Northfield Bancorp, Inc.
Form 10-Q
May 10, 2012
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## UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION 

WASHINGTON, D.C. 20549

## FORM 10-Q

## [X] <br> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to

Commission File Number 1-33732

## NORTHFIELD BANCORP, INC.

1410 St. Georges Avenue, Avenel, New Jersey
(Address of principal executive offices)
Registrant $s$ telephone number, including area code: (732) 499-7200

## Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes $\underline{\ddot{u}}$ No _

Indicate by check mark whether the registrant has submitted electronically and posted on it corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required and post such files). Yes $\underline{\ddot{u}}$ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer "
Accelerated filer p
Non-accelerated filer " (Do not check if smaller reporting company)
Smaller reporting company *
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes $\qquad$ No ü.

Indicate the number of shares outstanding of each of the issuer $s$ classes of common stock as of the latest practicable date.
40,379,768 shares of Common Stock, par value $\$ 0.01$ per share, were issued and outstanding as of May 4, 2012.

# NORTHFIELD BANCORP, INC 

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## NORTHFIELD BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

March 31, 2012, and December 31, 2011
(In thousands, except per share amounts)

|  | $\begin{gathered} \text { March 31, } \\ 2012 \\ \text { (Unaudited) } \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2011 \end{gathered}$ |
| :---: | :---: | :---: |
| ASSETS: |  |  |
| Cash and due from banks | \$ 13,775 | \$ 15,539 |
| Interest-bearing deposits in other financial institutions | 32,062 | 49,730 |
| Total cash and cash equivalents | 45,837 | 65,269 |
| Trading securities | 4,577 | 4,146 |
| Securities available-for-sale, at estimated fair value (encumbered \$313,004 in 2012 and \$309,816 in 2011) | 1,184,467 | 1,098,725 |
| Securities held-to-maturity, at amortized cost (estimated fair value of $\$ 3,492$ in 2012 and $\$ 3,771$ in 2011) (encumbered \$0 in 2012 and 2011) | 3,324 | 3,617 |
| Loans held-for-sale | 604 | 3,900 |
| Purchased credit-impaired (PCI) loans held-for-investment | 86,068 | 88,522 |
| Originated loans held-for-investment, net | 957,277 | 985,945 |
| Loans held-for-investment, net | 1,043,345 | 1,074,467 |
| Allowance for loan losses | $(27,100)$ | $(26,836)$ |
| Net loans held-for-investment | 1,016,245 | 1,047,631 |
| Accrued interest receivable | 7,809 | 8,610 |
| Bank owned life insurance | 78,497 | 77,778 |
| Federal Home Loan Bank of New York stock, at cost | 12,452 | 12,677 |
| Premises and equipment, net | 22,178 | 19,988 |
| Goodwill | 16,159 | 16,159 |
| Other real estate owned | 2,444 | 3,359 |
| Other assets | 11,257 | 15,059 |
| Total assets | 2,405,850 | 2,376,918 |

LIABILITIES AND STOCKHOLDERS EQUITY:

| LIABILITIES: | $1,500,492$ |  |
| :--- | ---: | ---: |
| Deposits | 276,000 | $1,493,526$ |
| Securities sold under agreements to repurchase | 201,119 |  |
| Other borrowings | 20,000 |  |
| Advance payments by borrowers for taxes and insurance | 3,921 |  |
| Accrued expenses and other liabilities | 39,159 |  |
| Total liabilities | 2,201 |  |


| STOCKHOLDERS EQUITY: |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued or outstanding |  | - |  | - |
| Common stock, \$0.01 par value: 90,000,000 shares authorized, 45,632,611 shares issued at March 31, 2012, and |  |  |  |  |
| December 31, 2011, respectively, 40,396,868 and 40,518,591 outstanding at March 31, 2012 and December 31, 2011, respectively |  | 456 |  | 456 |
| Additional paid-in-capital |  | 210,121 |  | 209,302 |
| Unallocated common stock held by employee stock ownership plan |  | $(14,424)$ |  | $(14,570)$ |
| Retained earnings |  | 239,006 |  | 235,776 |
| Accumulated other comprehensive income |  | 17,500 |  | 17,470 |
| Treasury stock at cost; 5,235,743 and 5,114,020 shares at March 31, 2012 and December 31, 2011, respectively |  | $(67,500)$ |  | $(65,784)$ |
| Total stockholders equity |  | 385,159 |  | 382,650 |
| Total liabilities and stockholders equity | \$ | 2,405,850 | \$ | 2,376,918 |

See accompanying notes to consolidated financial statements.

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## NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

Three months ended March 31, 2012, and 2011
(Unaudited)
(In thousands, except share data)

|  | Three months ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2012 |  | 2011 |  |
| Interest income: |  |  |  |  |
| Loans | \$ | 15,150 | \$ | 12,474 |
| Mortgage-backed securities |  | 6,776 |  | 8,417 |
| Other securities |  | 653 |  | 970 |
| Federal Home Loan Bank of New York dividends |  | 142 |  | 109 |
| Deposits in other financial institutions |  | 18 |  | 28 |
| Total interest income |  | 22,739 |  | 21,998 |
| Interest expense: |  |  |  |  |
| Deposits |  | 2,524 |  | 3,017 |
| Borrowings |  | 3,290 |  | 3,210 |
| Total interest expense |  | 5,814 |  | 6,227 |
| Net interest income |  | 16,925 |  | 15,771 |
| Provision for loan losses |  | 615 |  | 1,367 |
| Net interest income after provision for loan losses |  | 16,310 |  | 14,404 |
| Non-interest income: |  |  |  |  |
| Fees and service charges for customer services |  | 802 |  | 694 |
| Income on bank owned life insurance |  | 719 |  | 741 |
| Gain on securities transactions, net |  | 2,137 |  | 1,805 |
| Other-than-temporary impairment losses on securities |  | - |  | (161) |
| Portion recognized in other comprehensive income (before taxes) |  | - |  | - |
| Net impairment losses on securities recognized in earnings |  | - |  | (161) |
| Other |  | 317 |  | 30 |
| Total non-interest income |  | 3,975 |  | 3,109 |
| Non-interest expense: |  |  |  |  |
| Compensation and employee benefits |  | 6,287 |  | 5,162 |
| Director compensation |  | 391 |  | 399 |
| Occupancy |  | 1,965 |  | 1,492 |
| Furniture and equipment |  | 333 |  | 287 |
| Data processing |  | 1,083 |  | 672 |


| FDIC insurance | 426 |  | 460 |  |
| :---: | :---: | :---: | :---: | :---: |
| Professional fees |  | 858 |  | 440 |
| Other |  | 1,299 |  | 1,041 |
| Total non-interest expense |  | 12,642 |  | 9,953 |
| Income before income tax expense |  | 7,643 |  | 7,560 |
| Income tax expense |  | 2,695 |  | 2,590 |
| Net income | \$ | 4,948 | \$ | 4,970 |
| Net income per common share - basic and diluted | \$ | 0.13 | \$ | 0.12 |
| Other comprehensive income, before tax: |  |  |  |  |
| Unrealized gains on securities: |  |  |  |  |
| Net unrealized holding gains (losses) on securities |  | 51 |  | $(1,493)$ |
| Other comprehensive income (loss), before tax |  | 51 |  | $(1,493)$ |
| Income tax expense (benefit) related to items of other comprehensive income |  | 21 |  | (598) |
| Other comprehensive income (loss), net of tax |  | 30 |  | (895) |
| Comprehensive income | \$ | 4,978 | \$ | 4,075 |

See accompanying notes to consolidated financial statements.

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NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Three months ended March 31, 2012, and 2011
(Unaudited)
(Dollars in thousands)

|  | Common <br> Shares | ock <br> Par <br> Value | Additional <br> Paid-in <br> Capital | Unallocated Common Stock <br> Held by the Employee Stock Ownership Plan | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total <br> Stockholders Equity |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at <br> December 31, 2010 | 45,632,611 | \$ 456 | \$ 205,863 | \$ $(15,188)$ | \$ 222,655 | \$ 10,910 | \$ $(27,979)$ | \$ 396,717 |
| Net income |  |  |  |  | 4,970 |  |  | 4,970 |
| Other comprehensive income |  |  |  |  |  | (895) |  | (895) |
| ESOP shares allocated or committed to be released |  |  | 49 | 146 |  |  |  | 195 |
| Stock compensation expense |  |  | 759 |  |  |  |  | 759 |
| Additional tax benefit on equity awards |  |  | 186 |  |  |  |  | 186 |
| Exercise of stock options |  |  |  |  | (1) |  | 6 | 5 |
| Cash dividends declared (\$0.05 per common share) |  |  |  |  | (848) |  |  | (848) |
| Treasury stock (average cost of $\$ 13.35$ per share) |  |  |  |  |  |  | $(5,327)$ | $(5,327)$ |
| Balance at March 31, 2011 | 45,632,611 | \$ 456 | \$ 206,857 | \$ $(15,042)$ | \$ 226,776 | \$ 10,015 | \$ $(33,300)$ | \$ 395,762 |
| Balance at <br> December 31, 2011 | 45,632,611 | \$ 456 | \$ 209,302 | \$ $(14,570)$ | \$ 235,776 | \$ 17,470 | \$ $(65,784)$ | \$ 382,650 |
| Net income |  |  |  |  | 4,948 |  |  | 4,948 |
| Other comprehensive income |  |  |  |  |  | 30 |  | 30 |
| ESOP shares allocated or committed to be released |  |  | 63 | 146 |  |  |  | 209 |
| Stock compensation expense |  |  | 756 |  |  |  |  | 756 |
| Cash dividends declared (\$0.12 per common share) |  |  |  |  | $(1,718)$ |  |  | $(1,718)$ |

