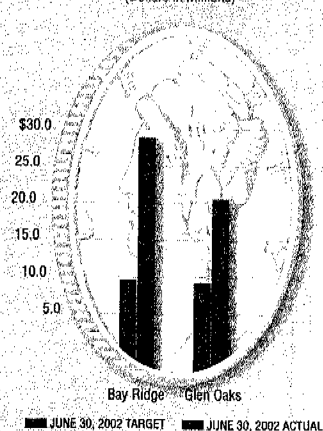


Glen Oaks and Bay Ridge both exceed growth expectations.

Having implemented a focused and highly effective retail banking strategy, we recently opened two de novo branches in Bay Ridge, (Brooklyn), and Glen Oaks, (Queens). The Bay Ridge branch represents a market extension of our Brooklyn branch network, complementing our Bensonhurst, Brooklyn branch approximately two miles away. The Glen Oaks branch is also situated strategically between our Bayside, Queens, and Port Washington (Nassau County) branch locations.

Our "start-up" costs associated with the two branch locations, indicated that the Bay Ridge branch would reach profitability at the $20.0 million deposit level, and the Glen Oaks branch would reach profitability at the $27.5 million deposit level. Our initial forecasts anticipated that we would meet these targets in approximately six months after opening. However, Bay Ridge met its deposit profitability target within three months of opening, and Glen Oaks met its deposit profitability target within two months of opening. Further, both branches continue to enjoy impressive growth trends.

DE NOVO BRANCHES
(Dollars in Millions)



Our community spirit was certainly alive at the Grand Opening of the Glen Oaks branch — and to a future depositor enjoying the festivities.

Most importantly, the two de novo branches provided us further opportunities to serve our retail banking communities. As a result, we did far more than simply open two new branches in two new neighborhoods. Instead, we welcomed ourselves into our new communities, inviting all to participate in our Grand Opening celebrations, and immediately establishing ourselves as a true community bank. We are most grateful to our dedicated staff that helped generate these successes. We hope to establish additional de novo branches as favorable opportunities arise, as we continually seek opportunities to serve our retail banking communities.

As we look to the future, we remain focused on steadily expanding our consumer banking franchise.

System Administrators George Fuller (right) and Tom Dippolito (left) offer technical assistance with CRM application.

DIRECTORS

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

Michael P. Devine
President and Chief Operating Officer

Kenneth J. Mahon
Executive Vice President and
Chief Financial Officer

Anthony Bergamo
Managing Director of the Milford Plaza Hotel

George L. Clark, Jr.
President of George L. Clark Inc. Realtors

Steven D. Cohn
Managing Partner at
Goldberg and Cohn, Esq.

Patrick E. Curtin
Senior Partner at
Conway Farrell Curtin & Kelly, P.C.

Joseph H. Farrell
Chairman of
Conway Farrell Curtin & Kelly, P.C.

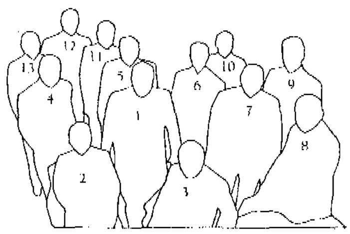
Fred P. Fehrenbach
President of Consolidated Brokerage Corp.
and Shell Realty Corp.

John J. Flynn
Self-employed real estate mortgage broker

Malcolm T. Kitson
Retired. Formerly a Vice President at
Citibank, N.A.

Stanley Meisels
Stockbroker with Ryan Beck & Co. and
President of Small Business Electronics
Investment Corp.

