

DIME COMMUNITY BANCSHARES INC  
Form DEF 14A  
April 10, 2003

## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Sec. #240.14a-12

### DIME COMMUNITY BANCSHARES, INC.

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(Name of Registrant as Specified In Its Charter)

### NOT APPLICABLE

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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April 10, 2003

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Dime Community Bancshares, Inc., (the "Annual Meeting") which will be held on May 15, 2003 at 10:00 a.m. Eastern Standard Time, at Giando on the Water, 400 Kent Avenue, Brooklyn, New York 11211.

The attached Notice of the Annual Meeting of Shareholders and Proxy Statement describe the business to be transacted at the Annual Meeting. The Company's directors and officers, as well as a representative of Deloitte & Touche LLP, the accounting firm appointed by the Board of Directors to be the Company's independent auditors for the year ending December 31, 2003, will be present at the Annual Meeting.

The Company's Board of Directors has determined that an affirmative vote on each matter to be considered at the Annual Meeting is in its best interest and the best interests of its shareholders and unanimously recommends a vote "FOR" each of these matters.

Please complete, sign and return the enclosed proxy card promptly, whether or not you plan to attend the Annual Meeting. **Your vote is important regardless of the number of shares you own. Voting by proxy will not prevent you from voting in person at the Annual Meeting, but will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are not registered in your own name, you will need additional documentation from your record holder to attend and to vote personally at the Annual Meeting. Examples of such documentation include a broker's statement, letter or other document confirming your ownership of the Company's shares.**

On behalf of our Board of Directors and employees, we thank you for your continued support and hope to see you at the Annual Meeting.

Sincerely yours,

Vincent F. Palagiano

*Chairman of the Board*

*and Chief Executive Officer*

**Dime Community Bancshares, Inc.**

**209 Havemeyer Street**

**Brooklyn, New York 11211**

**(718) 782-6200**

**NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held on May 15, 2003**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Dime Community Bancshares, Inc. (the Annual Meeting ) will be held at Giando on the Water, 400 Kent Avenue, Brooklyn, New York 11211, on Thursday, May 15, 2003 at 10:00 a.m. Eastern Standard Time, to consider and vote upon the following:

1. Election of four directors for terms of three years each;
2. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for the year ending December 31, 2003;
3. Transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof. As of the date hereof, management is not aware of any other such business.

The Board of Directors has fixed March 28, 2003 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof. Only shareholders of record at the close of business on that date will be entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof. A list of such shareholders will be available for inspection by any shareholder for any lawful purpose germane to the Annual Meeting at the Company's corporate headquarters at 209 Havemeyer Street, Brooklyn, NY 11211 at any time during regular business hours for 10 days prior to the Annual Meeting.

By Order of the Board of Directors

Lance J. Bennett

*Secretary*

Brooklyn, New York

April 10, 2003

**YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED REGARDLESS OF THE NUMBER OF SHARES YOU OWN. THE BOARD OF DIRECTORS URGES YOU TO MARK, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. RETURNING THE PROXY CARD WILL NOT PREVENT YOU FROM VOTING IN PERSON IF YOU ATTEND THE ANNUAL MEETING.**

**DIME COMMUNITY BANCSHARES, INC.**

**PROXY STATEMENT FOR THE  
ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held on May 15, 2003**

**GENERAL INFORMATION**

**General**

This Proxy Statement and accompanying proxy card are being furnished to the shareholders of Dime Community Bancshares, Inc. (the Company) in connection with the solicitation of proxies by the Company's Board of Directors from holders of the shares of the Company's issued and outstanding common stock, par value \$0.01 per share (the Common Stock), for use at the Annual Meeting of Shareholders (the Annual Meeting). The Annual Meeting will be held on May 15, 2003 at Giando on the Water, 400 Kent Avenue, Brooklyn, New York, at 10:00 a.m. Eastern Standard Time, and at any adjournment or postponement thereof. The Company is a Delaware corporation and operates as a unitary savings and loan holding company for The Dime Savings Bank of Williamsburgh (the Bank). This Proxy Statement, together with the enclosed proxy card, are first being mailed to shareholders on or about April 10, 2003.

**Record Date**

The Company's Board of Directors has fixed the close of business on March 28, 2003 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting (the Record Date). Accordingly, only holders of record of shares of Common Stock at the close of business on March 28, 2003 will be entitled to vote at the Annual Meeting. On the Record Date, there were 25,425,452 shares of Common Stock. The presence, in person or by proxy, of the holders of at least a majority of the total number of shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum.

**Voting Rights**

Each holder of Common Stock on the Record Date will be entitled to one vote at the Annual Meeting for each share of record held (other than Excess Shares as defined below). As provided in the Company's Certificate of Incorporation, record holders (other than any compensation plan maintained by the Company and certain affiliates) of Common Stock who beneficially own in excess of 10% of the shares of Common Stock (such shares in excess of 10%, referred to herein as Excess Shares) shall be entitled to cast only one-hundredth of one vote per share for each Excess Share. A person or entity is deemed to beneficially own shares owned by an affiliate or associate as well as by persons acting in concert with such person or entity. The Company's Certificate of Incorporation authorizes a majority of the Board of Directors to interpret the provisions of the Certificate of Incorporation governing Excess Shares, and to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to ascertain compliance with the Excess Shares provisions of the Certificate of Incorporation, including, without limitation, (i) the number of shares of Common Stock beneficially owned by any person or purported owner, (ii) whether a person or purported

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owner is an affiliate or associate of, or is acting in concert with, any other person or purported owner, and (iii) whether a person or purported owner has an agreement or understanding with any person or purported owner as to the voting or disposition of any shares of Common Stock.

You may vote your shares by marking and signing the enclosed proxy card and returning it in the enclosed postage-paid envelope or by attending the Annual Meeting and voting in person. All properly executed proxies received by the Company on or before the close of voting on May 15, 2003 will be voted in accordance with the instructions indicated thereon. **If no instructions are given, executed proxies will be voted FOR election of**

**each of the four nominees for director, FOR the ratification and appointment of Deloitte & Touche LLP as independent auditors for the year ending December 31, 2003, and FOR each other proposal identified in the Notice of the Annual Meeting of Shareholders.**

Management is not aware of any matters other than those set forth in the Notice of the Annual Meeting of Shareholders that may be brought before the Annual Meeting. If any other matters properly come before the Annual Meeting, the persons named in the accompanying proxy will vote the shares represented by all properly executed proxies on such matters in such manner as shall be determined by a majority of the Company's Board of Directors.

**If you are a shareholder whose shares are not registered in your own name, you will need appropriate documentation from your shareholder of record to vote personally at the Annual Meeting.** Examples of such documentation would include a broker's statement, letter or other document that will confirm your ownership of the Common Stock.

### **Vote Required**

Directors are elected by a plurality of the votes cast in person or by proxy at the Annual Meeting. The holders of Common Stock may not vote their shares cumulatively for the election of directors. Proposal 2 requires the affirmative vote of the holders of a majority of the number of votes eligible to be cast by the holders of Common Stock represented, in person or by proxy, and entitled to vote at the Annual Meeting.

Shares as to which the **ABSTAIN** box has been selected on the Proxy Card with respect to the ratification of the appointment of Deloitte & Touche LLP as independent auditors will be counted as present and entitled to vote and will have the effect of a vote against that proposal. In contrast, shares underlying broker non-votes will not be counted as present and entitled to vote and will have no effect on the vote on the appointment of Deloitte & Touche LLP as independent auditors. With respect to the election of the four nominees for director, shares as to which the **WITHHOLD AUTHORITY** has been selected for either all or some of the nominees will be counted as being present for the matter but not as voting for the election of the respective nominees. Therefore, the proxy represented by these shares will have the same effect as voting against the respective nominees.

### **Revocability of Proxies**

A proxy may be revoked at any time before it is voted by filing a written revocation of the proxy with the Company's Secretary at 209 Havemeyer Street, Brooklyn, New York, 11211, or by submitting a duly executed proxy bearing a later date. A proxy also may be revoked by attending and voting at the Annual Meeting, only if a written revocation is filed with the Secretary prior to the voting of such proxy.

### **Solicitation of Proxies**

The Company will bear the costs of soliciting proxies from its shareholders. In addition to the use of mail, proxies may be solicited by the Company's officers, directors or employees and the Bank's employees by telephone or other forms of communication. The Company will also request persons, firms and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy materials to, and obtain proxies from, such beneficial owners, and will reimburse such holders for reasonable expenses incurred in connection therewith. In addition, the Company has retained Mellon Investor Services, LLC to assist in the solicitation of proxies. The estimated cost of such solicitation is \$6,500 plus reimbursement for reasonable out-of-pocket expenses.



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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**
**Principal Shareholders of the Company**

The following table sets forth, as of March 28, 2003, certain information as to Common Stock beneficially owned by persons owning in excess of 5% of the shares of Common Stock. Management knows of no person, except as listed below, who beneficially owned more than 5% of the Common Stock as of March 28, 2003. Except as otherwise indicated, the information provided in the following table was obtained from filings with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Addresses provided are those listed in the filings as the address of the person authorized to receive notices and communications. For purposes of the table below and the table set forth under "Security Ownership of Management," in accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner of any shares of Common Stock (1) over which he or she has or shares, directly or indirectly, voting or investment power, or (2) of which he or she has the right to acquire beneficial ownership at any time within 60 days after March 28, 2003. As used herein, "voting power" is the power to vote, or direct the voting of, shares and "investment power" includes the power to dispose, or direct the disposition of, such shares. Unless otherwise noted, each beneficial owner has sole voting and sole investment power over the shares beneficially owned.

| Title of<br>Class | Name and Address of<br>Beneficial Owner   | Amount and<br>Nature of<br>Beneficial<br>Ownership | Percent<br>of Class |
|-------------------|---|--|---------------------|
| Common Stock      | The Employee Stock Ownership Plan Trust of Dime Community Bancshares, Inc.<br>and Certain Affiliates<br><br>452 Fifth Avenue<br><br>New York, NY 10018                  | 2,413,448(1)                                       | 9.49%               |
| Common Stock      | Compensation Committee of Dime Community Bancshares, Inc. (includes the<br>2,413,448 ESOP shares reflected above)<br><br>209 Havemeyer Street<br><br>Brooklyn, NY 11211 | 3,062,338(2)                                       | 12.04<br>%          |
| Common Stock      | Thomson Horstmann & Bryant, Inc.<br><br>Park 80 West, Plaza Two<br><br>Saddle Brook, NJ 07663   | 1,286,050(3)                                       | 5.06<br>%           |
| Common Stock      | Barclay's Private Bank and Trust Limited<br><br>10 rue d'Italie<br><br>CH-1204 Geneva   | 1,455,000(4)                                       | 5.72<br>%           |

Switzerland

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- (1) The Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (the ESOP ) filed a Schedule 13G with the SEC on February 14, 2003. The ESOP is administered by the Compensation Committee of the Company s Board of Directors (the Compensation Committee ). The ESOP s assets are held in a trust (the ESOP Trust ) for which RSGroup Trust Company serves as trustee (the ESOP Trustee ). The ESOP Trust purchased these shares with funds borrowed from the Company and initially placed these shares in a suspense account for release and allocation to participants accounts in annual installments. As of March 28, 2003, 1,120,325 shares held by the ESOP Trust have been allocated. The terms of the ESOP provide that, subject to the ESOP Trustee s fiduciary responsibilities under the Employee Retirement Income Security Act of 1974, as amended ( ERISA ), the ESOP Trustee will vote, tender or exchange shares of Common Stock held in the ESOP Trust in accordance with instructions received from the participants. The ESOP Trustee will vote allocated shares as to which no instructions are received and any shares that have not been allocated to participants accounts in the same proportion as allocated shares with respect to which the ESOP Trustee receives instructions are voted, subject to fiduciary duties of the ESOP Trustee. The ESOP Trustee will tender or exchange any shares in the suspense account or that otherwise have not been allocated to participants accounts in the same proportion as allocated shares with respect to which the ESOP Trustee receives instructions are tendered or exchanged, subject to fiduciary duties of the ESOP Trustee. With respect to allocated shares as to which no instructions are received, the ESOP Trustee will be deemed to have received instructions not to tender or exchange such shares. Each of the members of the Compensation Committee disclaims beneficial ownership of such shares. For a discussion of the voting and investment powers of the Compensation Committee, see footnote 2.