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| Treasury stock (average |
| :--- |
| cost of $\$ 13.80$ per |
| share) |


| Balance at March 31, |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| $\mathbf{2 0 1 2}$ |

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## NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 2012, and 2011
(Unaudited) (In thousands)

|  | 2012 | 2011 |
| :---: | :---: | :---: |
| Cash flows from operating activities: |  |  |
| Net income | \$ 4,948 | \$ 4,970 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |
| Provision for loan losses | 615 | 1,367 |
| ESOP and stock compensation expense | 965 | 954 |
| Depreciation | 632 | 498 |
| Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees | 286 | 82 |
| Amortization of intangible assets | 82 | 44 |
| Income on bank owned life insurance | (719) | (741) |
| Net gain on sale of loans held-for-sale | (117) | (14) |
| Proceeds from sale of loans held-for-sale | 7,324 | 3,730 |
| Origination of loans held-for-sale | $(3,911)$ | $(2,868)$ |
| Gain on securities transactions, net | $(2,137)$ | $(1,805)$ |
| Net impairment losses on securities recognized in earnings | - | 161 |
| Net purchases of trading securities | (35) | (100) |
| Decrease (increase) in accrued interest receivable | 801 | (6) |
| Decrease in other assets | 3,623 | 1,681 |
| Increase (decrease) in accrued expenses and other liabilities | 2,790 | (678) |
| Net cash provided by operating activities | 15,147 | 7,275 |
| Cash flows from investing activities: |  |  |
| Net decrease (increase) in loans receivable | 30,667 | $(27,003)$ |
| Redemptions of Federal Home Loan Bank of New York stock, net | 225 | 450 |
| Purchases of securities available-for-sale | $(278,784)$ | $(245,578)$ |
| Principal payments and maturities on securities available-for-sale | 115,669 | 101,420 |
| Principal payments and maturities on securities held-to-maturity | 294 | 351 |
| Proceeds from sale of securities available-for-sale | 98,744 | 88,505 |
| Proceeds from sale of other real estate owned | 991 | - |
| Purchases and improvements of premises and equipment | $(2,822)$ | (798) |
| Net cash used in investing activities | $(35,016)$ | $(82,653)$ |
| Cash flows from financing activities: |  |  |
| Net increase in deposits | 6,966 | 30,421 |
| Dividends paid | $(1,718)$ | (848) |
| Exercise of stock options | - | 5 |
| Purchase of treasury stock | $(1,716)$ | $(5,327)$ |
| Additional tax benefit on equity awards | - | 186 |
| Increase in advance payments by borrowers for taxes and insurance | 1,720 | 1,632 |
| Repayments under capital lease obligations | (59) | (51) |
| Proceeds from securities sold under agreements to repurchase and other borrowings | 64,244 | 317,773 |
| Repayments related to securities sold under agreements to repurchase and other borrowings | $(69,000)$ | $(219,594)$ |
| Net cash provided by financing activities | 437 | 124,197 |


| Net (decrease) increase in cash and cash equivalents | $(19,432)$ |  | $\begin{aligned} & 48,819 \\ & 43,852 \end{aligned}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Cash and cash equivalents at beginning of period |  | 65,269 |  |  |
| Cash and cash equivalents at end of period | \$ | 45,837 | \$ | 92,671 |
| Supplemental cash flow information: |  |  |  |  |
| Cash paid during the period for: |  |  |  |  |
| Interest | \$ | 5,989 | \$ | 6,010 |
| Income taxes |  | 104 |  | 1,024 |
| Non-cash transactions: |  |  |  |  |
| Loans charged-off, net |  | 351 |  | 1,171 |
| Transfers of loans to other real estate owned |  | - |  | 350 |
| Increase (decrease) in due to broker for purchases of securities available-for-sale |  | 19,762 |  | $(19,984)$ |

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## NORTHFIELD BANCORP, INC.

## Notes to Unaudited Consolidated Financial Statements

## Note 1 Basis of Presentation

The consolidated financial statements are comprised of the accounts of Northfield Bancorp, Inc., and its wholly-owned subsidiary, Northfield Bank (the Bank ), and the Bank s wholly-owned significant subsidiaries, NSB Services Corp. and NSB Realty Trust (collectively, the Company ). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments (consisting solely of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three month period ended March 31, 2012, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2012. Certain prior year amounts have been reclassified to conform to the current year presentation.

In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for the preparation of interim financial statements. The consolidated financial statements presented should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011, of Northfield Bancorp, Inc. as filed with the SEC.

## Note 2 Securities Available-for-Sale

The following is a comparative summary of mortgage-backed securities and other securities available-for-sale at March 31, 2012, and December 31, 2011 (in thousands):

|  | March 31, 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & \text { Amortized } \\ & \text { cost } \end{aligned}$ | Gross unrealized gains | Gross unrealized losses | Estimated <br> fair <br> value |
| Mortgage-backed securities: |  |  |  |  |
| Pass-through certificates: |  |  |  |  |
| Government sponsored enterprises (GSE) | \$ 464,752 | \$ 22,699 | \$ | \$ 487,451 |
| Non-GSE | 8,362 | - | 674 | 7,688 |
| Real estate mortgage investment conduits (REMICs): |  |  |  |  |
| GSE | 536,412 | 5,290 | 40 | 541,662 |
| Non-GSE | 27,509 | 1,557 | 34 | 29,032 |
|  | 1,037,035 | 29,546 | 748 | 1,065,833 |
| Other securities: |  |  |  |  |
| Equity investments-mutual funds | 13,467 | 37 | - | 13,504 |

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| Corporate bonds | 104,328 | 808 | 6 | 105,130 |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 117,795 | 845 | 6 | 118,634 |  |
|  |  |  |  |  |  |
| Total securities available-for-sale | $\$ 1,154,830$ | $\$ 30,391$ | $\$$ | 754 | $\$ 1,184,467$ |

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|  | Amortized cost |  | December 31, 2011 |  |  |  | Estimated <br> fair <br> value |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Gross unrealized gains |  | Gross unrealized losses |  |  |  |
| Mortgage-backed securities: |  |  |  |  |  |  |  |  |
| Pass-through certificates: |  |  |  |  |  |  |  |  |
| GSE | \$ | 490,184 | \$ | 24,709 | \$ | - | \$ | 514,893 |
| Non-GSE |  | 8,770 |  | - |  | 1,255 |  | 7,515 |
| Real estate mortgage investment conduits (REMICs): |  |  |  |  |  |  |  |  |
| GSE |  | 426,362 |  | 4,662 |  | 135 |  | 430,889 |
| Non-GSE |  | 31,114 |  | 1,859 |  | 37 |  | 32,936 |
|  |  | 956,430 |  | 31,230 |  | 1,427 |  | 986,233 |
| Other securities: |  |  |  |  |  |  |  |  |
| Equity investments-mutual funds |  | 11,787 |  | 48 |  | - |  | 11,835 |
| Corporate bonds |  | 100,922 |  | 358 |  | 623 |  | 100,657 |
|  |  | 112,709 |  | 406 |  | 623 |  | 112,492 |
| Total securities available-for-sale | \$ | 1,069,139 | \$ | 31,636 | \$ | 2,050 | \$ | 1,098,725 |

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at March 31, 2012 (in thousands):

|  |  | Estimated |  |
| :--- | :---: | :---: | :---: |
| Available-for-sale | Amortized <br> cost | fair |  |
|  |  |  | value |
| Due in one year or less | $\$$ | 51,355 | $\$$ |
| Due after one year through five years | 52,973 | 51,806 |  |

Expected maturities on mortgage-backed securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties.

For the three months ended March 31, 2012, the Company had gross proceeds of $\$ 98.7$ million on sales of securities available-for-sale with gross realized gains of approximately $\$ 1.7$ million and gross realized losses of $\$ 0$. For the three months ended March 31 , 2011, the Company had gross proceeds of $\$ 88.5$ million on sales of securities available-for-sale with gross realized gains of approximately $\$ 1.6$ million and gross realized losses of $\$ 0$. The Company recognized $\$ 396,000$ in gains on its trading securities portfolio during the three months ended March 31 , 2012. The Company recognized $\$ 186,000$ in gains on its trading securities portfolio during the three months ended March 31,2011 . The Company did not recognize any other-than-temporary impairment charges during the three months ended March 31, 2012. The Company recognized other-than-temporary impairment charges of $\$ 161,000$ against earnings during the three months ended March 31 , 2011, related to one equity investment in a mutual fund.