Louis V. Varone
Self-employed real estate mortgage broker



1. Vincent F. Palagiano
2. Michael P. Devine
3. Kenneth J. Mahon
4. Stanley Meisels
5. Joseph H. Farrell
6. Steven D. Cohn
7. Anthony Bergamo
8. Louis V. Varone
9. George L. Clark, Jr.
10. Malcolm T. Kitson
11. Patrick E. Curtin
12. Fred P. Fehrenbach
13. John J. Flynn

EXECUTIVE OFFICERS OF DCOM

Timothy B. King
Senior Vice President and Treasurer

Michael Pucella
Senior Vice President – Finance

EXECUTIVE OFFICERS OF DSBW

Vincent J. Martucci
Senior Vice President – Mortgage Officer

Samuel P. Fritsky
Senior Vice President – Marketing

George Fuller
Senior Vice President – Systems

TRANSFER AGENT AND REGISTRAR

Inquiries regarding stockholder administration and services should be directed to:

Mellon Investor Services
Overpeck Centre
85 Challenger Road, Ridgefield Park, NJ 07660

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281

GENERAL COUNSEL

Conway Farrell Curtin & Kelly, P.C.
63 Wall Street
New York, NY 10005-3001

SPECIAL COUNSEL

Thacher Proffitt & Wood
11 West 42nd Street
New York, NY 10036

INVESTOR RELATIONS

Inquiries regarding Dime Community Bancshares, Inc. should be directed to:

Kenneth A. Ceonzo
Dime Community Bancshares, Inc.
209 Havemeyer Street
Brooklyn, NY 11211
718.782.6200 ext. 279

ANNUAL MEETING OF SHAREHOLDERS

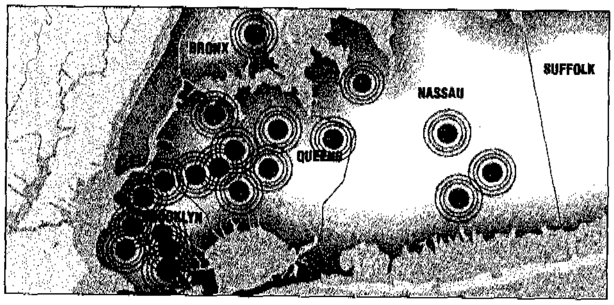
The Company's Annual Meeting of Shareholders will be held at 10 a.m. on November 14, 2002, at Giando on the Water, 400 Kent Avenue, Brooklyn, New York. Holders of common stock as of September 27, 2002 will be eligible to vote.

ANNUAL REPORT ON FORM 10-K

A copy of the Annual Report on Form 10-K for the year ended June 30, 2002 (without exhibits), which was filed with the Securities and Exchange Commission, is available upon request to:

Investor Relations
209 Havemeyer Street
Brooklyn, NY 11211

BRANCH NETWORK



BRONX
1931 Turnbull Ave., Bronx, NY 10473

BROOKLYN
7524 Third Ave., Brooklyn, NY 11209
1545 86th St., Brooklyn, NY 11228
814 Manhattan Ave., Brooklyn, NY 11222
1902 Kings Hwy., Brooklyn, NY 11229
2172 Coyle St., Brooklyn, NY 11229
1600 Avenue M, Brooklyn, NY 11230
209 Havemeyer St., Brooklyn, NY 11211

NASSAU COUNTY
2412 Jerusalem Ave., Bellmore, NY 11710
1775 Merrick Ave., Merrick, NY 11566
1000 Pt. Washington Blvd., Pt. Washington, NY 11050
622 Old Country Rd., Westbury, NY 11590

QUEENS
61-38 Springfield Blvd., Bayside, NY 11364
59 23 Main St., Flushing, NY 11355
253-15 Union Tpk., Glen Oaks, NY 11004
176-47 Union Tpk., Flushing, NY 11366
75 23 37th Ave., Jackson Heights, NY 11372
45-14 46th St., Long Island City, NY 11104
42-25 Queens Blvd., Sunnyside, NY 11104
24 44 Francis Lewis Blvd., Whitestone, NY 11357

DIME COMMUNITY
BANCSHARES, INC.

[illegible] STREET • BROOKLYN, NY 11211 • www.dsbwdirect.com