*(notes continued on next page)*

- (2) The Compensation Committee filed a Schedule 13G with the SEC on February 14, 2003. The Compensation Committee serves certain administrative functions for the ESOP, the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc. (the RRP ), and The Dime Savings Bank of Williamsburgh 401(k) Plan [the 401(k) Plan ]. As of March 28, 2003, the RRP owned 223,721 shares of Common Stock, of which 36,000 have been allocated to individuals. All shares of Common Stock owned by the RRP were held at HSBC Bank, USA, as trustee, as of March 28, 2003. The Compensation Committee has the authority to direct the trustee of the RRP with respect to the exercise of voting rights, but has assigned voting and tender rights over allocated shares to participating officers and directors. Shares indicated as beneficially owned by the Compensation Committee include all shares indicated in the table as beneficially owned by the ESOP Trust. The Compensation Committee has the authority to direct the ESOP Trustee with respect to the investment of the ESOP s assets (including the acquisition or disposition of both allocated and unallocated shares) in the absence of a tender offer, but has no voting power with respect to any shares. With respect to the ESOP, ERISA, in limited circumstances, may confer upon the ESOP Trustee the power and duty to control the voting and tendering of Common Stock allocated to the accounts of participating employees and beneficiaries who fail to exercise their voting and/or tender rights. Each of the members of the Compensation Committee disclaims beneficial ownership of such shares.
- (3) Thomson Horstmann and Bryant, Inc. ( Thomson ) filed a Schedule 13G on January 8, 2003. Thomson is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, as amended. The Schedule 13G states that Thomson has sole voting power over 628,750 shares, shared voting power over 657,300 shares and sole dispositive power over 1,286,050 shares.
- (4) Barclay s Private Bank and Trust Limited ( Barclays ) filed a Schedule 13G on February 10, 2003. Barclay s holds the shares in various trust accounts for the economic benefit of its customers who are the beneficiaries of those accounts. The Schedule 13G states that Barclays has sole voting and dispositive power over 1,455,000 shares.

#### Security Ownership of Management

The following table sets forth information with respect to the shares of Common Stock beneficially owned by each of the Company s directors and the Named Executive Officers identified in the Summary Compensation Table included elsewhere herein, and all of the Company s directors and executive officers as a group as of the Record Date. Except as otherwise indicated, each person and each group shown in the table has sole voting and investment power with respect to the shares of Common Stock indicated.

| Name of Beneficial Owner | Position(1)  | Amount and Nature<br>of Beneficial<br>Ownership(2)(3)(4) | Percent of                     |
|--------------------------|--|--|--------------------------------|
|                          |  |  | Common<br>Stock<br>Outstanding |
| Vincent F. Palagiano     | Director, Chairman of the Board and Chief Executive Officer    | 937,101(5)   | 3.6%                           |
| Michael P. Devine        | Director, President and Chief Operating Officer                | 512,196(6)   | 2.0                            |
| Kenneth J. Mahon         | Director, Executive Vice President and Chief Financial Officer | 200,348(7)   | *                              |
| Anthony Bergamo          | Director   | 153,225(8)   | *                              |
| George L. Clark, Jr.     | Director   | 221,187(9)   | *                              |
| Steven D. Cohn           | Director   | 109,563(10)  | *                              |
| Patrick E. Curtin        | Director   | 89,936(11)   | *                              |
| Joseph H. Farrell        | Director   | 189,875(12)  | *                              |
| Fred P. Fehrenbach       | Director   | 149,739(13)  | *                              |
| John J. Flynn            | Director   | 72,159(14)   | *                              |
| Malcolm T. Kitson        | Director   | 104,075(15)  | *                              |
| Stanley Meisels          | Director   | 152,200(16)  | *                              |
| Louis V. Varone          | Director   | 82,207(17)   | *                              |
| Timothy B. King          | Senior Vice President and Chief Investment Officer             | 129,715(18)  | *                              |
| Michael Pucella          | Senior Vice President Finance                                  | 119,886(19)  | *                              |

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All directors and executive officers as a group (18 persons)

5,105,063

20.1%

\* Less than one percent

(1) Titles are for positions with both the Company and the Bank.

(2) See Security Ownership of Certain Beneficial Owners and Management Principal Shareholders of the Company for a definition of beneficial ownership.  
*(notes continued on next page)*

- (3) The figures shown include shares held in trust pursuant to the ESOP that have been allocated to individual accounts as follows: Mr. Palagiano, 31,106 shares; Mr. Devine, 31,106 shares; Mr. Mahon, 31,106 shares; Mr. King, 28,996 shares; Mr. Pucella, 26,603 shares, and all directors and executive officers as a group, 187,162 shares. Such persons have voting power (subject to the legal duties of the ESOP Trustee) but no investment power, except in limited circumstances, as to such shares. The figures shown do not include shares which are held in trust under the Benefit Maintenance Plan of Dime Community Bancshares, Inc. (the BMP) as follows: Mr. Palagiano, 140,160 shares, Mr. Devine, 94,473 shares, Mr. Mahon, 60,498 shares, Mr. King, 15,645 shares, Mr. Pucella, 16,858 shares, and all executive officers, 329,814 shares. Messrs. Palagiano, Devine, Mahon, King and Pucella have neither voting nor investment power with respect to these shares. The figures shown for Messrs. Palagiano, Devine, Mahon, King, and Pucella also do not include any portion of the 1,293,123 shares held in trust pursuant to the ESOP that have not been allocated to any individual's account and as to which Messrs. Palagiano, Devine, Mahon, King, and Pucella may be deemed to share voting power with other ESOP participants. The figure shown for all directors and executive officers as a group includes such 1,293,123 shares as to which the members of the Compensation Committee (consisting of Messrs. Varone, Fehrenbach, Flynn and Kitson) may be deemed to have sole investment power, except in limited circumstances, thereby causing each such Committee member to be deemed a beneficial owner of such shares. Each of the members of the Compensation Committee disclaims beneficial ownership of such shares and, accordingly, such shares are not attributed to the members of the Compensation Committee individually. In addition, the figure shown for all directors and executive officers as a group includes 329,814 shares held in trust (BMP Trust) for the benefit of Messrs. Palagiano, Devine, Mahon, King, and Pucella and other executive officers under the BMP. The BMP Trust, as directed by the Company, exercises voting and investment power over these shares (See Compensation of Executive Officers Benefits ESOP).
- (4) The figures shown include shares held pursuant to the 401(k) Plan that have been allocated as of the Record Date to individual accounts as follows: Mr. Palagiano, 48,854 shares; Mr. Devine, 48,854 shares; Mr. Mahon, 48,893 shares; Mr. King, 11,435 shares; Mr. Pucella, 27,540 shares, and all executive officers as a group, 204,266 shares. Such persons have sole voting power and sole investment power as to such shares [See Compensation of Executive Officers Benefits 401(k) Plan].
- (5) Includes 353,749 shares as to which Mr. Palagiano may be deemed to share voting and investment power.
- (6) Includes 232,194 shares as to which Mr. Devine may be deemed to share voting and investment power.
- (7) Includes 82,057 shares as to which Mr. Mahon may be deemed to share voting and investment power.
- (8) Includes 69,457 shares as to which Mr. Bergamo may be deemed to share voting and investment power.
- (9) Includes 35,707 shares as to which Mr. Clark may be deemed to share voting and investment power, and 56,250 shares for which Mr. Clark has no direct voting power or ownership.
- (10) Includes 49,500 shares as to which Mr. Cohn may be deemed to share voting and investment power.
- (11) Includes 63,600 shares as to which Mr. Curtin may be deemed to share voting and investment power, and 1,900 shares for which Mr. Curtin has no direct voting power or ownership.
- (12) Includes 103,207 shares as to which Mr. Farrell may be deemed to share voting and investment power.
- (13) Includes 450 shares as to which Mr. Fehrenbach may be deemed to share voting and investment power.
- (14) Includes 18,391 shares as to which Mr. Flynn may be deemed to share voting and investment power.
- (15) Includes 35,307 shares as to which Mr. Kitson may be deemed to share voting and investment power.
- (16) Includes 58,432 shares as to which Mr. Meisels may be deemed to share voting and investment power.

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(17) Includes approximately 77,707 shares as to which Mr. Varone may be deemed to share voting and investment power.

(18) Includes 55,287 shares as to which Mr. King may be deemed to share voting and investment power.

(19) Includes 23,248 shares as to which Mr. Pucella may be deemed to share voting and investment power.

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**PROPOSAL 1**

**ELECTION OF DIRECTORS**

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**General**

The Company's Certificate of Incorporation and Bylaws provide for the election of directors by the shareholders. For this purpose, the Company's Board of Directors is divided into three classes, each class to be as nearly equal in number as possible. The terms of office of the members of one class expire, and a successor class is to be elected, at each annual meeting of shareholders. The Company currently has thirteen directors.

Four incumbent directors with terms expiring at the Annual Meeting, Michael P. Devine, Anthony Bergamo, Joseph H. Farrell and Louis V. Varone, have been nominated by the Nominating Committee of the Board of Directors to be re-elected at the Annual Meeting for terms expiring at the annual meeting of shareholders to be held in 2006, or when their successors are otherwise duly elected and qualified. Each nominee has consented to being named in this Proxy Statement and to serve, if elected. In the event that any nominee for election as a director at the Annual Meeting is unable or declines to serve, which the Board of Directors has no reason to expect, the persons named in the Proxy Card will vote with respect to a substitute nominee designated by the present Board of Directors, unless the shareholder has elected to withhold authority with respect to all nominees.