Activity related to the credit component recognized in earnings on debt securities for which a portion of other-than-temporary impairment was recognized in accumulated other comprehensive income for the three months ended March 31, 2012 and 2011, is as follows (in thousands):

|  | Three months ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2012 |  | 2011 |  |
| Balance, beginning of period | \$ | 578 | \$ | 330 |
| Additions to the credit component on debt securities in which other-than-temporary impairment was not previously recognized |  | - |  | - |
| Cumulative pre-tax credit losses, end of period | \$ | 578 | \$ | 330 |

Gross unrealized losses on mortgage-backed securities, equity investments, and corporate bonds available-for-sale, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2012, and December 31, 2011, were as follows (in thousands):

|  | Less than 12 months |  |  |  | March 31, 2012 <br> 12 months or more |  |  |  | Total |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | timated <br> ir value | Unrealized losses |  | Estimated fair value |  | Unrealized losses |  | Estimated fair value |  |
| Mortgage-backed securities: |  |  |  |  |  |  |  |  |  |  |  |  |
| Pass-through certificates: |  |  |  |  |  |  |  |  |  |  |  |  |
| Non-GSE | \$ | - | \$ | - | \$ | 674 | \$ | 7,688 | \$ | 674 | \$ | 7,688 |
| Real estate mortgage investment conduits (REMICs): |  |  |  |  |  |  |  |  |  |  |  |  |
| GSE |  | 40 |  | 104,772 |  | - |  | - |  | 40 |  | 104,772 |
| Non-GSE |  | - |  | - |  | 34 |  | 789 |  | 34 |  | 789 |
| Corporate bonds |  | - |  | - |  | 6 |  | 11,668 |  | 6 |  | 11,668 |
| Total | \$ | 40 | \$ | 104,772 | \$ | 714 | \$ | 20,145 | \$ | 754 | \$ | 124,917 |

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|  | Less than 12 months |  |  |  | December 31, 2011 <br> 12 months or more |  |  |  | Total |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Unrealized losses |  | Estimated fair value |  | Unrealized losses |  | Estimated fair value |  | Unrealized losses |  | Estimated fair value |  |
| Mortgage-backed securities: |  |  |  |  |  |  |  |  |  |  |  |  |
| Pass-through certificates: |  |  |  |  |  |  |  |  |  |  |  |  |
| Non-GSE | \$ | 307 | \$ | 2,513 | \$ | 948 | \$ | 5,002 | \$ | 1,255 | \$ | 7,515 |
| Real estate mortgage investment conduits (REMICs): |  |  |  |  |  |  |  |  |  |  |  |  |
| GSE |  | 135 |  | 54,475 |  | - |  | - |  | 135 |  | 54,475 |
| Non-GSE |  | - |  | - |  | 37 |  | 842 |  | 37 |  | 842 |
| Corporate bonds |  | 113 |  | 27,523 |  | 510 |  | 13,132 |  | 623 |  | 40,655 |
| Total | \$ | 555 | \$ | 84,511 | \$ | 1,495 | \$ | 18,976 | \$ | 2,050 | \$ | 103,487 |

Included in the above available-for-sale security amounts at March 31, 2012, were two pass-through non-GSE mortgage-backed securities issued by private companies, (private label), in continuous unrealized loss positions of greater than twelve months that were rated less than investment grade at March 31, 2012. The first security had an estimated fair value of $\$ 5.3$ million (amortized cost of $\$ 5.8$ million), was rated Caa2, and had the following underlying collateral characteristics: $83 \%$ originated in 2004 , and $17 \%$ originated in 2005 . The second security had an estimated fair value of $\$ 2.4$ million (amortized cost of $\$ 2.6$ million), was rated $C$, and was supported by collateral which was originated in 2006. The ratings of these securities detailed above represents the lowest rating these securities received from the rating agencies of Moody s, Standard \& Poor s, and Fitch. The Company continues to receive principal and interest payments in accordance with the contractual terms of these securities. Management has evaluated, among other things, delinquency status, location of collateral, estimated prepayment speeds, and the estimated default rates and loss severity in liquidating the underlying collateral for these securities. As a result of management s evaluation of these securities, the Company did not recognize any other-than-temporary impairment during the three months ended March 31, 2012. Management does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities, before their anticipated recovery (which may be maturity).

The Company also held one REMIC non-GSE mortgage-backed security and two corporate bonds that were in a continuous unrealized loss position of greater than twelve months at March 31, 2012. There were twelve REMIC mortgage-backed securities issued or guaranteed by GSEs that were in an unrealized loss position of less than twelve months, and rated investment grade at March 31, 2012. The declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligations or other securities deteriorates and our credit enhancement levels do not provide sufficient protections to our contractual principal and interest. As a result, there is a risk that significant other-than-temporary impairments may occur in the future given the current economic environment.

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## Note 3 Net Loans Held-for-Investment

Net loans held-for-investment are as follows (in thousands):

|  | $\begin{gathered} \text { March 31, } \\ 2012 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2011 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Real estate loans: |  |  |  |  |
| Multifamily | \$ | 496,683 | \$ | 458,370 |
| Commercial mortgage |  | 318,941 |  | 327,074 |
| One- to- four family residential mortgage |  | 71,529 |  | 72,592 |
| Home equity and lines of credit |  | 28,664 |  | 29,666 |
| Construction and land |  | 21,916 |  | 23,460 |
| Total real estate loans |  | 937,733 |  | 911,162 |
| Commercial and industrial loans |  | 13,026 |  | 12,710 |
| Insurance premium loans |  | 3,669 |  | 59,096 |
| Other loans |  | 1,241 |  | 1,496 |
| Total commercial and industrial, insurance premium, and other loans |  | 17,936 |  | 73,302 |
| Deferred loan cost, net |  | 1,608 |  | 1,481 |
| Originated loans held-for-investment, net |  | 957,277 |  | 985,945 |
| PCI Loans |  | 86,068 |  | 88,522 |
| Loans held for investment, net |  | 1,043,345 |  | 1,074,467 |
| Allowance for loan losses |  | $(27,100)$ |  | $(26,836)$ |
| Net loans held-for-investment | \$ | 1,016,245 | \$ | 1,047,631 |

Loans held-for-sale amounted to $\$ 604,000$ and $\$ 3.9$ million at March 31, 2012, and December 31, 2011, respectively. Loans held for sale are comprised of $\$ 524,000$ of one-to-four family residential mortgage loans and $\$ 80,000$ of commercial real estate loans.

PCI loans, acquired as part of a Federal Deposit Insurance Corporation-assisted transaction, totaled $\$ 86.1$ million at March 31, 2012 as compared to $\$ 88.5$ million at December 31, 2011. The Company accounts for PCI loans utilizing generally accepting accounting principles applicable to loans acquired with deteriorated credit quality. PCI loans consist of approximately $34 \%$ commercial real estate, $56 \%$ commercial and industrial loans with the remaining balance in residential and home equity loans. The Company recorded accretion interest income of $\$ 1.6$ million for the quarter ended March 31, 2012 as follows:

|  | For the Three Months <br> Ended March 31, 2012 |  |
| :--- | :---: | :---: |
| Balance at the beginning of period | $\$$ | 42,493 |
| Accretion into interest income | $(1,620)$ |  |
|  | $\$$ | 40,873 |

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios.

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The Company, through its principal subsidiary, the Bank, serviced $\$ 37.8$ million and $\$ 41.3$ million of loans at March 31, 2012, and December 31, 2011, respectively, for Freddie Mac. These one- to four-family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed by the Company which, with other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At March 31, 2012, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans. Servicing of loans for others does not have a material effect on our financial position or results of operations.

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Activity in the allowance for loan losses is as follows (in thousands):

|  | At or for the <br> three months ended <br> March 31, |  |  |
| :--- | ---: | ---: | ---: |
|  |  | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |

The following tables set forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2012, and the year ended December 31, 2011, respectively. The following tables also detail the amount of originated loans held-for-investment, net of deferred loan fees and costs, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, as of March 31, 2012 and December 31, 2011 (in thousands).


## Ending

balance:
collectively
evaluated
for
$\begin{array}{lllllllllllllllllllllllllllllllllll}\text { impairment } & \$ & 7,306 & \$ & 11,618 & \$ & 596 & \$ & 1,055 & \$ & 368 & \$ & 735 & \$ & 67 & \$ & 32 & \$ & 1,181 & \$ & 22,958\end{array}$

## Originated

loans, net:

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Ending
balance:
collectively
evaluated
$\begin{array}{llllllllllllllllllllllllllll}\text { for } \\ \text { impairment } & \$ & 494,921 & \$ & 271,052 & \$ & 70,592 & \$ & 21,775 & \$ & 26,944 & \$ & 7,328 & \$ & 3,669 & \$ & 1,241 & \$ & - & \$ & 897,522\end{array}$

|  |  |  |  |  |  |  |  |  |  | 2/31 |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |  | state |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | ifamily |  | mercial |  | -to- <br> ur <br> nily |  | ruction <br> Land |  | ty ines <br> dit |  | nercial <br> nd <br> strial |  | $\begin{aligned} & \text { ance } \\ & \text { ium } \end{aligned}$ |  |  | Una | ocated |  | Total |
| Allowance for loan losses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Beginning |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance | \$ | 5,137 | \$ | 12,654 | \$ | 570 | \$ | 1,855 | \$ | 242 | \$ | 719 | \$ | 111 | \$ | 28 | \$ | 503 | \$ | 21,819 |
| Charge-offs |  | (718) |  | $(5,398)$ |  | (101) |  | (693) |  | (62) |  | (638) |  | (70) |  | - |  | - |  | $(7,680)$ |
| Recoveries |  | - |  | 55 |  | - |  | - |  | - |  | 23 |  | 30 |  | - |  | - |  | 108 |
| Provisions |  | 2,353 |  | 6,809 |  | 498 |  | 27 |  | 238 |  | 1,931 |  | 115 |  | 12 |  | 606 |  | 12,589 |
| Ending |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance | \$ | 6,772 | \$ | 14,120 | \$ | 967 | \$ | 1,189 | \$ | 418 | \$ | 2,035 | \$ | 186 | \$ | 40 | \$ | 1,109 | \$ | 26,836 |




Originated
loans, net:
Ending
$\begin{array}{llllllllllllllllllllllllllll}\text { balance } & \$ & 459,434 & \$ & 327,141 & \$ & 72,679 & \$ & 23,478 & \$ & 29,906 & \$ & 12,715 & \$ & 59,096 & \$ & 1,496 & \$ & - & \$ & 985,945\end{array}$


