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DIME COMMUNITY BANCSHARES, INC.

THE DIME SAVINGS BANK OF WILLIAMSBURGH
SINCE 1864



Dime Community Bancshares, Inc. began trading as a public company in June, 1996. Its primary subsidiary is The Dime Savings Bank of Williamsburgh, which first opened for business on April 16, 1864.

Dime Community is one of the largest, most successful multifamily niche lenders in New York City, and has a loan portfolio totaling over \$1.9 billion.

In the past five years, the Company has grown from \$650 million in assets and six banking locations, to over \$2.7 billion in assets with 18 locations in Brooklyn, Queens, Nassau County and The Bronx.



Dime Community Bancshares remembers the victims of the attack on our great city. Among them are our friends and business associates. What has been lost is immeasurable and they will not be forgotten.

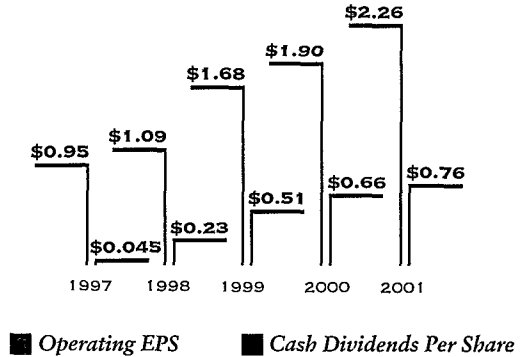
We are also inspired by the heroism, bravery and tireless efforts of the firefighters, police officers and rescue workers. Words alone cannot adequately express our appreciation.

At Dime Community, we have never been more proud of—or more committed to—the people of the City of New York.

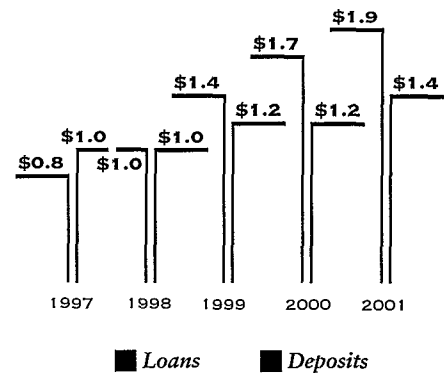
FINANCIAL HIGHLIGHTS

- Fiscal 2001 marks the fifth consecutive year of record financial performance for Dime Community. Over the five years since its initial public offering, the Company has more than doubled its total assets to \$2.7 billion and grown earnings per share at a compound annual rate of 27%. Cash dividends per share increased 15% year over year.
- Dime Community's record results include a 19% increase in earnings per share and a 13% increase in earnings over year-earlier levels. Cash earnings increased 6% to \$33.7 million, or 33% higher than reported earnings.
- Growth was evident in both of the Company's core businesses, multi-family lending and consumer banking. The loan portfolio grew 14% to \$1.9 billion. Dime Community was also successful in increasing fee income and continuing deposit growth. For the year, core deposits grew 23%, outpacing loan growth.

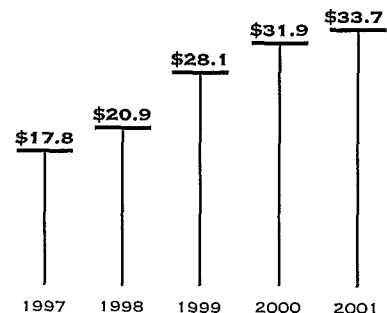
OPERATING EPS AND CASH DIVIDENDS PER SHARE



LOANS AND DEPOSITS AT YEAR ENDED JUNE 30
(In billions of dollars)



CASH EARNINGS
(In millions of dollars)





DEAR FELLOW SHAREHOLDERS

The end of our 2001 fiscal year marked Dime Community Bancshare's 5th Anniversary as a stockholder-owned company. Since our last address to you, we have together experienced a year of extraordinary events. In the worlds of finance and the economy, we saw the unwinding of the technology phenomenon in the stock market, and watched as the Federal Reserve traversed a complete business cycle—first raising and then lowering interest rates. In the world of politics, we witnessed a historic presidential election—resulting in the narrowest margin of victory in our country's history. And then came the unspeakable tragedy of September 11, 2001, when so many of our family, our friends and our business associates were taken from us.

Community banking is one of the many thousands of service-related businesses that make up the bread-and-butter of our economy. Our business is built one customer at a time. Our future success depends on our ability to offer service, quality and convenience through advanced service channels and products. Throughout these uncertain times, the staff members of Dime Community continued to carry out their responsibilities, skillfully executing our business strategy—multi-family lending and consumer banking. We continued to demonstrate that a commitment to customer service backed by a deep understanding of our markets is a winning formula for the way New Yorkers live.