**Information as to Nominees and Continuing Directors**

The following table sets forth certain information with respect to each nominee for election as a director and each director whose term does not expire at the Annual Meeting ( Continuing Director ). There are no arrangements or understandings between the Company and any director or nominee pursuant to which such person was elected or nominated to be a director. For information with respect to security ownership by directors, see Security Ownership of Certain Beneficial Owners and Management Security Ownership of Management.

| Nominees          | Director |          | Term    | Position(s) Held with the Company and the Bank  |
|-------------------|----------|----------|---------|---|
|                   | Age(1)   | Since(2) | Expires |   |
| Michael P. Devine | 56       | 1980     | 2003    | Director, President and Chief Operating Officer |
| Anthony Bergamo   | 56       | 1986     | 2003    | Director  |
| Joseph H. Farrell | 72       | 1969     | 2003    | Director  |
| Louis V. Varone   | 72       | 1985     | 2003    | Director  |

**Continuing Directors**

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|                      |    |      |      |
|----------------------|----|------|------|
| Vincent F. Palagiano | 62 | 1978 | 2005 |
|----------------------|----|------|------|

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|                      |    |      |         |   |
|----------------------|----|------|---------|---|
| Kenneth J. Mahon     | 52 | 2002 | 2005    | Director, Chairman of the Board and Chief Executive Officer |
| George L. Clark, Jr. | 62 | 1980 | 2005    | Director  |
| Steven D. Cohn       | 54 | 1994 | 2005    | Director  |
| Patrick E. Curtin    | 57 | 1986 | 2004    | Director  |
| Fred P. Fehrenbach   | 66 | 1987 | 2004    | Director  |
| John J. Flynn        | 66 | 1994 | 2005    | Director  |
| Malcolm T. Kitson    | 75 | 1990 | 2004(3) | Director  |
| Stanley Meisels      | 72 | 1990 | 2004    | Director  |

(1) As of March 28, 2003.

(2) Includes service as a Director or Trustee with the Bank prior to the Company's incorporation on December 12, 1995.

(3) Pursuant to the Company's Bylaws, Mr. Kitson will retire effective May 15, 2003 as a result of reaching mandatory retirement age.

The principal occupation and business experience of each nominee for election as a director and each Continuing Director are set forth below.

#### **Nominees for Election as Director**

*Michael P. Devine* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1980. Mr. Devine has served as President of both the Company and Bank since January 1, 1997 and as Chief Operating Officer of the Company since its inception in 1995 and of the Bank since 1989. Prior to Mr. Devine's appointment as President, he served as Executive Vice President and Secretary of both the Company and the Bank. Mr. Devine joined the Bank in 1971 and has served as the Internal Auditor, Comptroller and Investment Officer. Prior to 1971, Mr. Devine served as a Senior Accountant with the firm of Peat Marwick Mitchell & Co. Since August 2001, Mr. Devine has served on the Board of Directors of Retirement Systems Group, Inc.

*Anthony Bergamo* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1986. Mr. Bergamo is a licensed attorney in New York and New Jersey and currently serves as managing director of the Milford Plaza Hotel. Mr. Bergamo also is the chief executive officer of Niagara Falls Redevelopment LLC and Chairman of the Federal Law Enforcement Foundation. In 2002, Mr. Bergamo was appointed as a director of Lonestar Steakhouse and Saloon, Inc., a publicly traded company.

*Joseph H. Farrell* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1969. Mr. Farrell is Chairman of the law firm of Conway Farrell Curtin & Kelly, P.C. Mr. Farrell is also President of the William F. Casey Foundation, a not-for-profit real estate holding foundation. Mr. Farrell is a trial attorney for the Roman Catholic Diocese of Brooklyn and a former Vice President of the New York State Bar Association.

*Louis V. Varone* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1985. Mr. Varone has been a licensed real estate broker for over 35 years. Mr. Varone is self-employed.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE NOMINEES FOR ELECTION AS DIRECTORS.**

#### **Continuing Directors**

*Vincent F. Palagiano* has served as the Chairman of the Board and Chief Executive Officer of the Company since its formation in 1995 and of the Bank since 1989. He has served as a Trustee or Director of the Bank since 1978. In addition, Mr. Palagiano has served on the Board of Directors of the Institutional Investors Capital Appreciation Fund since 1996, the Board of Directors of the Boy Scouts of America, Brooklyn Division, since 1999, and the Board of Directors of The Community Bankers Association of New York, since 2001. Mr. Palagiano joined the Bank in 1970 as an appraiser and has also served as President of both the Company and the Bank, and as Executive Vice President, Chief Operating Officer and Chief Lending Officer of the Bank. Prior to 1970, Mr. Palagiano served in the real estate and mortgage departments at other financial institutions and title companies.

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*Kenneth J. Mahon* was elected to serve as a Director of the Company effective January 1, 2002, and has served as a Director of the Bank since 1998. Mr. Mahon has served as the Executive Vice President of both the Company and the Bank since 1997, and the Chief Financial Officer of both the Company and the Bank since 1996. Prior to serving as the Executive Vice President and Chief Financial Officer, Mr. Mahon served as the Bank's Comptroller and Senior Vice President. Mr. Mahon is a member of the Financial Managers Society, the National Investor Relations Institute and the National Association of Corporate Directors, and serves on the

Neighborhood Advisory Board of Brooklyn Legal Services Corporation A. Prior to joining the Bank in 1980, Mr. Mahon served in the financial areas of several New York City metropolitan area savings banks.

*George L. Clark, Jr.* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1980. Mr. Clark is President of George L. Clark Inc. (Realtors), a New York State licensed real estate firm. Mr. Clark is a former director of the Federal National Mortgage Association, and a former Chairman of the New York State Republican Committee. Mr. Clark has been a licensed real estate broker for 42 years.

*Steven D. Cohn* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1994. Mr. Cohn is the managing partner in the law firm of Goldberg and Cohn LLP, in Brooklyn Heights, New York.

*Patrick E. Curtin* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1986. Mr. Curtin is a senior partner in the law firm of Conway Farrell Curtin & Kelly, P.C. in New York, New York.

*Fred P. Fehrenbach* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1987. Mr. Fehrenbach is President of Consolidated Brokerage Corp. located in Great Neck, New York, which is a retail insurance brokerage business. Mr. Fehrenbach has been with Consolidated Brokerage Corp. since 1975. Mr. Fehrenbach is also the President of Shell Realty Corp., a real estate holding company.

*John J. Flynn* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since October 1994, and before that from February 1983 to February 1993. From February 1993 through August 1994, Mr. Flynn was Executive Vice President of Flushing Savings Bank, FSB in Flushing, New York. From 1990 to February 1993, and since September 1994, Mr. Flynn has been a self-employed real estate mortgage broker.

*Malcolm T. Kitson* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1990. Mr. Kitson served as a Vice President of Citibank, N.A. until his retirement in 1990.

*Stanley Meisels* has served as a Director of the Company since its formation in 1995 and as a Trustee or Director of the Bank since 1990. Since 1986, Mr. Meisels has been a stockbroker in Hewlett, New York, with Gruntal & Co., currently known as Ryan Beck & Co. Mr. Meisels is also President and sole owner of Small Business Electronics Investment Corp., a private investment company.

#### **Meetings and Committees of the Company s Board of Directors**

The Board of Directors meets on a monthly basis and may have additional special meetings upon the request of the Chairman of the Board, President or at least 60% of the Directors then in office. The Company s Board of Directors met six times during the six-month period July 1, 2002 through December 31, 2002. No current director attended fewer than 75% of the total number of Board meetings and meetings of committees of which such director was a member.

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The Company's Board of Directors has established the following committees:

*The Executive Committee* consists of Messrs. Palagiano (Chairman), Devine, Bergamo, Clark, Farrell and Varone. The purpose of this committee is to exercise all the powers of the Board in the management of the business and affairs of the Company in the intervals between the meetings of the Board. This committee meets as requested by the Board of Directors. The Executive Committee did not meet during the six-month period July 1, 2002 through December 31, 2002.

*The Compensation Committee* consists of Messrs. Varone (Chairman), Fehrenbach, Flynn and Kitson. This committee establishes the compensation of the Chief Executive Officer, approves the compensation of other officers, determines compensation and benefits to be paid to employees of the Bank, and oversees the development, implementation and conduct of the Company's employment and personnel policies. The committee meets annually and as requested by the Chairman of the Board of Directors. The Compensation Committee met once during the six-month period July 1, 2002 through December 31, 2002.

*The Nominating Committee* consists of Messrs. Clark (Chairman), Cohn, Flynn, and Fehrenbach. The committee nominates candidates for the election of directors. The Nominating Committee met once during the six-month period July 1, 2002 through December 31, 2002. In addition, the Nominating Committee met on January 16, 2003 to select the nominees for election as directors at the Annual Meeting. In accordance with the Company's Bylaws, provided the Nominating Committee makes such nominations, no nominations for election as director, except those made by the Nominating Committee, shall be voted upon at the Annual Meeting unless properly made by a shareholder in accordance with the procedures set forth under Additional Information Notice of Business to be Conducted at Annual Meeting.

*The Audit Committee* consists of Messrs. Bergamo (Chairman), Clark, Cohn, and Meisels, each of whom is independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers, Inc. listing standards. The Audit Committee is appointed by the Board of Directors of the Company to assist the Board in (1) monitoring the integrity of the financial statements of the Company, (2) monitoring Company compliance with legal and regulatory requirements and internal controls, (3) monitoring the independence and performance of the Company's internal and independent auditors, and (4) maintaining an open means of communication among the independent auditor, senior management, the internal auditors, and the Board. The Audit Committee operates pursuant to a written charter. The Audit Committee charter requires that the committee meet at least four times annually or more frequently as circumstances dictate. The Audit Committee met twice during the six-month period July 1, 2002 through December 31, 2002.

#### **Report of Audit Committee**

*The following Report of the Company's Audit Committee is provided in accordance with the rules and regulations of the SEC. Pursuant to such rules and regulations, this Report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Exchange Act, as amended, except to the extent that Dime Community Bancshares, Inc. specifically incorporates this information by reference, and otherwise shall not be deemed soliciting material filed with the SEC subject to Regulation 14A or 14C of the SEC or subject to the liabilities of Section 18 of the Exchange Act.*

Under rules established by the SEC, the Company is required to provide certain data and information regarding the activities of its Audit Committee. In fulfillment of this requirement, the Audit Committee, at the discretion of the Board, has prepared the following report for inclusion in the Proxy Statement.