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```
Ending
balance:
collectively
evaluated
for
```



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The Company monitors the credit quality of its loans, by reviewing certain key credit quality indicators. Management has determined that loan-to-value ratios (at period end) and internally assigned credit risk ratings by loan type are the key credit quality indicators that best help management monitor the credit quality of the Company s loans. Loan-to-value (LTV) ratios used by management in monitoring credit quality are based on current period loan balances and original values at time of origination (unless a more current appraisal has been obtained). In calculating the provision for loan losses, management has determined that commercial real estate loans and multifamily loans having loan-to-value ratios of less than $35 \%$, and one- to four-family loans having loan-to-value ratios of less than $60 \%$, require less of a loss factor than those with higher loan to value ratios.

The Company maintains a credit risk rating system as part of the risk assessment of its loan portfolio. The Company s lending officers are required to assign a credit risk rating to each loan in their portfolio at origination. When the lending officer learns of important financial developments, the risk rating is reviewed accordingly, and adjusted if necessary. Monthly, management presents monitored assets to the Board Loan Committee. In addition, the Company engages a third party independent loan reviewer that performs semi-annual reviews of a sample of loans, validating the credit risk ratings assigned to such loans. The credit risk ratings play an important role in the establishment of the loan loss provision and in confirming the adequacy of the allowance for loan losses. After determining the general reserve loss factor for each portfolio segment, the portfolio segment balance collectively evaluated for impairment is multiplied by the general reserve loss factor for the respective portfolio segment in order to determine the general reserve. Loans that have an internal credit rating of special mention or substandard are multiplied by a multiple of the general reserve loss factors for each portfolio segment, in order to determine the general reserve.

When assigning a risk rating to a loan, management utilizes the Bank sinternal nine-point credit risk rating system.

1. Strong
2. Good
3. Acceptable
4. Adequate
5. Watch
6. Special Mention
7. Substandard
8. Doubtful
9. Loss

Loans rated 1 through 5 are considered pass ratings. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable based on current circumstances. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets which do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are designated special mention.

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The following tables detail the recorded investment of originated loans held-for-investment, net of deferred fees and costs, by loan type and credit quality indicator at March 31, 2012, and December 31, 2011 (in thousands).


Included in originated loans receivable (including held-for-sale) are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment of these nonaccrual loans was $\$ 38.4$ million and $\$ 43.8$ million, at March 31, 2012, and December 31, 2011, respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.

These non-accrual amounts included loans deemed to be impaired of $\$ 34.6$ million and $\$ 36.1$ million at March 31, 2012, and December 31, 2011, respectively. Loans on non-accrual status with principal balances less than $\$ 500,000$, and therefore not meeting the Company s definition of an impaired loan, amounted to $\$ 3.8$ million and $\$ 4.3$ million at March 31, 2012, and December 31, 2011, respectively. Non-accrual amounts included in loans held-for-sale were $\$ 80,000$ and $\$ 3.4$ million at March 31, 2012, and December 31, 2011, respectively. Loans past due 90 days or more and still accruing interest were $\$ 1.8$ million and $\$ 85,000$ at March 31, 2012, and December 31, 2011 and consisted of loans that are considered well secured and in the process of collection.

The following tables set forth the detail, and delinquency status, of non-performing loans (non-accrual loans and loans past due 90 or more and still accruing), net of deferred fees and costs, at March 31, 2012, and December 31, 2011 (in thousands). The following table excludes PCI loans at March 31, 2012, which have been segregated into pools in accordance with ASC Subtopic 310-30. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. At March 31, 2012, expected future cash flows of each PCI loan pool was consistent with those estimated at its purchase date.

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|  | $\begin{aligned} & \text { At March 31, } 2012 \\ & \text { Non-Accruing Loans } \end{aligned}$ |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & \text { 0-29 Days } \\ & \text { Past Due } \end{aligned}$ |  | $\begin{aligned} & \text { 30-89 Days } \\ & \text { Past Due } \end{aligned}$ |  | 90 Days or More Past Due |  | Total |  | 90 Days or <br> More Past <br> Due and Accruing |  | Total Non- <br> Performing <br> Loans |  |
| Loans held-for-investment: |  |  |  |  |  |  |  |  |  |  |  |  |
| Real estate loans: |  |  |  |  |  |  |  |  |  |  |  |  |
| Commercial |  |  |  |  |  |  |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |  |  |  |  |  |  |
| Special Mention |  | - |  | - |  | - |  | - |  | 9 |  | 9 |
| Substandard | \$ | 353 | \$ | - | \$ | 1,360 | \$ | 1,713 | \$ | - | \$ | 1,713 |
| Total |  | 353 |  | - |  | 1,360 |  | 1,713 |  | 9 |  | 1,722 |
| LTV => 35\% |  |  |  |  |  |  |  |  |  |  |  |  |
| Special Mention |  | 873 |  | - |  | - |  | 873 |  | - |  | 873 |
| Substandard |  | 15,091 |  | 20 |  | 12,692 |  | 27,803 |  | 985 |  | 28,788 |
| Total |  | 15,964 |  | 20 |  | 12,692 |  | 28,676 |  | 985 |  | 29,661 |
| Total commercial |  | 16,317 |  | 20 |  | 14,052 |  | 30,389 |  | 994 |  | 31,383 |


| One-to-four family residential |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| LTV < 60\% |  |  |  |  |  |  |
| Special Mention | - | 21 | 327 | 348 | - | 348 |
| Substandard | 51 | - | 197 | 248 | - | 248 |
| Total | 51 | 21 | 524 | 596 | - | 596 |
| LTV => 60\% |  |  |  |  |  |  |
| Substandard | 131 | 510 | - | 641 | - | 641 |
| Total | 131 | 510 | - | 641 | - | 641 |
| Total one-to-four family residential | 182 | 531 | 524 | 1,237 | - | 1,237 |


| Construction and land |  |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
| Substandard | 1,803 | - | - | 1,803 | - |
| Total construction and land | 1,803 | - | - | 1,803 | - |


| Multifamily |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| LTV < 35\% |  |  |  |  |  |  |
| Substandard | 31 | - | - | 31 | - | 31 |
| Loss | 490 | - | - | 490 | - | 490 |
| Total | 521 | - | - | 521 | - | 521 |
| LTV => 35\% |  |  |  |  |  |  |
| Substandard | - | - | 1,179 | 1,179 | 792 | 1,971 |
| Total | - | - | 1,179 | 1,179 | 792 | 1,971 |
| Total multifamily | 521 | - | 1,179 | 1,700 | 792 | 2,492 |

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|  | 0-29 Days <br> Past Due | $\begin{aligned} & \text { 30-89 Days } \\ & \text { Past Due } \end{aligned}$ | 90 Days or <br> More Past Due | Total |  | 90 Days or More Past Due and Accruing |  | Total NonPerforming Loans |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Loans held-for-investment: |  |  |  |  |  |  |  |  |  |
| Real estate loans: |  |  |  |  |  |  |  |  |  |
| Commercial |  |  |  |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |  |  |  |
| Special Mention | - | - | - |  | - |  | 13 |  | 13 |
| Substandard | \$ 404 | \$ | \$ 1,360 | \$ | 1,764 | \$ | - | \$ | 1,764 |
| Total | 404 | - | 1,360 |  | 1,764 |  | 13 |  | 1,777 |
| LTV => 35\% |  |  |  |  |  |  |  |  |  |
| Special Mention | 876 | - | 1,020 |  | 1,896 |  | - |  | 1,896 |
| Substandard | 14,657 | 3,438 | 10,559 |  | 28,654 |  | - |  | 28,654 |
| Total | 15,533 | 3,438 | 11,579 |  | 30,550 |  | - |  | 30,550 |
| Total commercial | 15,937 | 3,438 | 12,939 |  | 32,314 |  | 13 |  | 32,327 |
| One-to-four family residential |  |  |  |  |  |  |  |  |  |
| LTV < 60\% |  |  |  |  |  |  |  |  |  |
| Special Mention | - | 23 | 335 |  | 358 |  | - |  | 358 |
| Substandard | 210 | - | 198 |  | 408 |  | - |  | 408 |
| Total | 210 | 23 | 533 |  | 766 |  | - |  | 766 |
| LTV $=>60 \%$ |  |  |  |  |  |  |  |  |  |
| Substandard | - | 572 |  |  | 572 |  | - |  | 572 |
| Total | - | 572 | - |  | 572 |  | - |  | 572 |
| Total one-to-four family residential | 210 | 595 | 533 |  | 1,338 |  | - |  | 1,338 |


| Construction and land |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Special Mention | - | - | - | - |  | - |
| Substandard | 1,709 | - | - | 1,709 | - | 1,709 |
| Total construction and land | 1,709 | - | - | 1,709 | - | 1,709 |


| Multifamily |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| LTV < 35\% |  |  |  |  |  |  |
| Substandard | 523 | - | - | 523 | - | 523 |
| Total | 523 | - | - | 523 | - | 523 |
| LTV => 35\% |  |  |  |  |  |  |
| Substandard | - | - | 1,179 | 1,179 | 72 | 1,251 |
| Total | - | - | 1,179 | 1,179 | 72 | 1,251 |
| Total multifamily | 523 | - | 1,179 | 1,702 | 72 | 1,774 |
| Home equity and lines of credit |  |  |  |  |  |  |
| Substandard | 102 | - | 1,664 | 1,766 |  | 1,766 |