This was evident once again in the Company's outstanding financial performance last year. Those of us who have continued to invest in and hold shares of Dime Community Bancshares, Inc., have seen earnings per share grow at a 27% compound annual growth rate since 1996. In that time, the Company's assets have more than doubled to \$2.7 billion, and the number of branches has increased from six to eighteen. Our branch network is embedded in a New York metropolitan area that contains an unmatched combination of wealth and population, and within which there remain enormous opportunities for Dime Community to continue to grow.

Record Financial Results By several important measures, Dime Community generated record financial results. Earnings per diluted share rose 19% to \$2.26 from \$1.90 a year ago. Reported earnings were \$25.2 million, a 13% increase above fiscal 2000.

For Dime Community, cash earnings, which include real additions to tangible capital that can be used to fund growth, pay dividends and repurchase stock, provide a more meaningful indication of our earnings power. In fiscal 2001, cash earnings per share were \$3.01, up from \$2.71 last year. Cash earnings were \$33.7 million, or 33% higher than reported earnings, a record. This represents a 23% return on beginning tangible equity. Cash return on assets was 1.30%, and cash return on average stockholders' equity was 15.6%.

Our growing track record of strong returns has enabled Dime Community to pay a quarterly cash dividend for 17 consecutive quarters. In fiscal 2001, we declared total cash dividends of \$0.76 per share, an increase of 15.2%. In July 2001, after the close of the fiscal year, we also announced a three-for-two stock split in the form of a 50% stock dividend.

The Board of Director's and Management's emphasis on enhancing shareholder value is also evident in our stock repurchase program. During the year, Dime Community repurchased 408,858 shares of its common stock under a program authorized in June 2000. The Company has long had buyback plans in place to prudently deploy capital and increase earnings per share. Early in fiscal 2002, the Company announced an expansion of its share repurchase program.

17% "Same-Store" Deposit Growth Over the past year, Dime Community placed increasing focus on building market share in the communities where we operate, and the benefits of our marketing and deposit-gathering initiatives are reflected in our financial results. For the year, deposits grew by 17% without the added expense of opening even a single new branch. For the year, deposit volume per branch ("same-store" growth) grew to \$79 million

**"WE CONTINUED TO DEMONSTRATE THAT A
COMMITMENT TO CUSTOMER SERVICE BACKED
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From left: Michael P. Devine, Kenneth J. Mahon & Vincent F. Palagiano

from \$68 million. Core deposits rose 23% to \$737.2 million. The Bank now serves over 67,000 households.

This enabled us to fund 95% of the Company's growth through new deposits in fiscal 2001. For the first time in five years, growth in deposits outpaced growth in loans. In the past, the Company placed much greater reliance on wholesale borrowings to fund growth. We believe this shift in funding will, over time, have a positive and continuing impact on the Company's net interest margin.

Offering More to Our Customers A key strategy for Dime Community has been to introduce valuable new services to our existing customers. During fiscal 2001 we:

- *Introduced MasterCard's debit card program.* To date, we have activated more than 18,000 cards.
- *Launched a new Internet banking channel.* Called DSBWDirect, the new service provides real-time balance inquiries, money transfer and bill payment services online. Combined with our existing telephone banking center and voice-response system, we offer customers an array of alternative banking channels as advanced as those of a much larger bank.
- *Introduced new customer information software.* In order to better identify and meet the needs of our customers, we are installing new technology that will be fully operational during fiscal 2002.

A Leader in Multi-family Lending Dime Community originated \$406.9 million in loans in fiscal 2001, with the strongest growth occurring in the latter part of the fiscal year, following interest rate reductions by the Federal Reserve. For the year, the loan portfolio grew by 14%, to \$1.9 billion.

As one of the leading multi-family apartment lenders in New York, Dime Community lends on many of the same buildings

in which our customers live. There are more than 2 million rental apartment units throughout the five boroughs of New York. Generations of Dime customers and their families have occupied these buildings, many in apartments that are subject to rent guidelines. The system of rent stabilization and controls, which has been in place since the 1940s, has added stability to the multi-family housing market and, consequently, to the Bank's loan portfolio. For example, last year New York City's vacancy rate was 3.1%, lower than at any time during the past two decades. This reflects itself in the safety and credit quality of Dime's loan portfolio. On June 30th, Dime had only \$3.1 million of nonperforming loans out of a total portfolio of \$1.9 billion.

One of the strengths of our management team is that many of us grew up in the same neighborhoods in which we lend today. It is a proven business strategy that we have executed successfully together for over 30 years.

The Outlook For the Way New Yorkers Live As we look ahead, we will remain focused on our two core businesses, multi-family lending and consumer banking. We continue to see many opportunities to grow our existing franchise by providing additional services to our existing customer base. We are committed to executing our proven operating strategy and providing our customers with high-quality service.