The Audit Committee has reviewed the audited consolidated financial statements of the Company as of and for the six month period ended December 31, 2002, and discussed such statements with both management of the Company and the Company's independent auditors. In addition, the Audit Committee has reviewed with the Company's independent auditors the following matters related to their independent examination of the Company's financial statements as of and for the six months ended December 31, 2002:

- The independent auditor's responsibility under Generally Accepted Auditing Standards;
- Any significant accounting policies either newly adopted or modified;
- Any significant management judgments and estimates included in the underlying financial statements;

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Any significant audit adjustments proposed in their examination;  
Any other information in documents containing the audited financial statements;  
Any disagreements with management;

Any consultation noted between management and other independent audit and accounting firms;  
Any major issues discussed with management prior to retention as independent auditor;  
Any difficulties encountered in performing the examination;  
Quality of accounting principles; and  
Any fees from management advisory services.

As required by Independence Standard Board Standard No. 1, Independence Discussions with Audit Committees, the Audit Committee has also received written disclosure from the Company's independent auditors delineating all relationships they have with the Company, and reviewed their independence with respect to the Company and its management, and discussed such independence with the independent auditors.

Based upon the review procedures and discussions noted above, the Committee recommended to the Board of Directors that the audited financial statements as of and for the six month period ended December 31, 2002 be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

#### AUDIT COMMITTEE OF DIME

COMMUNITY BANCSHARES, INC.

Anthony Bergamo, Chairman

George L. Clark, Jr., Member

Steven D. Cohn, Member

Stanley Meisels, Member

#### Directors Compensation

*Fee Arrangements.* During the six month period July 1, 2002 through December 31, 2002, each of the Company's non-officer directors (each an Outside Director) received a retainer of \$12,000 and a fee of \$1,000 for each of the Company's or the Bank's Board meetings attended. All committee members received a fee of \$600 for attendance at each of either the Company's or the Bank's committee meetings. If both of the Company's and the Bank's Boards of Directors or corresponding committees met on the same day, such directors received only one fee for the Board meetings and only one fee for the Committee meetings.

*Directors Retirement Plan.* The Bank has adopted the Retirement Plan for Board Members of Dime Community Bancshares, Inc. (the Directors Retirement Plan), which will provide benefits to each eligible Outside Director commencing on termination of Board service at or after age 65. An eligible Outside Director retiring at or after age 65 will be paid an annual retirement benefit equal to the amount of the aggregate compensation for services as a director (excluding stock compensation) paid to him or her for the twelve-month period immediately prior to termination of Board service, multiplied by a fraction, the numerator of which is the number of years of service, up to a maximum of 10, as an Outside Director (including service as a director or trustee of the Bank or any predecessor) and the denominator of which is 10. An individual who terminates Board service after having served as an Outside Director for 10 years may elect to begin collecting benefits under the Directors Retirement Plan at or after attainment of age 55, however, the annual retirement benefits will be reduced pursuant to an early retirement reduction formula to reflect the commencement of benefit payments prior to age 65. An Outside Director may elect to have benefits distributed in any one of the following forms: (i) a single life annuity; (ii) a 50% or 100% joint and survivor annuity; or (iii) a single life annuity with a 5, 10, or 15 year guaranteed term. In the event that an Outside Director dies prior to the commencement of benefit payments under the Directors

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Retirement Plan, a 50% survivor annuity will automatically be paid to his or her surviving spouse, unless the decedent has elected otherwise.

*1996 Stock Option Plan and RRP.* The Dime Community Bancshares, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees (the 1996 Stock Option Plan ) and the RRP were adopted by the

Company's Board of Directors and subsequently approved by its shareholders at its Annual Meeting held in 1996. On December 26, 1996, the effective date of the 1996 Stock Option Plan, each of the Company's Outside Directors was granted non-qualified stock options to purchase 89,268 shares of Common Stock. These options vested in equal 20% installments on December 26, 1997, 1998, 1999, 2000 and 2001. Similarly, on December 26, 1996, the effective date of the RRP, restricted stock awards were granted to each director with respect to 35,707 shares of Common Stock. These awards vested in equal 20% installments on February 1, 1998, 1999, 2000, 2001 and 2002, and, in accordance with the provisions of the RRP, accelerated vesting provided upon the death of Outside Director James M. Fox in May 1997.

*2001 Stock Option Plan.* The Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (the 2001 Stock Option Plan) was adopted by the Company's Board of Directors and subsequently approved by its shareholders at its Annual Meeting held in 2001. On November 21, 2001, the effective date of the 2001 Stock Option Plan, each of the Company's Outside Directors was granted non-qualified stock options to purchase 4,500 shares of Common Stock. All of these options vested on November 21, 2002, and become immediately exercisable upon a director's death or disability or in the event of a change of control, as defined in the 2001 Stock Option Plan. No grant of stock options was made to outside directors under the 2001 Stock Option Plan during 2002.

## Executive Officers

The following individuals are executive officers of the Company and hold the offices set forth opposite their names:

| Name                 | Position Held  |
|----------------------|--|
| 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 |
| Timothy B. King      | Senior Vice President and Treasurer                  |
| Michael Pucella      | Senior Vice President Finance                        |

Both the Company's and the Bank's executive officers are elected annually and hold office until their respective successors have been elected and qualified, or until death, resignation or removal by the Board of Directors. The Company has entered into Employment Agreements with certain of its executive officers which set forth the terms of their employment. See Compensation of Executive Officers Employment Agreements and Employee Retention Agreements.

Biographical information of executive officers of the Company who are not directors is set forth below.

*Timothy B. King*, age 44, has over 20 years of banking experience, and has been with the Bank since 1983. Mr. King was promoted to Treasurer of the Bank in 1989, Vice President of the Bank in 1993, Treasurer of the Company at its inception in 1995, First Vice President of both the Company and Bank in 1997, and Senior Vice President of both the Company and the Bank in 1999. In 2002, Mr. King was named the Chief Investment Officer of both the Company and Bank, as he oversees the securities investment and lending functions of the Bank.

*Michael Pucella*, age 49, was promoted to Comptroller of the Bank in 1989 and of the Company at its inception in 1995, Vice President of both the Company and Bank in 1996, First Vice President of both the Company and Bank in 1997 and Senior Vice President Finance of both the Company and the Bank in 1999. He has been with the Bank since 1981, and is responsible for financial reporting, budgeting, corporate planning and tax administration and human resource administration. Mr. Pucella has over 28 years of banking experience.



## COMPENSATION OF EXECUTIVE OFFICERS

### Report of Compensation Committee

*The following Report of our Compensation Committee is provided in accordance with the rules and regulations of the SEC. Pursuant to such rules and regulations, this Report and the Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Dime Community Bancshares, Inc. specifically incorporates this information by reference, and otherwise shall not be deemed soliciting material, filed with the SEC subject to Regulation 14A or 14C of the SEC or subject to the liabilities of Section 18 of the Exchange Act.*

### *Compensation Committee Report on Executive Compensation*

The Compensation Committee ( the Committee ) of the Board of Directors annually reviews the executive compensation program. Based on its review, the Committee may make recommendations to the full Board of Directors regarding changes to compensation levels, opportunities of the executive officers participating in the program, or to the make-up of the program itself.

The goal of the executive compensation program is to enable the Company to attract, develop and retain strong executive officers who are capable of maximizing the Company's performance for the benefit of its shareholders. To that end, the Committee has adopted a compensation strategy that seeks to provide competitive compensation opportunities that are strongly aligned with the financial and stock performance of the Company. Three key compensation elements are used in support of the strategy: base salary, annual incentives and long term incentives.

The Company retains a nationally recognized compensation consulting firm to provide guidance as to competitive executive compensation practices and pay levels. As part of this activity, the consulting firm regularly analyzes the Company's executive pay levels, by each of the three elements cited and in total, and the Company's performance. A group of 10 to 15 comparably-sized and similarly-located public banks are used for comparison purposes. The companies included in this group may change slightly from year to year due to merger activity within the industry or other relevant factors. The results of the annual executive pay and company performance comparison and the consulting firm's corresponding recommendations are considered by the Committee in making executive compensation program recommendations to the Board of Directors.

### Base Salary

Executive base salary levels are generally reviewed on an annual basis and adjusted as appropriate. The Compensation Committee increased individual base salary levels by approximately 9.0% effective July 1, 2002. The next base salary review is expected to be performed in March 2004, 18 months from the 2002 fiscal year review, based upon the results of operations for the year ending December 31, 2003. In making its determinations, the Committee considered the competitive base salary review, as well as bank and individual performance during the period July 1, 2001 through June 30, 2002 (which was the Company's former fiscal year). After adjustment, base salary levels were found to be within an appropriate targeted range when compared to pay levels of comparison group companies. Individual variations in the level of salary increase provided reflect an effort to reward outstanding individual contributions and/or an effort to align a position's pay level with the market.

**Annual Incentive Program**

Annual incentive opportunities are provided to the Company's executives to link the achievement of annual goals with executive compensation. Under the annual incentive program, the Committee has established a target and range of award opportunities for each proxy reported executive considering competitive practices and the

consulting firm's recommendations. These award opportunities are linked with a specific target and range of performance results for one or more objective performance goals approved by the Committee at the beginning of the fiscal year (e.g., return on average equity). For the 12-month period ended June 30, 2002 (former fiscal year end), pursuant to the annual incentive program an aggregate pool of approximately \$1,003,500 was permitted to be distributed to the Company's executives. After reviewing Dime's performance as measured by Core Earnings Per Share and Return on Average Equity, the Committee provided awards of \$985,000, which exceeded target opportunities, to Dime's executives. Awards from this pool to the Company's Chief Executive Officer and Chief Operating Officer were determined using a pre-existing matrix that assigned specific dollar award amounts for specific combinations of Core Earnings Per Share and Return on Average Equity achievement, while the Committee had greater discretion in deciding the individual awards for other executives.

The Company is currently transitioning to an annual incentive plan approach that assesses performance over the calendar year, which is the Company's new fiscal year. Because of the 6-month gap between the end of the former fiscal year end (June 30) and the new fiscal year end (December 31), the Committee has approved a one-time approach to recognizing performance for the 6-month period from July 1, 2002 to December 31, 2002. The next incentive awards are payable in July 2003 based upon financial results for the twelve month period ending June 30, 2003. The target opportunities that executives may earn for this portion of assessment equals one-half of their annual incentive targets. The next evaluation would then cover the 2003 fiscal year (also the 2003 calendar year), for which separate objectives are approved by the Committee. The target aggregate incentive award opportunity that executives may earn over this 18-month period is equal to 150% of their respective targets for a 12-month period. Accordingly, although performance during the first six months of 2003 will be taken into account in two separate annual incentive cycles, the incentive opportunities have been adjusted so that there will be no duplication of payments.

#### **Long Term Incentive Program**

The Committee believes that long term incentives (i.e., stock options and restricted stock) are the most effective way of aligning executive rewards with the creation of value for shareholders through stock appreciation. The consulting firm has recommended, and the Committee will consider, making long term incentive program grants on a regular basis to provide competitive long term incentive and total compensation opportunities.