| Total home equity and lines of credit | 102 | - | 1,664 | 1,766 | - | 1,766 |

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| Commercial and industrial loans |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Special Mention | - | - | 724 | 724 | - | 724 |
| Substandard | 553 | - | 90 | 643 | - | 643 |
| Total commercial and industrial loans | 553 | - | 814 | 1,367 | - | 1,367 |
| Insurance premium loans - substandard | - | - | 137 | 137 | - | 137 |
| Total insurance premium loans | - | - | 137 | 137 | - | 137 |
| Total loans-held-for-investmet | 19,034 | 4,033 | 17,266 | 40,333 | 85 | 40,418 |
| Loans held-for-sale: |  |  |  |  |  |  |
| Commercial |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |
| Substandard | - | - | 263 | 263 | - | 263 |
| Total | - | - | 263 | 263 | - | 263 |
| LTV $=>35 \%$ |  |  |  |  |  |  |
| Substandard | 458 | 175 | 1,449 | 2,082 | - | 2,082 |
| Total | 458 | 175 | 1,449 | 2,082 | - | 2,082 |
| Total commercial | 458 | 175 | 1,712 | 2,345 | - | 2,345 |
| Construction and land |  |  |  |  |  |  |
| Substandard | - | - | 422 | 422 | - | 422 |
| Total construction and land | - | - | 422 | 422 | - | 422 |
| Multifamily |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |
| Substandard | - | - | 32 | 32 | - | 32 |
| Total | - | - | 32 | 32 | - | 32 |
| LTV => 35\% |  |  |  |  |  |  |
| Substandard | - | - | 441 | 441 | - | 441 |
| Total | - | - | 441 | 441 | - | 441 |
| Total multifamily | - | - | 473 | 473 | - | 473 |
| Commercial and industrial loans |  |  |  |  |  |  |
| Substandard | - | - | 208 | 208 | - | 208 |
| Total commercial and industrial loans | - | - | 208 | 208 | - | 208 |
| Total loans held-for-sale | 458 | 175 | 2,815 | 3,448 | - | 3,448 |
| Total non-performing loans | \$ 19,492 | \$ 4,208 | \$ 20,081 | \$ 43,781 | \$ 85 | \$ 43,866 |

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The following tables set forth the detail and delinquency status of originated loans held-for-investment, net of deferred fees and costs, by performing and non-performing loans at March 31, 2012, and December 31, 2011 (in thousands).

|  | $\text { At } 3 / 31 / 20$ <br> Loans |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 0-29 Days <br> Past Due | $\begin{aligned} & \text { 30-89 Days } \\ & \text { Past Due } \end{aligned}$ | Total |  | Non- <br> Performing <br> Loans | Total Loans <br> Receivable, net |  |
| Loans held-for-investment: |  |  |  |  |  |  |  |
| Real estate loans: |  |  |  |  |  |  |  |
| Commercial |  |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |  |
| Pass | \$ 32,020 | \$ | \$ | 32,020 | \$ | \$ | 32,020 |
| Special Mention | 584 | - |  | 584 | 9 |  | 593 |
| Substandard | - | - |  | - | 1,713 |  | 1,713 |
| Total | 32,604 | - |  | 32,604 | 1,722 |  | 34,326 |
| LTV > 35\% |  |  |  |  |  |  |  |
| Pass | 208,166 | 828 |  | 208,994 | - |  | 208,994 |
| Special Mention | 21,268 | 1,306 |  | 22,574 | 873 |  | 23,447 |
| Substandard | 18,693 | 4,754 |  | 23,447 | 28,788 |  | 52,235 |
| Total | 248,127 | 6,888 |  | 255,015 | 29,661 |  | 284,676 |
| Total commercial | 280,731 | 6,888 |  | 287,619 | 31,383 |  | 319,002 |
| One-to-four family residential |  |  |  |  |  |  |  |
| LTV < 60\% |  |  |  |  |  |  |  |
| Pass | 38,172 | 581 |  | 38,753 | - |  | 38,753 |
| Special Mention | 968 | 397 |  | 1,365 | 348 |  | 1,713 |
| Substandard | 335 | 281 |  | 616 | 248 |  | 864 |
| Total | 39,475 | 1,259 |  | 40,734 | 596 |  | 41,330 |
| LTV > 60\% |  |  |  |  |  |  |  |
| Pass | 26,254 | 880 |  | 27,134 | - |  | 27,134 |
| Special Mention | 391 | - |  | 391 | - |  | 391 |
| Substandard | 1,939 | 192 |  | 2,131 | 641 |  | 2,772 |
| Total | 28,584 | 1,072 |  | 29,656 | 641 |  | 30,297 |
| Total one-to-four family residential | 68,059 | 2,331 |  | 70,390 | 1,237 |  | 71,627 |
| Construction and land |  |  |  |  |  |  |  |
| Pass | 16,022 | - |  | 16,022 | - |  | 16,022 |
| Special Mention | 627 | - |  | 627 | - |  | 627 |
| Substandard | 3,487 | - |  | 3,487 | 1,803 |  | 5,290 |
| Total construction and land | 20,136 | - |  | 20,136 | 1,803 |  | 21,939 |
| Multifamily |  |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |  |
| Pass | 23,338 | - |  | 23,338 | - |  | 23,338 |
| Special Mention | 128 | - |  | 128 | 31 |  | 159 |
| Substandard | - | - |  | - | 490 |  | 490 |
| Total | 23,466 | - |  | 23,466 | 521 |  | 23,987 |

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| LTV > 35\% |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Pass | 451,701 |  | 2,163 |  | 453,864 |  | - |  | 453,864 |
| Special Mention | 10,197 |  | 5,679 |  | 15,876 |  | - |  | 15,876 |
| Substandard | 614 |  | 1,547 |  | 2,161 |  | 1,971 |  | 4,132 |
| Total | 462,512 |  | 9,389 |  | 471,901 |  | 1,971 |  | 473,872 |
| Total multifamily | 485,978 |  | 9,389 |  | 495,367 |  | 2,492 |  | 497,859 |
| Home equity and lines of credit |  |  |  |  |  |  |  |  |  |
| Pass | 26,451 |  | - |  | 26,451 |  | - |  | 26,451 |
| Special Mention | 688 |  | - |  | 688 |  | - |  | 688 |
| Substandard | - |  | - |  | - |  | 1,764 |  | 1,764 |
| Total home equity and lines of credit | 27,139 |  | - |  | 27,139 |  | 1,764 |  | 28,903 |
| Commercial and industrial loans |  |  |  |  |  |  |  |  |  |
| Pass | 8,753 |  | 500 |  | 9,253 |  | - |  | 9,253 |
| Special Mention | 341 |  | 40 |  | 381 |  | - |  | 381 |
| Substandard | 1,136 |  | 863 |  | 1,999 |  | 1,272 |  | 3,271 |
| Loss | 132 |  | - |  | 132 |  | - |  | 132 |
| Total commercial and industrial loans | 10,362 |  | 1,403 |  | 11,765 |  | 1,272 |  | 13,037 |
| Insurance premium loans |  |  |  |  |  |  |  |  |  |
| Pass | 1,572 |  | 1,814 |  | 3,386 |  | - |  | 3,386 |
| Special Mention | - |  | 160 |  | 160 |  | - |  | 160 |
| Substandard | - |  | - |  | - |  | 123 |  | 123 |
| Total insurance premium loans | 1,572 |  | 1,974 |  | 3,546 |  | 123 |  | 3,669 |
| Other loans |  |  |  |  |  |  |  |  |  |
| Pass | 1,151 |  | 90 |  | 1,241 |  | - |  | 1,241 |
| Total other loans | 1,151 |  | 90 |  | 1,241 |  | - |  | 1,241 |
|  | \$ 895,128 | \$ | 22,075 | \$ | 917,203 | \$ | 40,074 | \$ | 957,277 |

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|  | $\text { At } \mathbf{1 2 / 3 1 / 2 0 1 1}$ <br> Performing (Accruing) Loans |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 0-29 Days <br> Past Due | 30-89 Days Past Due | Total |  | Non- <br> Performing <br> Loans |  | Total Loans |  |
| Real estate loans: |  |  |  |  |  |  |  |  |
| Commercial |  |  |  |  |  |  |  |  |
| LTV < 35\% |  |  |  |  |  |  |  |  |
| Pass | \$ 30,478 | \$ | \$ | 30,478 | \$ | - | \$ | 30,478 |
| Special Mention | 611 | - |  | 611 |  | 13 |  | 624 |
| Substandard | - | - |  | - |  | 1,764 |  | 1,764 |
| Total | 31,089 | - |  | 31,089 |  | 1,777 |  | 32,866 |
| LTV > 35\% |  |  |  |  |  |  |  |  |
| Pass | 215,123 | 1,342 |  | 216,465 |  | - |  | 216,465 |
| Special Mention | 20,796 | 579 |  | 21,375 |  | 1,896 |  | 23,271 |
| Substandard | 19,402 | 6,483 |  | 25,885 |  | 28,654 |  | 54,539 |
| Total | 255,321 | 8,404 |  | 263,725 |  | 30,550 |  | 294,275 |
| Total commercial | 286,410 | 8,404 |  | 294,814 |  | 32,327 |  | 327,141 |


| One-to-four family residential |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| LTV < 60\% |  |  |  |  |  |
| Pass | 39,420 | 388 | 39,808 | - | 39,808 |
| Special Mention | 974 | 398 | 1,372 | 358 | 1,730 |
| Substandard | 129 | 284 | 413 | 408 | 821 |
| Total | 40,523 | 1,070 | 41,593 | 766 | 42,359 |
| LTV > 60\% |  |  |  |  |  |
| Pass | 26,618 | 1,188 | 27,806 | - | 27,806 |
| Special Mention | - | - | - | - | - |
| Substandard | 1,942 | - | 1,942 | 572 | 2,514 |
| Total | 28,560 | 1,188 | 29,748 | 572 | 30,320 |
| Total one-to-four family residential | 69,083 | 2,258 | 71,341 | 1,338 | 72,679 |


| Construction and land |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Pass | 14,610 | 3,041 | 17,651 | - | 17,651 |
| Special Mention | 631 | - | 631 | - | 631 |
| Substandard | 3,487 | - | 3,487 | 1,709 | 5,196 |
| Total construction and land | 18,728 | 3,041 | 21,769 | 1,709 | 23,478 |


| Multifamily |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| LTV < 35\% |  |  |  |  |  |
| Pass | 23,595 | - | 23,595 | - | 23,595 |
| Substandard | - | - | - | 523 | 523 |
| Total | 23,595 | - | 23,595 | 523 | 24,118 |
| LTV > 35\% |  |  |  |  |  |
| Pass | 416,453 | 3,453 | 419,906 | - | 419,906 |
| Special Mention | 10,526 | 1,463 | 11,989 | - | 11,989 |
| Substandard | 618 | 1,552 | 2,170 | 1,251 | 3,421 |
| Total | 427,597 | 6,468 | 434,065 | 1,251 | 435,316 |
| Total multifamily | 451,192 | 6,468 | 457,660 | 1,774 | 459,434 |

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| Home equity and lines of credit |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Pass | 27,721 | 30 | 27,751 | - | 27,751 |
| Special Mention | 389 | - | 389 | - | 389 |
| Substandard | - | - | - | 1,766 | 1,766 |
| Total home equity and lines of credit | 28,110 | 30 | 28,140 | 1,766 | 29,906 |
| Commercial and industrial loans |  |  |  |  |  |
| Pass | 8,887 | 82 | 8,969 | - | 8,969 |
| Special Mention | 269 | 125 | 394 | 724 | 1,118 |
| Substandard | 1,985 | - | 1,985 | 643 | 2,628 |
| Total commercial and industrial loans | 11,141 | 207 | 11,348 | 1,367 | 12,715 |
| Insurance premium loans |  |  |  |  |  |
| Pass | 58,391 | 426 | 58,817 | - | 58,817 |
| Special Mention | - | 142 | 142 | - | 142 |
| Substandard | - | - | - | 137 | 137 |