Dime Community is a vibrant community bank in the largest market in the world. The goal of our Board of Directors and Management is to continue to build long-term value for, and protect the investment of, our shareholders. Our people at Dime Community understand *the way New Yorkers live...* for our roots are deep. And we remain committed to helping every succeeding generation of New Yorkers prosper for many generations to come.

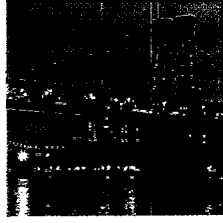
SINCERELY,

VINCENT F. PALAGIANO
Chairman of the Board & Chief Executive Officer

MICHAEL P. DEVINE
President & Chief Operating Officer



...for the Way
New Yorkers Live



COMMUNITY BANKING FOR NEW YORK

At Dime Community, we've positioned ourselves for the way New Yorkers live. New York is a city of neighborhoods. More than anywhere else in the U.S., it is also a city of renters. These defining attributes of our city are also the defining attributes of our bank.

Our consumer banking business meets the needs of New Yorkers who live and work in our neighborhoods in Brooklyn, Queens, The Bronx and Nassau County. Dime Community's 18 branch offices offer a broad range of consumer banking services. And we're committed to continue to expand the array of products and services we offer our customers. In the last year alone, we launched a new MasterCard debit card program, introduced a full-service Internet banking program and began to implement new technology that will enable us to better target the right products to our existing customers. It's all part of Dime Community's strategy to build our consumer banking business in a way that provides even greater value to our customers. It will also enable us to grow by creating additional sources of fee income and a larger deposit base to fund our future growth.

Dime Community's multi-family lending business also closely aligns the Company with the way New Yorkers live. Some two-thirds of all New York City residents live in rental housing, about twice the national rate. For most New Yorkers, neighbors are not the folks across a fence, but those just across the hall.

In recent years, the New York metropolitan area has enjoyed a strong and vibrant economy. New census figures place the city's population at more than 8 million for the first time. Vacancy rates, just one measure of the city's appeal, continued to fall. Between 1996 and 1999, the latest year for which statistics are available, the vacancy rate declined 20% from 4.0% to 3.1%. At the same time, developers were adding more units than at any time in a decade. New dwelling units completed in calendar 2000 were 12,905, up from 8,937 a year earlier. And the number of permits authorized for new residential construction in 2000 topped 15,000, the highest since 1985.

The vibrancy of New York is not just evident in the statistics. It has been palpable. It has been visible in the rebirth of neighborhoods across the five boroughs, the faces of arriving young professionals and the growing diversity of immigrants from other shores.

Much has been said about how the tragic events of September 11, 2001 will change the way New Yorkers—indeed, all Americans—will live. But the heroic, caring and determined response of New Yorkers following those events has demonstrated beyond the power of words the spirit and the resilience of this city.

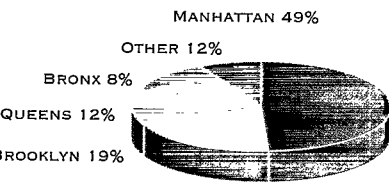
**“THE VIBRANCY OF NEW YORK IS VISIBLE IN THE REBIRTH
OF NEIGHBORHOODS ACROSS THE FIVE BOROUGHS,
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COMMUNITY BANKING FOR NEW YORK

As a community bank with a strong local market presence, Dime Community offers a broad range of loan products to individuals

and businesses. Our emphasis, however, is on mortgage loans for multi-family dwellings. Loans on such properties represented approximately 81% of our \$1.9 billion portfolio at the end of fiscal 2001.

LOAN GEOGRAPHY



The typical loan size in the market we serve is under \$3 million. This is a profitable niche with ample room for growth. Dime Community's leadership in multi-family lending reflects our strong relationships with mortgage brokers and landlords, as well as the competitive rates we are able to offer as a low-cost provider. In fiscal 2001, we originated \$406.9 million in loans; 87% were multi-family mortgages.

The properties underlying these loans form the very fabric of the communities in which we operate. We estimate that the buildings financed by our loans are home for more than 150,000 New Yorkers, a city where two-out-of-three housing units are rentals. Some of these properties also house a wide variety of businesses, from recognized chain stores and restaurants to mom-and-pop shops that conveniently provide necessary goods and services to area residents. This commercial component also lends diversity and added value to our loan portfolio.