Initial program awards of stock options and restricted stock were made to executive officers in the 1997 fiscal year under the 1996 Option Plan and the Recognition and Retention Plan. The initial awards generally vested over 5 years and were fully vested in February 2002.

Awards of stock options that generally vest over 4 years were made to executive officers in November 2001 under the 2001 Stock Option Plan for Outside Directors, Officers and Employees. Such awards considered the consulting firm's recommendation, Company and individual performance, as well as competitive market conditions. No awards were made to executive officers in calendar year 2002, though the Company intends to make such awards in 2003.

#### **Chief Executive Officer**

The Compensation Committee increased the base salary level of the Chief Executive Officer by 6.9% effective July 1, 2002 based upon the same criteria used for other executive officers. The next base salary review is expected to be performed in March 2004, based upon the results of operations for the year ending December 31, 2003. For the 12 month period ended June 30, 2002 (former fiscal year end), the Chief Executive Officer earned an annual incentive award of \$350,000 under the Annual Incentive Plan based on the Committee's review of Dime's performance on Core Earnings Per Share and Return on Average Equity. The Chief Executive Officer did not receive a stock option award during the 12-month period ended December 31, 2002.



### **Tax Deductibility of Executive Officer Compensation**

Section 162(m) of the Internal Revenue Code (the "Code") imposes a \$1,000,000 annual limit, per executive officer, on the Company's federal tax deduction for certain types of compensation paid to the executive officers named in the summary compensation table. It has been the Committee's practice to structure the compensation and benefit programs offered to the named executive officers with a view to maximizing the tax deductibility of amounts paid. However, in structuring compensation programs and making compensation decisions, the Committee considers a variety of factors, including the Company's tax position, the materiality of the payments and tax deductions involved, and the need for flexibility to address unforeseen circumstances. After considering these factors, the Committee may decide to authorize payments all or part of which would be nondeductible for federal tax purposes.

COMPENSATION COMMITTEE OF  
DIME COMMUNITY BANCSHARES, INC.

Louis V. Varone (Chairman)

Fred P. Fehrenbach, Member

John J. Flynn, Member

Malcolm T. Kitson, Member

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee consists of Messrs. Varone, Fehrenbach, Flynn and Kitson. There are no interlocks, as defined under the rules and regulations of the SEC, between the Company and the members of the Compensation Committee and corporations with respect to which they are affiliated, or otherwise.

### **Performance Graph**

Pursuant to the regulations of the SEC, the graph below compares the Company's stock performance with that of the total return for the U.S. Nasdaq Stock Market, the Nasdaq Bank Index and an index of all thrift stocks as reported by SNL Securities L.C. from January 1, 1998 through December 31, 2002. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.

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| Index                           | Period Ended |          |          |          |          |          |
|---------------------------------|--------------|----------|----------|----------|----------|----------|
|                                 | 12/31/97     | 12/31/98 | 12/31/99 | 12/31/00 | 12/31/01 | 12/31/02 |
| Dime Community Bancshares, Inc. | 100.00       | 88.27    | 81.43    | 115.64   | 197.77   | 206.58   |
| Total U.S. NASDAQ               | 100.00       | 140.99   | 261.48   | 157.42   | 124.89   | 86.33    |
| SNL Thrift Index                | 100.00       | 87.95    | 71.85    | 114.72   | 122.62   | 146.28   |

**There can be no assurance that stock performance will continue into the future with the same or similar trends as those depicted in the graph above.**

**Executive Compensation**

*Summary Compensation Table.* The following table sets forth the cash compensation paid by the Bank for services rendered in all capacities during the years ended December 31, 2002, 2001 and 2000, as well as certain other compensation paid or accrued for those years, to the Company's Chief Executive Officer and the four other executive officers of the Company who received the highest salary plus bonus during the year ended December 31, 2002 (the "Named Executive Officers").

**Summary Compensation Table**

| Name and Principal<br>Positions   | Year | Annual Compensation |            |  | Long-Term Compensation                  |                             |   | All Other<br>Compensation<br>(5) |
|---|------|---------------------|------------|--|---|-----------------------------|---|----------------------------------|
|   |      | Salary(1)           | Bonus      | Other<br>Annual<br>Compensation<br>(2) | Awards<br>Restricted<br>Stock<br>Awards | Number of<br>Options<br>(3) | Payouts<br>Long-Term<br>Incentive Plan<br>Payouts (4) |                                  |
| Vincent F. Palagiano,<br>Chairman of the Board<br>and Chief Executive Officer | 2002 | \$ 600,000          | \$ 350,000 |  |   |                             |   | \$ 663,383                       |
|   | 2001 | 565,000             | 290,000    |  |   | 112,500                     |   | 305,440                          |
|   | 2000 | 537,500             | 225,000    |  |   |                             |   | 107,681                          |
| Michael P. Devine,<br>President and Chief<br>Operating Officer                | 2002 | \$ 467,500          | \$ 275,000 |  |   |                             |   | \$ 629,422                       |
|   | 2001 | 435,000             | 210,000    |  |   | 70,500                      |   | 284,057                          |
|   | 2000 | 407,500             | 160,000    |  |   |                             |   | 74,475                           |
| Kenneth J. Mahon,<br>Executive Vice President<br>and Chief Financial Officer  | 2002 | \$ 290,000          | \$ 175,000 |  |   |                             |   | \$ 222,149                       |
|   | 2001 | 262,500             | 130,000    |  |   | 37,500                      |   | 524,800                          |
|   | 2000 | 237,500             | 100,000    |  |   |                             |   | 39,741                           |
| Timothy B. King,<br>Senior Vice President and<br>Chief Investment Officer     | 2002 | \$ 192,500          | \$ 100,000 |  |   |                             |   | \$ 156,016                       |
|   | 2001 | 170,000             | 65,000     |  |   | 12,000                      |   | 128,344                          |
|   | 2000 | 150,000             | 50,000     |  |   |                             |   | 18,602                           |
| Michael Pucella,<br>Senior Vice President<br>Finance                          | 2002 | \$ 190,000          | \$ 85,000  |  |   |                             |   | \$ 113,219                       |
|   | 2001 | 170,000             | 65,000     |  |   | 12,000                      |   | 157,189                          |
|   | 2000 | 150,000             | 50,000     |  |   |                             |   | 18,521                           |

(1) Includes base salary, amounts deferred under the 401(k) Plan and payroll deductions for health insurance under the Bank's health insurance plan and flexible spending benefit plan.

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- (2) During the years ended December 31, 2002, 2001 and 2000, there were no: (a) perquisites with an aggregate value for any named individual in excess of the lesser of \$50,000 or 10% of the total of the individual's salary and bonus for the fiscal year; (b) payments of above-market or preferential earnings on restricted stock, options, SARs or deferred compensation; (c) payments of earnings with respect to long-term incentive plans; (d) tax payment reimbursements; or (e) preferential discounts on Company stock.
- (3) On November 21, 2001, the Named Executive Officers were granted shares subject to options under the 2001 Stock Option Plan, with an exercise price of \$16.36 per share, as follows: Mr. Palagiano, 112,500; Mr. Devine, 70,500; Mr. Mahon, 37,500; Messrs. King and Pucella, 12,000 each.
- (4) During the years ended December 31, 2002, 2001 and 2000, neither the Company nor the Bank maintained any long-term incentive plans.
- (5) Amounts include (i) the dollar amount of premiums, if any, paid by the Bank with respect to term life insurance (other than group term insurance coverage under a plan available to substantially all salaried employees) for the benefit of the Named Executive Officer and (ii) the Bank's contributions on behalf of the Named Executive Officer to the 401(k) Plan and the ESOP. During the year ended December 31, 2002, the dollar amount of such life insurance premiums were as follows: Mr. Palagiano, \$6,573, Mr. Devine, \$2,830 and Mr. Mahon \$7,115. During the year ended December 31, 2001, the dollar amount of such life insurance premiums were as follows: Mr. Palagiano, \$6,573, Mr. Devine, \$2,830 and Mr. Mahon \$7,115. During the year ended December 31, 2000, the dollar amount of such life insurance premiums were as follows: Mr. Palagiano, \$6,573 and Mr. Devine, \$2,830. There were no such life insurance premiums paid for the benefit of Mr. Mahon during the year ended December 31, 2000. The amount of Bank contributions to the 401(k) Plan were as follows: Messrs. Palagiano, Devine, Mahon, King, and Pucella, \$6,000 each during the year ended December 31, 2002 and \$5,100 each during the years ended December 31, 2001 and 2000. Shares allocated under the ESOP to the Named Executive Officers were as follows: Messrs. Palagiano, Devine, Mahon, King, and Pucella, 1,650 shares each during the year ended December 31, 2002, 1,649 shares each during the year ended December 31, 2001 and 1,341 shares each for Messrs. Palagiano, Devine and Mahon, and 1,325 shares and 1,307 shares, respectively, for Messrs. King and Pucella, during the year ended December 31, 2000. The amount reported above for shares allocated under the ESOP was determined based upon the acquisition cost of shares by the ESOP of \$4.45 (See Compensation of Executive Officers Benefits Retirement Plan, Benefits 401(k) Plan, and Benefits ESOP ). Amounts also include accruals

*(notes continued on next page)*

under the defined contribution portion of the Company's BMP. During the year ended December 31, 2002, these accruals totaled \$643,467, \$613,249, \$201,691, \$142,674, and \$99,876 for Messrs. Palagiano, Devine, Mahon, King, and Pucella, respectively. During the year ended December 31, 2001, these accruals totaled \$286,431, \$268,791, \$505,249, \$115,908, and \$144,753 for Messrs. Palagiano, Devine, Mahon, King and Pucella, respectively. During the year ended December 31, 2000, these accruals totaled \$90,040, \$60,578, \$28,674, \$8,606, and \$8,606 for Messrs. Palagiano, Devine, Mahon, King, and Pucella, respectively. (See Compensation of Executive Officers Benefits BMP).

## Employment Agreements

The Company and The Bank are parties to employment agreements (Employment Agreements) with each of Messrs. Palagiano, Devine and Mahon (Senior Executives). These Employment Agreements establish the respective duties and compensation of the Senior Executives and are intended to ensure that both the Company and the Bank will be able to maintain a stable and competent management base. The Company's and the Bank's continued success depends to a significant degree on the skills and competence of the Senior Executives.

The Employment Agreements provide for three-year terms (the Employment Period). The Bank's Employment Agreements provide that, prior to the first anniversary date and continuing each anniversary date thereafter, the Bank's Board of Directors may agree, after conducting a performance evaluation of the Senior Executive, to extend his Employment Agreement for an additional year, so that the remaining term shall be three years. Each of the Bank's Employment Agreements has been extended to a December 31, 2005 expiration date. The Company's Employment Agreements provide for automatic daily extensions unless written notice of non-renewal is given by the Board of Directors or the Senior Executive, in which event the Employment Agreement shall end on the third anniversary of such notice.