| Total insurance premium loans | 58,391 | 568 | 58,959 | 137 | 59,096 |
| Other loans |  |  |  |  |  |
| Pass | 1,405 | 91 | 1,496 | - | 1,496 |
| Total other loans | 1,405 | 91 | 1,496 | - | 1,496 |
|  | \$ 924,460 | \$ 21,067 | \$ 945,527 | \$ 40,418 | \$ 985,945 |

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The following tables summarize impaired loans as of March 31, 2012, and December 31, 2011 (in thousands):

|  | At March 31, 2012 |  |  |
| :---: | :---: | :---: | :---: |
|  | Recorded <br> Investment | Unpaid <br> Principal <br> Balance | Related Allowance |
| With No Allowance Recorded: |  |  |  |
| Real estate loans: |  |  |  |
| Commercial |  |  |  |
| LTV < 35\% |  |  |  |
| Substandard | \$ 1,713 | \$ 1,713 | \$ |
| LTV => 35\% |  |  |  |
| Special Mention | 2,990 | 2,998 | - |
| Substandard | 35,369 | 37,347 | - |
| One-to-four family residential |  |  |  |
| LTV < 60\% |  |  |  |
| Substandard | 51 | 51 | - |
| LTV $=>60 \%$ |  |  |  |
| Substandard | 258 | 258 | - |
| Construction and land |  |  |  |
| Substandard | 2,106 | 3,004 | - |
| Multifamily |  |  |  |
| LTV < 35\% |  |  |  |
| Substandard | 31 | 31 | - |
| Loss | 490 | 490 | - |
| LTV => 35\% |  |  |  |
| Loss | 148 | 619 | - |
| Commercial and industrial loans |  |  |  |
| Special Mention | 40 | 40 | - |
| Substandard | 1,530 | 1,620 | - |
| Loss | 132 | 132 | - |
| With a Related Allowance Recorded: |  |  |  |
| Real estate loans: |  |  |  |
| Commercial |  |  |  |
| LTV => 35\% |  |  |  |
| Special Mention | 653 | 680 | (78) |
| Substandard | 8,385 | 8,391 | $(1,767)$ |
| One-to-four family residential |  |  |  |
| LTV < 60\% |  |  |  |
| Special Mention | 777 | 777 | (20) |
| LTV $=>60 \%$ |  |  |  |
| Substandard | 1,752 | 1,752 | (388) |
| Multifamily |  |  |  |
| LTV => 35\% |  |  |  |
| Substandard | 2,417 | 2,417 | (365) |
| Home equity and lines of credit |  |  |  |
| Special Mention | 367 | 367 | (25) |
| Substandard | 1,592 | 1,592 | (148) |
| Commercial and industrial loans |  |  |  |
| Substandard | 498 | 498 | $(1,351)$ |
| Total: |  |  |  |
| Real estate loans |  |  |  |
| Commercial | 49,110 | 51,129 | $(1,845)$ |
| One-to-four family residential | 2,838 | 2,838 | (408) |
| Construction and land | 2,106 | 3,004 | - |

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| Multifamily | 3,086 | 3,557 | $(365)$ |
| :--- | ---: | ---: | ---: |
| Home equity and lines of credit | 1,959 | 1,959 | $(173)$ |
| Commercial and industrial loans | 2,200 | 2,290 | $(1,351)$ |
|  |  |  |  |
|  | $\$ 61,299$ | $\$ 64,777$ | $\$(4,142)$ |

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|  | At December 31, 2011 |  |  |
| :---: | :---: | :---: | :---: |
|  | Recorded <br> Investment | Unpaid <br> Principal <br> Balance | Related Allowance |
| With No Allowance Recorded: |  |  |  |
| Real estate loans: |  |  |  |
| Commercial |  |  |  |
| LTV < 35\% |  |  |  |
| Substandard | \$ 1,764 | \$ 1,764 | \$ |
| Loss | - | 471 | - |
| LTV => 35\% |  |  |  |
| Special Mention | 3,670 | 3,679 | - |
| Substandard | 26,284 | 27,906 | - |
| Construction and land |  |  |  |
| Substandard | 1,709 | 2,607 | - |
| Multifamily |  |  |  |
| LTV < 35\% |  |  |  |
| Substandard | 523 | 523 | - |
| LTV => 35\% |  |  |  |
| Substandard | 870 | 870 | - |
| Commercial and industrial loans |  |  |  |
| Special Mention | 660 | 660 | - |
| Substandard | 921 | 921 | - |
| With a Related Allowance Recorded: |  |  |  |
| Real estate loans: |  |  |  |
| Commercial |  |  |  |
| LTV < 35\% |  |  |  |
| Substandard | 1,766 | 2,132 | (175) |
| LTV => 35\% |  |  |  |
| Special Mention | 659 | 685 | (65) |
| Substandard | 9,305 | 9,305 | $(1,655)$ |
| One-to-four family residential |  |  |  |
| LTV < 60\% |  |  |  |
| Special Mention | 782 | 782 | (22) |
| LTV => 60\% |  |  |  |
| Substandard | 1,750 | 1,750 | (386) |
| Multifamily |  |  |  |
| LTV => 35\% | 1,552 | 1,552 | (338) |
| Substandard |  |  |  |
| Home equity and lines of credit |  |  |  |
| Substandard | 1,593 | 1,593 | (30) |
| Commercial and industrial loans |  |  |  |
| Substandard | 462 | 462 | $(1,393)$ |
| Total: |  |  |  |
| Real estate loans |  |  |  |
| Commercial | 43,448 | 45,942 | $(1,895)$ |
| One-to-four family residential | 2,532 | 2,532 | (408) |
| Construction and land | 1,709 | 2,607 | - |
| Multifamily | 2,945 | 2,945 | (338) |
| Home equity and lines of credit | 1,593 | 1,593 | (30) |
| Commercial and industrial loans | 2,043 | 2,043 | $(1,393)$ |
|  | \$ 54,270 | \$ 57,662 | \$ $(4,064)$ |

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Included in the table above at March 31, 2012, are loans with carrying balances of $\$ 44.9$ million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Included in the table above at December 31, 2011, are loans with carrying balances of $\$ 27.9$ million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Loans not written down by charge-offs or specific reserves at March 31, 2012, and December 31, 2011, are considered to have sufficient collateral values, less costs to sell, to support the carrying balances of the loans.

The average recorded balance of originated impaired loans for the three months ended March 31, 2012 and 2011 was $\$ 63.0$ million and $\$ 61.6$ million, respectively. The Company recorded $\$ 677,000$ and $\$ 854,000$ of interest income on impaired loans for the three months ended March 31, 2012 and 2011, respectively.

The following table summarizes loans that were modified in troubled debt restructurings during the three months ended March 31, 2012.

|  | $\begin{array}{c}\text { Three Months Ended March 31, 2012 } \\ \text { Number } \\ \text { Pre-Modification } \\ \text { Post-Modification } \\ \text { Outstanding Recordedutstanding Recorded } \\ \text { Investment }\end{array}$ |  |  |  |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Relationships |  |  |  |  |  |  |  |  |
| Investment |  |  |  |  |  |  |  |  |
| (in thousands) |  |  |  |  |  |  |  |  |$]$

At March 31, 2012 and December 31, 2011 we had troubled debt restructurings of $\$ 47.5$ million and $\$ 41.6$ million, respectively.
All four of the relationships in the table above were restructured to receive reduced interest rates.
Management classifies all troubled debt restructurings as impaired loans. Impaired loans are individually assessed to determine that the loan s carrying value is not in excess of the estimated fair value of the collateral (less cost to sell), if the loan is collateral dependent, or the present value of the expected future cash flows, if the loan is not collateral dependent. Management performs a detailed evaluation of each impaired loan and generally obtains updated appraisals as part of the evaluation. In addition, management adjusts estimated fair values down to appropriately consider recent market conditions, our willingness to accept a lower sales price to effect a quick sale, and costs to dispose of any supporting collateral. Determining the estimated fair value of underlying collateral (and related costs to sell) can be difficult in illiquid real estate markets and is subject to significant assumptions and estimates. Management employs an independent third party expert in appraisal preparation and review to ascertain the reasonableness of updated appraisals. Projecting the expected cash flows under troubled debt restructurings is inherently subjective and requires, among other things, an evaluation of the borrower s current and projected financial condition. Actual results may be significantly different than our projections and our established allowance for loan losses on these loans, which could have a material effect on our financial results.

There have not been any loans that were restructured during the last twelve months that have subsequently defaulted.

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## Note 4 Deposits

Deposits are as follows (in thousands):

|  | March 31, |  |  |
| :--- | :---: | :---: | :---: |
|  |  | December 31, <br> 2011 |  |
| Non-interest-bearing demand | $\mathbf{2 0 1 2}$ | 163,869 | $\$$ |
| Interest-bearing negotiable orders of withdrawal (NOW) | 102,171 | 96,493 |  |
| Savings-passbook, statement, tiered, and money market | 767,445 | 765,081 |  |
| Certificates of deposit | 467,007 | 480,123 |  |
|  | $\$$ | $1,500,492$ | $\$$ |

Interest expense on deposit accounts is summarized for the periods indicated (in thousands):

|  | Three months ended |  |  |
| :--- | :---: | :---: | :---: |
|  | March 31, |  |  |
| Megotiable order of withdrawal, savings-passbook, statement, tiered, and money market | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 1}$ |  |
| Certificates of deposit | 1,096 | $\$$ | 1,134 |
|  | 1,428 | 1,883 |  |

## Note 5 Equity Incentive Plan

The following table is a summary of the Company s stock options outstanding as of March 31, 2012 and changes therein during the three months then ended:

|  |  | Weighted <br> Average | Weighted <br> Average <br> Exercise <br> Price | Weighted <br> Average <br> Contractual <br> Life <br> (years) |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Orant Date |  |  |  |  |
| Fair Value |  |  |  |  |

Expected future stock option expense related to the non-vested options outstanding as of March 31, 2012 is $\$ 2.5$ million over an average period of 1.8 years.