Multi-family mortgages compare favorably to single-family mortgages in a number of important respects. With premium adjustable interest rates, low servicing costs and built-in borrower prepayment penalties, these loans tend to be higher yielding, more cost-effective to originate, and more resistant to price depreciation throughout the interest rate cycle. Low operating costs associated with multi-family originations, along with our relentless focus on cost control throughout the Bank, enable us to operate extremely

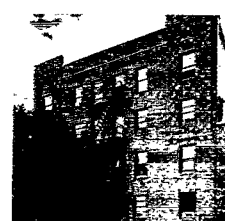
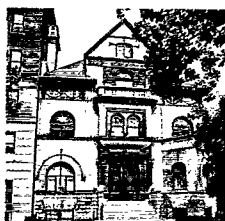
efficiently. Dime Community's efficiency ratio is 39%, significantly below our peer group national average.

Dime Community's lending focus is clear: originate high-quality loans, generate superior cash flows, lend to experienced owners and maintain conservative loan-to-value ratios.

Our track record of success in achieving these goals also reflects our strong underwriting standards. Our stringent lending policies are monitored frequently to take into account shifting economic conditions, trends and potential changes in real estate values. We pay particularly close attention to our property valuation methodologies, which are aimed at mitigating the risk from changing real estate prices. It is also important to underscore the experience of management, which has a deep understanding of our local markets.

Our credit quality in fiscal 2001 remained extremely strong. Non-performing loans at year-end were \$3.1 million, 31% below the level at the end of fiscal 2000. This represented just 0.16% of our total loans. We believe our loan portfolio is positioned to perform well in the event of a market downturn. The average loan-to-value ratio of new multi-family loan originations last year was 68%, well below the industry norm of 75%. The average debt service coverage ratio was 1.7 times, also historically high.

As an institution with a consumer banking focus, we also maintain an active consumer loan department. Recognizing the importance of home ownership to individuals as well as to the broader community, we make available a full array of mortgage loan products to individuals, including single-family home loans and home equity lines of credit. In addition, we participate in various first-time homebuyer and other affordable housing programs sponsored by quasi-government agencies including SONYMA, FNMA and the Federal Home Loan Bank of New York, to help make home ownership a reality for all those who wish to reach that goal.



Lending for the Way New Yorkers Live





COMMUNITY BANKING FOR NEW YORK

Whether they call New York a melting pot or a mosaic, everyone agrees that the diversity of the city and the region is the source of its vitality and strength. But the changing ways New Yorkers live and work creates both challenges and opportunities for financial institutions. Many people embrace technology and the convenience it provides them when they do their banking. Many others enjoy a more personal touch.

As a community bank with a growing consumer banking business, Dime Community is committed to meeting the needs of both kinds of customers—and everyone in between. Our goal is to efficiently and effectively promote old and new products and delivery channels to our customers in the markets we serve.

One important avenue to better meet the needs of our customers is through the effective use of technology. The Company is in the process of installing an enterprise-wide customer relationship management (CRM) system. This information system, which will be fully rolled out in fiscal 2002, is designed to help us increase our cross-sell ratio, the measure of the number of bank services and accounts utilized per household. The system will allow us to better target and identify the products and services our customers are most likely to want and need. Even before implementing the new CRM, we have demonstrated progress in cross-selling our customers. Between 1999 and 2001, we increased the number of services per household from 1.9 to 2.5 and the number of accounts per household from 2.6 to 3.5.

CRM is about selling, but it's also about delivering even higher levels of customer service. Customers will be able to get up-to-date information however they choose to contact us, whether by telephone, in person at the branch or online at our newly launched Internet banking site, www.dsbwdirect.com.

The analytic capability of the system will enable our associates to offer the appropriate products to customers at each and every contact point.

Gaining a greater “share of wallet” in our existing markets is a key growth strategy because it strengthens our relationships with customers. There are many reasons why this is important, including enhancing customer retention and creating new sources of fee income. Capturing more of our customers’ banking business has also lowered our cost of funds, as retail deposits tend to have a lower cost than wholesale borrowed funds.

Dime Community also recognizes that it must keep pace with our competitors. As a result, we continue to introduce new products and services. During fiscal 2001, we introduced a new MasterCard debit program. In just six months, we had activated more than 18,000 cards. The combination of our telephone call center, integrated voice response system, automated teller machines and Internet bank gives our customers access to state-of-the-art remote banking features. In the coming year, we will be placing greater emphasis on marketing other products, such as home equity loans, that complement our consumer strategy and our market.

As Dime Community looks ahead, it will continue to develop and implement marketing campaigns aimed at gathering retail deposits. This represents the cornerstone of our consumer banking strategy as it provides a low-cost source of funding for multi-family lending. The experience and knowledge of our people, as well as the marketplace recognition earned from a heritage that dates back to 1864, are key assets as we look to build our franchise and provide banking services for the way New Yorkers live.

Banking for the Way New Yorkers Live