The Employment Agreements provide for termination by the Bank or the Company at any time for cause as defined in the Employment Agreements. In the event that either the Company or the Bank chooses to terminate the Senior Executive's employment for reasons other than for cause, or in the event that the Senior Executive's resignation from the Bank or the Company is for good reason as defined in the Employment Agreements, the Senior Executive or, in the event of death, his beneficiary, would be entitled to a lump sum cash payment in an amount equal to the remaining base salary and bonus payments due to the Senior Executive and the additional contributions or benefits that would have been earned under any employee benefit plans during the remaining terms of the Employment Agreements and payments that would have been made under any incentive compensation plan during the remaining terms of the Employment Agreements. The Senior Executive would also have the right to receive a lump sum cash payment of benefits to which the Senior Executive would have been entitled under the Bank's BMP. Both the Bank and the Company would also continue the Senior Executive's life, health and disability insurance coverage for the remaining terms of the Employment Agreements. For purposes of the Employment Agreements, good reason generally means (i) assignment of duties inconsistent with the Senior Executive's status or a substantial adverse alteration in the nature or status of responsibilities or a requirement to report to a different position, (ii) reduction in annual base salary (unless mandated at the initiation of applicable regulatory authority), (iii) failure to pay compensation or deferred compensation within seven days of when due unless inadvertent, immaterial or cured after notice, (iv) failure to continue in effect compensation plans material to total compensation (or substitute plans) with respect to the Senior Executive, (v) failure to continue to provide certain benefits or materially maintain benefits (unless mandated at the initiation of applicable regulatory authority), (vi) failure of the Bank to obtain a satisfactory agreement from a successor to assume and agree to perform the Employment Agreements, (vii) any purported termination by the Bank not for cause or disability, (viii) any or no reason during the period of sixty (60) days beginning on the first anniversary of the effective date of a change of control, as defined in the Employment Agreement, (ix) a change in the majority of the Board, unless approved by a vote of at least two-thirds of the members of the Board at the time the Employment Agreements were entered into or members elected or nominated by such members, (x) a relocation of the Senior Executive's principal place of employment outside of the New York metropolitan area or (xi) a material breach of the Employment Agreements, unless cured within 30 days. In general, for purposes of the Employment Agreements, a change of control will be deemed to occur when a person or group of persons acting in concert acquires beneficial ownership of 25% or more of any class of equity security, such as Common

Stock of the Company, or in connection with mergers or consolidations of assets or a contested election of directors which results in a change of control of the majority of the Company's or Bank's Board of Directors or liquidation or sale of substantially all the assets of the Company or the Bank.

In the event of a change in control of the Company or Bank, the Company's Employment Agreements provide that (1) the term of employment will be converted to a fixed period beginning on the date of the change in control, and (2) if the Senior Executive signs a release of any further rights under his Employment Agreement with the Bank, an immediate lump sum payment will be paid (whether or not employment has terminated) equal to the present value of three years salary, bonus and fringe benefits plus an additional lump sum equal to the present value  $x$  minus  $y$ , where  $x$  is a specified target pension for each Senior Executive and  $y$  is the actual pension benefits due to the Senior Executive under the Bank's and the Company's qualified and nonqualified defined benefit pension plans. The target pension is ~~26~~23% of highest aggregate salary and bonus for Mr. Palagiano; 25% of highest aggregate salary and bonus for Mr. Devine; and  $16\frac{2}{3}$ % of highest aggregate salary and bonus for Mr. Mahon. Highest aggregate salary and bonus for this purpose is the highest salary and bonus for the three consecutive years during the final 10 years of employment for which the aggregate is the highest.

Payments to the Senior Executives under the Bank's Employment Agreements are guaranteed by the Company in the event that payments or benefits are not paid by the Bank. The Company will make all payments under its own Employment Agreements. To the extent that payments under the Company's Employment Agreements and the Bank's Employment Agreements are duplicative, payments due under the Company's Employment Agreements would be offset by amounts actually paid by the Bank. Senior Executives would be entitled to reimbursement of certain costs incurred in interpreting or enforcing the Employment Agreements up to \$50,000 for each Senior Executive.

Cash and benefits paid to a Senior Executive under the Employment Agreements together with payments under other benefit plans following a change of control of the Bank or the Company may constitute an excess parachute payment under Section 280G of the Code, resulting in the imposition of a 20% excise tax on the recipient and the denial of the deduction for such excess amounts to the Company and the Bank. The Company's Employment Agreements include a provision indemnifying each Senior Executive on an after-tax basis for any excess parachute excise taxes.

### **Employee Retention Agreements**

The Bank has, jointly with the Company, entered into Employee Retention Agreements ( Retention Agreements ) with 47 employees including the following two Named Executive Officers: Messrs. King and Pucella (each a Contract Employee or together Contract Employees ). The purpose of the Retention Agreements is to secure the Contract Employees' continued availability and attention to the Bank's affairs, relieved of distractions arising from the possibility of a change of control, as defined in the Retention Agreements. The Retention Agreements do not impose an obligation on the Bank to continue the Contract Employees' employment but provide for a period of assured compensation (the Assurance Period ) following a change of control. The Retention Agreements provide for Assurance Periods of one, two or three years commencing on the date of a change of control. The Retention Agreements of Messrs. King and Pucella both contain Assurance Periods of three years. The applicable Assurance Periods will be automatically extended on a daily basis under the Retention Agreements until written notice of non-extension is provided by the Bank or the Contract Employee, in which case the Assurance Period would end on the first, second or third anniversary of the date such notice is given.

If, during the Assurance Period, or prior to commencement of the Assurance Period but within three months of and in connection with a change of control (as defined in the Retention Agreements), a Contract Employee is discharged without cause (as defined in the Retention Agreements) or voluntarily resigns within ninety days following: (i) a failure to appoint or elect the Contract Employee to the same position in which he or she was serving; (ii) a material failure, after notice, to vest in the Contract Employee his or her responsibilities on the day



before the Assurance Period commenced (or the functions, duties and responsibilities of a more senior officer to which he or she may be appointed); (iii) a failure of the Bank to cure a material breach of the Retention Agreement after notice; (iv) a reduction in compensation or a material reduction in benefits; or (v) relocation of the Contract Employee's principal place of employment which results in certain adverse commuting increases, the Contract Employee (or, in the event of his or her death, his or her estate) would be entitled to, subject to certain restrictions, (a) continued group life health accident and long-term disability insurance benefits for the unexpired Assurance Period, (b) a lump sum cash payment equal to the remaining base salary (present value) and bonus payments the Contract Employee would have earned during the unexpired Assurance Period, and (c) any additional contributions and benefits that the Contract Employee would have earned under the Bank's or the Company's employee benefit plans during the unexpired Assurance Period. The total amount of termination benefits payable to each Contract Employee under the Retention Agreements, excluding Messrs. King and Pucella, is limited to three times the Contract Employee's average annual total compensation for the five years prior to termination. Payments to the Contract Employees under their respective Retention Agreements are guaranteed by the Company to the extent that the required payments are not made by the Bank.

Cash and benefits paid to Messrs. King and Pucella under the Retention Agreements, together with payments under other benefit plans following a change of control, may constitute an excess parachute payment under Section 280G of the Code, resulting in the imposition of a 20% excise tax on the recipient and the denial of the deduction for such excess amounts to the Company and the Bank under Section 4999 of the Code. The Retention Agreements include a provision whereby the Company pays Messrs. King and Pucella the net amount of their termination benefits after any tax imposed under Section 4999 of the Code or the maximum amount which may be paid without giving rise to any tax under Section 4999, whichever is greater.

## **Benefits**

*Retirement Plan.* The Bank maintains the Retirement Plan of The Dime Savings Bank of Williamsburgh (the Retirement Plan), a non-contributory, tax-qualified defined benefit pension plan for eligible employees. All salaried employees at least age 21 who have completed a minimum of one year of service are eligible to participate in the Retirement Plan. The Retirement Plan provides for a benefit for each participant, including the Named Executive Officers, equal to 2% of the participant's average annual earnings multiplied by the participant's years (and any fraction thereof) of eligible employment (up to a maximum of 30 years). Such benefit is not reduced by a Social Security offset. A participant is fully vested in his or her benefit under the Retirement Plan after five years of service. The Retirement Plan is funded by the Bank on an actuarial basis and all assets are held in trust by the Retirement Plan trustee. Effective March 31, 2000, all participant benefits under the Retirement Plan were frozen, and no benefits have been accrued under the Retirement Plan since March 31, 2000.

The following table (the Retirement Fund Table ) illustrates the annual benefit payable upon normal retirement at age 65 (in single life annuity amounts) at various levels of compensation and years of service under the Retirement Plan and the BMP.

**PENSION PLAN TABLE**

| Remuneration(1) | Years of Service |            |            |            |            |
|-----------------|------------------|------------|------------|------------|------------|
|                 | 15               | 20         | 25         | 30         | 35(4)      |
| 125,000         | \$ 37,500        | \$ 50,000  | \$ 62,500  | \$ 75,000  | \$ 75,000  |
| 150,000         | 45,000           | 60,000     | 75,000     | 90,000     | 90,000     |
| 175,000         | 52,500           | 70,000     | 87,500     | 105,000    | 105,000    |
| 200,000(2)      | 60,000           | 80,000     | 100,000    | 120,000    | 120,000    |
| 225,000(2)      | 67,500           | 90,000     | 112,500    | 135,000    | 135,000    |
| 250,000(2)      | 75,000           | 100,000    | 125,000    | 150,000    | 150,000    |
| 300,000(2)      | 90,000           | 120,000    | 150,000    | 180,000(3) | 180,000(3) |
| 400,000(2)      | 120,000          | 160,000    | 200,000(3) | 240,000(3) | 240,000(3) |
| 450,000(2)      | 135,000          | 180,000(3) | 225,000(3) | 270,000(3) | 270,000(3) |
| 500,000(2)      | 150,000          | 200,000(3) | 250,000(3) | 300,000(3) | 300,000(3) |
| 600,000(2)      | 180,000(3)       | 240,000(3) | 300,000(3) | 360,000(3) | 360,000(3) |
| 650,000(2)      | 195,000(3)       | 260,000(3) | 325,000(3) | 390,000(3) | 390,000(3) |
| 700,000(2)      | 210,000(3)       | 280,000(3) | 350,000(3) | 420,000(3) | 420,000(3) |

- (1) The Retirement Plan does not provide a deduction for Social Security benefits and there are no other offsets to benefits.
- (2) Annual Compensation taken into account under the Retirement Plan for the fiscal year of the Retirement Plan beginning on October 1, 2002 cannot exceed \$200,000 (as adjusted for subsequent years pursuant to Code provisions). Benefits in excess of the limitation are provided through the BMP (See Compensation of Executive Officers Benefits BMP ).
- (3) For the fiscal year of the Retirement Plan beginning on October 1, 2002, the maximum annual benefit payable under the Retirement Plan cannot exceed \$160,000 (as adjusted for subsequent years pursuant to Code provisions). Benefits in excess of the limitations are provided through the BMP (See Compensation of Executive Officers Benefits BMP ).
- (4) The maximum years of service credited for benefit purposes is 30 years.