The following is a summary of the status of the Company s restricted share awards as of March 31, 2012 and changes therein during the three months then ended.

|  | Weighted <br> Average |  |  |
| :--- | ---: | :---: | :---: |
|  | Number of <br> Shares <br> Awarded | Grant Date <br> Fair Value |  |
| Non-vested at December 31, 2011 | 488,830 | $\$$ | 9.97 |
| Granted | - | - |  |
| Vested | $(161,810)$ | 9.96 |  |
| Forfeited | $(1,240)$ | 9.94 |  |
|  |  |  | 9.97 |

Expected future stock award expense related to the non-vested restricted share awards as of March 31, 2012 is $\$ 3.0$ million over an average period of 1.8 years.

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During the three months ended March 31, 2012 and 2011, the Company recorded $\$ 756,000$ and $\$ 759,000$ of stock-based compensation related to the above plans, respectively.

## Note 6- Fair Value Measurements

The following table presents the assets reported on the consolidated balance sheet at their estimated fair value as of March 31, 2012, and December 31, 2011, by level within the fair value hierarchy as required by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC). Financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlations or other means.

Level 3 Inputs Significant unobservable inputs that reflect the Company s own assumptions that market participants would use in pricing the assets or liabilities.

|  | Fair Value Measurements at Reporting Date Using: Quoted |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Prices in |  |  |  | Significant |  |
|  | March 31, 2012 | ve Markets <br> Identical Assets (Level 1) (in | for Sign Obs thous | cant Other <br> able Inputs evel 2) <br> ds) |  | $\begin{aligned} & \text { vable } \\ & \text { its } \\ & \text { 13) } \end{aligned}$ |
| Measured on a recurring basis: |  |  |  |  |  |  |
| Assets: |  |  |  |  |  |  |
| Investment securities: |  |  |  |  |  |  |
| Available-for-sale: |  |  |  |  |  |  |
| Mortgage-backed securities: |  |  |  |  |  |  |
| GSE | \$ 1,029,113 | \$ | \$ | 1,029,113 | \$ | - |
| Non-GSE | 36,720 | - |  | 36,720 |  | - |
| Corporate bonds | 105,130 | - |  | 105,130 |  | - |
| Equities | 13,504 | 13,504 |  | - |  | - |
| Total available-for-sale | 1,184,467 | 13,504 |  | 1,170,963 |  | - |
| Trading securities | 4,577 | 4,577 |  | - |  | - |
| Total | \$ 1,189,044 | \$ 18,081 | \$ | 1,170,963 | \$ | - |
| Measured on a non-recurring basis: |  |  |  |  |  |  |
| Assets: |  |  |  |  |  |  |
| Impaired loans: |  |  |  |  |  |  |


| Real estate loans: |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Commercial real estate | \$ | 26,861 | \$ | - | \$ | - | \$ | 26,861 |
| One- to- four family residential mortgage |  | 2,788 |  | - |  | - |  | 2,788 |
| Construction and land |  | 1,803 |  | - |  | - |  | 1,803 |
| Multifamily |  | 2,417 |  | - |  | - |  | 2,417 |
| Home equity and lines of credit |  | 1,959 |  | - |  | - |  | 1,959 |
| Total impaired loans |  | 35,828 |  | - |  | - |  | 35,828 |
| Commercial and industrial loans |  | 460 |  | - |  | - |  | 460 |
| Other real estate owned |  | 2,444 |  | - |  | - |  | 2,444 |
| Total | \$ | 38,732 | \$ | - | \$ | - | \$ | 38,732 |

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|  | Fair Value Measurements at Reporting Date Using: Quoted |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | December | $\cdot \mathbf{3 1}, 2011$ | ve <br> Id <br> A <br> (Le | Market dentical Assets Level 1) (in | for <br> Sis <br> Ob <br> hou | icant Other vable Inputs evel 2) ds) |  | servable <br> puts <br> evel 3) |
| Measured on a recurring basis: |  |  |  |  |  |  |  |  |
| Assets: |  |  |  |  |  |  |  |  |
| Investment securities: |  |  |  |  |  |  |  |  |
| Available-for-sale: |  |  |  |  |  |  |  |  |
| Mortgage-backed securities: |  |  |  |  |  |  |  |  |
| GSE |  | \$ 945,782 | \$ | - | \$ | 945,782 | \$ | - |
| Non-GSE |  | 40,451 |  | - |  | 40,451 |  | - |
| Corporate bonds |  | 100,657 |  | - |  | 100,657 |  | - |
| Equities |  | 11,835 |  | 11,835 |  | - |  | - |
| Total available-for-sale |  | 1,098,725 |  | 11,835 |  | 1,086,890 |  | - |
| Trading securities |  | 4,146 |  | 4,146 |  | - |  | - |
| Total |  | \$ 1,102,871 |  | 15,981 | \$ | 1,086,890 | \$ | - |
| Measured on a non-recurring basis: |  |  |  |  |  |  |  |  |
| Assets: |  |  |  |  |  |  |  |  |
| Impaired loans: |  |  |  |  |  |  |  |  |
| Real estate loans: |  |  |  |  |  |  |  |  |
| Commercial real estate | \$ | \$ 27,826 | \$ | - | \$ | - | \$ | 27,826 |
| One- to- four family residential mortgage |  | 2,532 |  | - |  | - |  | 2,532 |
| Construction and land |  | 1,709 |  | - |  | - |  | 1,709 |
| Multifamily |  | 1,552 |  | - |  | - |  | 1,552 |
| Home equity and lines of credit |  | 1,593 |  | - |  | - |  | 1,593 |
| Total impaired loans |  | 35,212 |  | - |  | - |  | 35,212 |
| Commercial and industrial loans |  | 462 |  | - |  | - |  | 462 |
| Other real estate owned |  | 3,359 |  | - |  | - |  | 3,359 |
| Total | \$ | \$ 39,033 | \$ | - | \$ | - | \$ | 39,033 |

The following table presents qualitative information for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2012:

|  | Fair Value <br> (in thousands) | Valuation Methodology |  | Unobservable Inputs | Range of Inputs |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\$$ | 36,288 | Appraisals |  | Discount for costs to sell | Discount for quick sale |
| Impaired loans |  | Discount for dated appraisal utilizing <br> changes in real estate indexes | $10.0 \%-20.0 \%$ |  |  |  |
| Other real estate owned | $\$$ | 2,444 | Appraisals | Discount for costs to sell | Varies |  |

Discount for dated appraisal utilizing changes in real estate indexes
Available for Sale Securities: The estimated fair values for mortgage-backed, GSE and corporate securities are obtained from an independent nationally recognized third-party pricing service. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. Broker/dealer quotes are utilized as well when such quotes are available and deemed representative of the market. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Company (Observable Inputs), and are therefore classified as Level 2 within the fair value hierarchy. The estimated fair values of equity securities, classified as Level 1, are derived from quoted market prices in active markets. Equity securities consist of mutual funds. There were no transfers of securities between Level 1 and Level 2 during the three months ended March 31, 2012.

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Trading Securities: Fair values are derived from quoted market prices in active markets. The assets consist of publicly traded mutual funds.

In addition, the Company may be required, from time to time, to measure the fair value of certain other financial assets on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. The adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write downs of individual assets.

Impaired Loans: At March 31, 2012, and December 31, 2011, the Company had originated impaired loans held-for-investment and held-for-sale with outstanding principal balances of $\$ 36.3$ million and $\$ 39.1$ million that were recorded at their estimated fair value of $\$ 41.2$ million and $\$ 35.7$ million, respectively. The Company recorded net impairment charges of $\$ 78,000$ and $\$ 2.4$ million for the three months ended March 31, 2012, and 2011, respectively, and charge-offs of $\$ 351,000$ and $\$ 1.2$ million for the three months ended March 31, 2012 and 2011, respectively, utilizing Level 3 inputs. For purposes of estimating fair value of impaired loans, management utilizes independent appraisals, if the loan is collateral dependent, adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date, or the present value of expected future cash flows for non-collateral dependent loans and troubled debt restructurings.

Other Real Estate Owned: At March 31, 2012, and December 31, 2011, the Company had assets acquired through foreclosure, or deed in lieu of foreclosure, of $\$ 2.4$ million and $\$ 3.4$ million, respectively, recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Estimated fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a write-down is recorded through non-interest expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions.

Subsequent valuation adjustments to other real estate owned (REO) was $\$ 0$ for each of the three months ended March 31, 2012 and 2011, respectively, reflecting continued deterioration in estimated fair values. Operating costs after acquisition are expensed.

## Fair Value of Financial Instruments

The FASB ASC Topic for Financial Instruments requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not already discussed above:

## (a) Cash, Cash Equivalents, and Certificates of Deposit

Cash and cash equivalents are short-term in nature with original maturities of three months or less; the carrying amount approximates fair value. Certificates of deposit having original terms of six-months or less; carrying value generally approximates fair value. Certificates of deposit with an original maturity of six months or greater, the fair value is derived from discounted cash flows.