Generally, an employee's average annual earnings under the Retirement Plan are his or her average annual compensation and contributions to the 401(k) Plan, but not overtime pay, bonus, other deferred compensation arrangements, or special payments, for a 36 consecutive calendar-month period within the last 120-month period affording the highest such average, such average not to exceed the compensation limitation under Section 401(a)(17) of the Code.

The following table sets forth the years of credited service and the average annual earnings [not subject to the Code Section 401(a)(17) limitation] determined as of March 31, 2000 (the date on which Retirement Plan participant benefits were frozen) for each of the Named Executive Officers:

**Years of Credited Service**

|                      | Years | Months | Average Annual<br>Earnings |
|----------------------|-------|--------|----------------------------|
| Vincent F. Palagiano | 30    | 0      | \$ 494,417                 |
| Michael P. Devine    | 29    | 2      | 372,083                    |
| Kenneth J. Mahon     | 20    | 2      | 202,083                    |
| Timothy B. King      | 17    | 5      | 118,667                    |
| Michael Pucella      | 19    | 6      | 114,083                    |

*401(k) Plan.* The Bank maintains the 401(k) Plan, which is a tax-qualified defined contribution plan permitting salaried employees with at least one year of service to make pre-tax salary deferrals under Section 401(k) of the Code. When the Company initially established the ESOP in 1996, the 401(k) Plan was amended to prohibit participant contributions, so as to avoid violating limitations on contributions to all plans under the

Code. Effective July 1, 2000, participant contributions to the 401(k) Plan of up to 12% of covered compensation, as defined in the 401(k) Plan document, were reinstated. Employees are fully vested in their salary deferrals.

Under a 401(k) Plan amendment effective July 1, 2000, the 401(k) Plan annually receives the proceeds from a 100% vested cash contribution to all participants in the ESOP in the amount of 3% of covered compensation [defined as total W-2 compensation including amounts deducted from W-2 compensation for pre-tax benefits such as health insurance premiums and contributions to the 401(k) Plan] up to applicable IRS limits. This contribution is allocated to eligible participants, regardless of their participant contribution level.

The 401(k) Plan permits participating employees to elect to invest all or any part of their 401(k) Plan account balances in Common Stock. Common Stock held by the 401(k) Plan may be newly issued shares or outstanding shares purchased on the open market or in privately negotiated transactions. All Common Stock held by the 401(k) Plan is held by an independent trustee and allocated to the accounts of individual participants. Participants control the exercise of voting and tender rights relating to Common Stock held in their accounts.

*ESOP.* The Company has established, and the Bank has adopted, an ESOP and related trust for the benefit of eligible employees. All of the Company's and the Bank's salaried employees are eligible to become participants in the ESOP. As of the Record Date, the ESOP holds 2,413,448 shares of Common Stock, all of which were purchased during the Company's initial public offering. Of this total, 1,120,325 shares have been allocated to individual participant accounts, while 1,293,123 remain unallocated. In order to fund the ESOP's purchase of such Common Stock, the ESOP borrowed the aggregate purchase price from the Company. Effective July 1, 2000, the loan maturity period was extended by approximately 20 years from June 2006 to June 2026, and continues to bear interest at the rate of 8% per annum. The loan calls for level annual payments of principal and interest designed to amortize the loan over its term, except that payments in any year may be deferred, in whole or in part, in prescribed circumstances. Prepayments are also permitted.

Shares purchased by the ESOP were pledged as collateral for the loan from the Company and are held in a suspense account until released for allocation among participants in the ESOP as the loan is repaid. The pledged shares will be released annually from the suspense account in an amount proportional to the repayment of the ESOP loan for each plan year. The released shares will be allocated among the accounts of participants on the basis of the participant's compensation for the calendar year preceding allocation. Benefits generally become vested at the rate of 25% per year after two years with 100% vesting after five years of service. Participants become immediately vested upon termination of employment due to death, retirement at age 65, permanent disability or the occurrence of a change of control, as defined by the ESOP. Forfeitures will be reallocated among remaining participating employees, in the same proportion as contributions. Vested benefits may be paid in a single sum or installment payments and are payable upon death, retirement at age 65, disability or separation from service.

Effective July 1, 2000, either the Company or the Bank became required to make a 100% vested cash contribution annually to all participants in the ESOP in the amount of 3% of covered compensation. This contribution is guaranteed through December 31, 2006 (unless the ESOP is terminated before) and will be discretionary thereafter. This contribution is automatically transferred to the 401(k) Plan.

The ESOP Committee may instruct the unrelated corporate trustee regarding investment of funds contributed to the ESOP. The ESOP Trustee, subject to its fiduciary duty, must vote all allocated shares held in the ESOP in accordance with the instructions of the participating employees. Under the ESOP, unallocated shares will be voted in a manner calculated to most accurately reflect the instructions the trustee has received from participants regarding the allocated stock as long as such vote is in accordance with the provisions of ERISA. The ESOP may purchase additional shares of Common Stock in the future.

*BMP.* The BMP provides eligible employees with benefits that would be due under the Retirement Plan, ESOP and 401(k) Plan, if such benefits were not limited under the Code. BMP benefits provided with respect to



the Retirement Plan are reflected in the Pension Plan Table (See Compensation of Executive Officers Benefits Retirement Plan ). Effective April 1, 2000, Retirement Plan benefit accruals were terminated, thus eliminating related benefit accruals under the BMP. BMP benefits provided to the Named Executive Officers for the year ended December 31, 2002 with respect to the 401(k) Plan and ESOP are included in the Summary Compensation Table under the column All Other Compensation (See Compensation of Executive Officers Executive Compensation ).

*RRP.* The Company has adopted the RRP which was approved by shareholders at the 1996 Annual Meeting. Under the RRP, 1,309,275 shares were acquired and allocated to directors, officers and employees of the Company or its subsidiaries on February 1, 1997. All of these shares vested in equal 20% installments on February 1, 1998, 1999, 2000, 2001 and 2002. On each vesting date subsequent to February 1, 1998, the RRP re-acquired shares that were sold by participants in order to meet income tax obligations associated with the vesting. In addition, during the period February 1, 1997 through February 1, 2002, RRP shares that were forfeited by participants were retained in the RRP. The shares re-acquired or retained by the RRP during the period February 1, 1997 through February 1, 2002, either through the repurchase or forfeiture of previously allocated shares, totaled 229,198. On May 17, 2002, a grant of 45,000 RRP shares was made to executive officers of the Company. These shares vest as follows: 20% on November 25, 2002, and 20% each on April 25, 2003, 2004, 2005 and 2006. Upon the first vesting of these shares on November 25, 2002, the RRP re-acquired 3,523 shares that were sold by participants in order to satisfy income tax obligations associated with the vesting. No additional shares were allocated by the RRP during the six-month period July 1, 2002 through December 31, 2002. The remaining 187,721 shares held by the RRP at December 31, 2002 remain eligible for future allocation.

*1996 Stock Option Plan.* The Company has adopted the 1996 Stock Option Plan, which was approved by the Company's shareholders at the 1996 Annual Meeting. Under the 1996 Stock Option Plan, 3,683,711 options have been granted to outside directors, and officers and employees of the Company or its subsidiaries, of which 1,883,664 were outstanding as of the Record Date and 1,826,514 were exercisable as of the Record Date. The options granted under the 1996 Stock Option Plan were intended to qualify as incentive stock options under Section 422 of the Code.

*2001 Stock Option Plan.* The Company's Board of Directors has adopted the 2001 Stock Option Plan, which was approved by the Company's shareholders at the 2001 Annual Meeting. Under the 2001 Stock Option Plan, up to 168,750 stock options are eligible for grant to the Company's outside directors and up to 1,181,250 stock options are eligible for grant to officers and employees of the Company or its subsidiaries. As of the Record Date, 95,000 stock options have been granted to the Company's outside directors, and 763,000 have been granted to the Bank's officers and employees. Of the total granted as of the Record Date, 95,000 options granted to outside directors and 760,000 options granted to officers and employees of the Bank are outstanding, and 45,000 options granted to outside directors and 89,311 options granted to officers and employees of the Bank are exercisable. All options currently granted under the 2001 Stock Option Plan are subject to earlier expiration in the event of termination of employment. In the case of termination due to death, disability, retirement, or under a change of control, as defined by the 2001 Stock Option Plan, all options become immediately vested. The options granted under the 2001 Stock Option Plan are intended to qualify as incentive stock options under Section 422 of the Code.

The following table provides certain information with respect to options exercised by the Named Executive Officers during the period July 1, 2002 through December 31, 2002, and the number of shares of Common Stock represented by outstanding stock options held by the Named Executive Officers on December 31, 2002. Also reported is the value of in-the-money options, which represents the positive spread between the exercise price of any such existing stock options and the closing sale price of the Common Stock of \$19.15 per share at December 31, 2002.

**Aggregated Options/SAR Exercises During the Six-Month Period July 1, 2002 Through  
December 31, 2002 and Option/SAR Values as of December 31, 2002**

| Name                 | # of Shares<br>Acquired | Value<br>Realized (1) | Number of Securities   | \$ Value of Unexercised                                |
|----------------------|-------------------------|-----------------------|--|--|
|                      |                         |                       | Underlying Unexercised<br>Options/SARs at Fiscal<br>Year-end (2) | In-the-money<br>Options/SARs at Fiscal<br>Year-end (2) |
|                      | On Exercise             |                       | Year-end (2) (#)<br>Exercisable / Unexercisable                  | Exercisable / Unexercisable                            |
| Vincent F. Palagiano | 30,000                  | \$ 588,500            | 503,395/84,375   | \$ 6,114,398/\$235,406                                 |
| Michael P. Devine    | 35,000                  | 687,983               | 200,045/52,875   | 2,365,908/147,521                                      |
| Kenneth J. Mahon     | 15,000                  | 303,000               | 38,295/28,195  | 393,440/78,469   |
| Timothy B. King      | 6,500                   | 123,700               | 34,000/9,000   | 402,070/25,110   |
| Michael Pucella      |                         |                       | 43,500/9,000   | 522,720/25,110   |

(1) Value realized is calculated as follows: a) in the event of an exercise and sale transaction, the fair market value of the shares of Common Stock sold upon exercise less the exercise cost; b) in the event of an exercise and hold transaction, the closing fair market value of the Company's Common Stock on the date of exercise as quoted on the Nasdaq Stock Market less the exercise cost.

(2) The exercisable options as of December 31, 2002 for Messrs. Palagiano, Devine, Mahon, King and Pucella that were granted under the 1996 Stock Option Plan were as follows: Mr. Palagiano 475,270 options, Mr. Devine 182,420 options, Mr. Mahon 28,920 options, Mr. King 31,000 options and Mr. Pucella 40,500 options. These options vested over a five-year period with the final vesting occurring on December 26, 2001. All of these options expire on December 26, 2006, are subject to earlier expiration upon termination of employment and have an exercise price of \$6.45 per share. The exercisable options at December 31, 2002 that were granted under the 2001 Stock Option Plan were as follows: Mr. Palagiano 28,125 options, Mr. Devine 17,625 options, Mr. Mahon 9,375 options, Mr. King 3,000 options and Mr. Pucella 3,000 options. All of these option awards have an exercise price of \$16.36 per share and were granted on November 21, 2001. All of the unexercisable options held by Messrs. Palagiano, Devine, Mahon, King and Pucella shown in the table above were granted under the 2001 Stock Option Plan on November 21, 2001, vest in equal 25% installments on November 21, 2002, 2003, 2004 and 2005, and have an exercise price of \$16.36 per share.

There were no grants of stock options made to the Named Executive Officers during the period July 1, 2002 through December 31, 2002.

#### Transactions with Certain Related Persons

Federal banking law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features. The Bank has made loans or extended credit to executive officers and also to certain persons related to executive officers and directors. All such loans were: (i) made by the Bank in the ordinary course of business; (ii) were not made with more favorable terms; (iii) did not involve more than the normal risk of collectibility; and (iv) did not

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present unfavorable features. The outstanding principal balance of such loans to executive officers and associates of executive officers or directors as of February 28, 2003 totaled \$284,273, which is less than one-quarter of one-percent of the Bank's total equity. The Company intends that all transactions in the future between the Company and its executive officers, directors, holders of 5% or more of the shares of any class of its Common Stock and affiliates thereof, similarly will contain terms that are no less favorable to the Bank than those it could have obtained in arms-length negotiations with unaffiliated persons. All such loans will further be approved by a majority of its independent outside directors not having any interest in the transaction.

Section 402 of the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ) prohibits the extension of personal loans to directors and executive officers of issuers (as defined in Sarbanes-Oxley). The prohibition, however, does not apply to mortgages advanced by an insured depository institution, such as the Bank, that is subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act.

Messrs. Curtin and Farrell are partners in the law firm of Conway, Farrell, Curtin & Kelly, P.C. ( Conway Farrell ). The Bank retains Conway Farrell to conduct loan closings and perform other requested legal services. The Bank paid fees directly to Conway Farrell during the six months ended December 31, 2002 totaling \$250 for other legal services provided. In addition, Conway Farrell received fees in the amount of approximately \$911,350 from third parties pursuant to its representation of the Bank in loan closings and other legal matters for the period July 1, 2002 through December 31, 2002.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than 10% of the Common Stock, to file with the SEC reports of ownership and changes in ownership of Common Stock. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on the review of the copies of such forms received by the Company, or written representations from certain reporting persons, the Company believes that its executive officers, directors and greater than 10% beneficial owners complied with all applicable filing requirements.

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### **PROPOSAL 2**

#### **RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

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#### **General**

The Board of Directors has appointed the firm of Deloitte & Touche LLP to act as the Company's independent auditors for the year ending December 31, 2003, subject to ratification of such appointment by the Company's shareholders. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting and will be provided an opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions. No determination has been made as to any action the Board of Directors would take if the shareholders do not ratify the appointment.

#### **Audit Fees**

Fees for professional services rendered by Deloitte & Touche LLP for the audits of the Company's consolidated financial statements totaled \$258,450 and \$225,000, respectively, for the six-month period July 1, 2002 through December 31, 2002 and the twelve months ended June 30, 2002. These fees included reviews of the financial statements included in the Company's Quarterly Report on Form 10-Q during such applicable

quarterly periods and out-of-pocket expenses directly related to the audits.

**Tax Fees**

Tax fees paid to Deloitte & Touche LLP during the periods July 1, 2002 through December 31, 2002 and the year ended June 30, 2002 totaled \$87,200 and \$80,850, respectively. These fees related primarily to the preparation of federal, state or local tax returns for the Company and its subsidiaries.

#### **All Other Fees**

All other fees paid to Deloitte & Touche LLP during the periods July 1, 2002 through December 31, 2002 and the year ended June 30, 2002 totaled \$26,750 and \$41,530, respectively. These fees related primarily to audits of various employee and outside director benefit plans of the Company and its subsidiaries.

For the six months ended December 31, 2002 and the twelve months ended June 30, 2002, no fees were billed by or paid to Deloitte & Touche LLP for directly or indirectly operating, or supervising the operation of, information systems or managing local area networks, or designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the Company's financial statements taken as a whole.

The Audit Committee considered the provision of the services covered under the captions "Tax Fees" and "All Other Fees" and found them to be compatible with maintaining Deloitte & Touche LLP's independence.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS.**

#### **OTHER MATTERS**

As of the date of this Proxy Statement, the Company's Board of Directors does not know of any other matters to be brought before the shareholders at the Annual Meeting. If, however, any other matters not known are properly brought before the meeting, the persons named in the accompanying proxy will vote the shares represented by all properly executed proxies on such matters in such manner as shall be determined by a majority of the Board of Directors.

#### **2004 ANNUAL MEETING STOCKHOLDER PROPOSALS**

In order to be considered for inclusion in the Company's proxy statement for the Annual Meeting of Shareholders to be held in 2004, all shareholder proposals must be submitted to the Secretary of the Company at its offices at 209 Havemeyer Street, Brooklyn, New York 11211 on or before December 15, 2003. Under the Company's Bylaws, shareholder nominations for director and shareholder proposals not included in the Company's 2004 proxy statement, in order to be considered for possible action by the shareholders at the 2004 Annual Meeting of Shareholders, must be submitted to the Secretary of the Company, at the address set forth above: (i) with respect to an annual meeting of shareholders, sixty (60) days in advance of such meeting if such meeting is to be held on a day which is within thirty (30) days preceding the anniversary of the previous year's annual meeting, or ninety (90) days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (ii) with respect to an annual meeting of shareholders held at a time other than within the time periods set forth in the immediately preceding clause (i), the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to shareholders. Notice shall be deemed to first be given to shareholders when disclosure of such date of the meeting of shareholders is first made in a press release reported to Dow Jones News Services, Associated Press or comparable national news service, or in a document publicly filed by the Company with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act. A shareholder's notice to the Secretary shall set forth such information as required by, and otherwise comply with, the Company's Bylaws. Nothing in this paragraph shall be deemed to require the Company to include in its proxy statement and proxy card relating to an annual meeting any shareholder proposal or nomination

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which does not satisfy all of the requirements for inclusion established by the SEC in effect at the time such proposal or nomination is received.

The Board of Directors will review any shareholder proposals that are filed as required and will determine whether such proposals meet applicable criteria for consideration at the 2004 Annual Meeting.

**Annual Report**

A copy of the Annual Report to shareholders for the period ended December 31, 2002, including the consolidated financial statements prepared in conformity with generally accepted accounting principles for the six-month period ended December 31, 2002, accompanies this Proxy Statement. The consolidated financial statements have been audited by Deloitte & Touche LLP, whose report appears in the Annual Report. **Shareholders may obtain, free of charge, a copy of the Annual Report on Form 10-K filed with the SEC (without exhibits) by writing to Kenneth A. Ceonzo, Director of Investor Relations, Dime Community Bancshares, Inc., 209 Havemeyer Street, Brooklyn, New York 11211, or by calling (718) 782-6200, extension 8279, or by accessing our corporate website [www.dsbwdirect.com](http://www.dsbwdirect.com).**

By Order of the Board of Directors

Lance J. Bennett

*Secretary*

Brooklyn, New York

April 10, 2003

**TO ASSURE THAT YOUR SHARES ARE REPRESENTED AT THE ANNUAL MEETING PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED.**

**REVOCABLE PROXY**

**DIME COMMUNITY BANCSHARES, INC.**

**209 HAVEMEYER STREET**

**BROOKLYN, NY 11211**

**This Proxy is solicited on behalf of the Board of Directors of Dime Community Bancshares, Inc. for the Annual Meeting of Shareholders to be held on May 15, 2003.**

The undersigned shareholder of Dime Community Bancshares, Inc. hereby appoints Patrick E. Curtin, Fred P. Fehrenbach, Malcolm T. Kitson, and Stanley Meisels, or any of them, with full powers of substitution, to represent and to vote as proxy, as designated on the reverse side all shares of common stock of Dime Community Bancshares, Inc. held of record by the undersigned on March 28, 2003, at the Annual Meeting of Shareholders (the Annual Meeting ) to be held at 10:00 a.m., Eastern Standard Time, on May 15, 2003, or at any adjournment or postponement thereof, upon the matters described in the accompanying Notice of the Annual Meeting of Shareholders and Proxy Statement, dated April 10, 2003, and upon such other matters as may properly come before the Annual Meeting. The undersigned hereby revokes all prior proxies.

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is given, this Proxy will be voted FOR the election of all nominees in Item 1 and FOR the proposal listed in Item 2.**

**PLEASE MARK, SIGN AND DATE THIS PROXY ON THE REVERSE SIDE**

**AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.**

**Address Change/Comments (Mark the corresponding box on the reverse side)**

The Board of Directors unanimously recommends a vote **FOR** all of the nominees in Item 1 and a vote **FOR** the proposal in Item 2.

Please Mark

Here for

Address Change

or Comments

••

SEE REVERSE

SIDE

1. Election of four Directors for terms to expire at the 2006 Annual Meeting of Shareholders.

I will attend the Annual Meeting

Nominees:

FOR

..

01 Michael P. Devine,

All nominees

WITHHOLD

02 Anthony Bergamo,

(except as otherwise

for all

03 Joseph H. Farrell,

indicated)

nominees

04 Louis V. Varone

..

..

Instruction: TO WITHHOLD AUTHORITY to vote for any individual nominee(s), write that nominee's name on the line below:

2. Ratification of the appointment of Deloitte & Touche

LLP as independent auditors for the year ending

December 31, 2003.

FOR      AGAINST      ABSTAIN

..

..

..

3. The proxies are authorized to vote upon such other business as may come before the Annual Meeting or any adjournment or postponement thereof in such manner as shall be determined by a majority of the Board of Directors.

The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Shareholders and the Proxy Statement, dated April 10, 2003 for the Annual Meeting.

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Signature

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Signature

Dated: \_\_\_\_\_, 2003

Please sign exactly as your name appears on the Proxy. Joint owners should each sign personally. If signing as attorney, executor, administrator, trustee, or guardian, please include your full title. Corporate or partnership proxies should be signed by an authorized officer.