## (b) Securities (Held to Maturity)

The estimated fair values for substantially all of our securities are obtained from an independent nationally recognized pricing service. The independent pricing service utilizes market prices of same or similar securities whenever such prices are available. Prices involving distressed sellers are not utilized in determining fair value. Where necessary, the independent third-party pricing service estimates fair value using models employing techniques such as discounted cash flow analyses. The assumptions used in these models typically include assumptions for interest rates, credit losses, and prepayments, utilizing market observable data where available.

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## (c) Federal Home Loan Bank of New York Stock

The fair value for Federal Home Loan Bank of New York stock is its carrying value, since this is the amount for which it could be redeemed and there is no active market for this stock.

## (d) Loans (Held-for-Investment)

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as originated and purchased, and further segregated by residential mortgage, construction, land, multifamily, commercial and consumer. Each loan category is further segmented into amortizing and non-amortizing and fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of loans is estimated by discounting the future cash flows using current prepayment assumptions and current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This method of estimating fair value does not incorporate the exit price concept of fair value prescribed by the FASB ASC Topic for Fair Value Measurements and Disclosures.

## (e) Loans (Held-for-Sale)

Held-for-sale loans are carried at the lower of aggregate cost or estimated fair value, less costs to sell, and therefore fair value is equal to carrying value.

## (f) Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

## (g) Commitments to Extend Credit and Standby Letters of Credit

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

The fair value of off-balance-sheet commitments is insignificant and therefore not included in the following table.

## (h) Borrowings

The fair value of borrowings is estimated by discounting future cash flows based on rates currently available for debt with similar terms and remaining maturity.

## (i) Advance Payments by Borrowers

Advance payments by borrowers for taxes and insurance have no stated maturity; the fair value is equal to the amount currently payable.

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The estimated fair values of the Company s significant financial instruments at March 31, 2012, and December 31, 2011, are presented in the following tables (in thousands):

|  | Carrying Value |  | Level 1 |  | March 31, 2012 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Level 2 | Level 3 |  | Total |  |
| Financial assets: |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | \$ | 45,837 |  |  | \$ | 45,837 | \$ | - | \$ | - | \$ | 45,837 |
| Trading securities |  | 4,577 |  | 4,577 |  |  |  |  |  | 4,577 |
| Securities available-for-sale |  | 1,184,677 |  | 13,504 |  | 1,170,963 |  | - |  | 1,184,467 |
| Securities held-to-maturity |  | 3,324 |  | - |  | 3,492 |  | - |  | 3,492 |
| Federal Home Loan Bank of New York stock, at cost |  | 12,452 |  | - |  | 12,452 |  | - |  | 12,452 |
| Loans held-for-sale |  | 604 |  | - |  | - |  | 604 |  | 604 |
| Net loans held-for-investment |  | 1,016,245 |  | - |  | - |  | ,941 |  | 1,064,941 |
| Financial liabilities: |  |  |  |  |  |  |  |  |  |  |
| Deposits | \$ | 1,500,492 | \$ | - | \$ | 1,507,237 | \$ | - | \$ | 1,507,237 |
| Repurchase agreements and other borrowings |  | 477,119 |  | - |  | 492,507 |  |  |  | 492,507 |
| Advance payments by borrowers |  | 3,921 |  | - |  | 3,921 |  | - |  | 3,921 |


|  | December 31, 2011 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Carrying value |  | Estimated <br> Fair <br> value |  |
|  |  |  |  |  |
| Financial assets: |  |  |  |  |
| Cash and cash equivalents | \$ | 65,269 | \$ | 65,269 |
| Trading securities |  | 4,146 |  | 4,146 |
| Securities available-for-sale |  | 1,098,725 |  | 1,098,725 |
| Securities held-to-maturity |  | 3,617 |  | 3,771 |
| Federal Home Loan Bank of New York stock, at cost |  | 12,677 |  | 12,677 |
| Loans held-for-sale |  | 3,900 |  | 3,900 |
| Net loans held-for-investment |  | 1,047,631 |  | 1,081,484 |
| Financial liabilities: |  |  |  |  |
| Deposits | \$ | 1,493,526 | \$ | 1,499,906 |
| Repurchase agreements and other borrowings |  | 481,934 |  | 498,774 |
| Advance payments by borrowers |  | 2,201 |  | 2,201 |
| Limitations |  |  |  |  |

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company sentire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

## Note 7 Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the period. For purposes of calculating basic earnings per share, weighted average common shares outstanding excludes unallocated employee stock ownership plan (ESOP) shares that have not been committed for release and unvested restricted stock.

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Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if stock options and unvested shares of restricted stock were exercised and converted into common stock. These potentially dilutive shares are included in the weighted average number of shares outstanding for the period using the treasury stock method. When applying the treasury stock method, we add: (1) the assumed proceeds from option exercises; (2) the tax benefit, if any, that would have been credited to additional paid-in capital assuming exercise of non-qualified stock options and vesting of shares of restricted stock; and (3) the average unamortized compensation costs related to unvested shares of restricted stock and stock options. We then divide this sum by our average stock price for the period to calculate assumed shares repurchased. The excess of the number of shares issuable over the number of shares assumed to be repurchased is added to basic weighted average common shares to calculate diluted earnings per share.

The following is a summary of the Company s earnings per share calculations and reconciliation of basic to diluted earnings per share for the periods indicated (dollars in thousands, except per share data):

|  | For the three months ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2012 |  |  | 2011 |
| Net income available to common stockholders | \$ | 4,948 | \$ | 4,970 |
| Weighted average shares outstanding-basic |  | 47,588 |  | 41,101,028 |
| Effect of non-vested restricted stock and stock options outstanding |  | 95,333 |  | 441,840 |
| Weighted average shares outstanding-diluted |  | 2,921 |  | 41,542,868 |
| Earnings per share-basic | \$ | 0.13 | \$ | 0.12 |
| Earnings per share-diluted | \$ | 0.13 | \$ | 0.12 |

## Note 8 Stock Repurchase Program

On September 9, 2011 the Board of Directors of the Company authorized the continuance of the stock repurchase program. Under its current program, the Company intends to repurchase up to $2,066,379$ additional shares, representing approximately $5 \%$ of its outstanding shares. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and prices, the Company s liquidity and capital requirements, and alternative uses of capital. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. The Company is conducting such repurchases in accordance with a Rule 10b5-1 trading plan. As of March 31, 2012, the Company has repurchased a total of $5,194,320$ shares of its common stock (under its current and prior repurchase plans) at an average price of $\$ 12.87$ per share.

## Note 9 Income Taxes

The Company files income tax returns in the United States federal jurisdiction and in the State of New Jersey. The Company s subsidiary files income tax returns in the State and City of New York, and the State of New Jersey. The State and City of New York are currently examining our subsidiary s tax returns filed for 2007,2008 , and 2009. The Company, and its subsidiary, are no longer subject to federal and local income tax examinations by tax authorities for years prior to 2007.

## Note 10 Recent Accounting Pronouncements

Accounting Standards Update No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements, amends Topic 860 (Transfers and Servicing) where an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements, based on whether or not the transferor has maintained effective control. In the assessment of effective control, Accounting Standard Update 2011-03 has removed the criteria that requires transferors to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. Other criteria applicable to the assessment of effective control have not been changed. This guidance is effective for prospective periods beginning on or after December 15, 2011. Early adoption was prohibited. The adoption of this Accounting Standard Update did not result in a material change to the Company s consolidated financial statements.

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In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ( IFRS ). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risk or counterparty credit risk that are managed on the basis of the entity s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity s shareholders equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company s interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 did not result in a material change to the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12,
Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. All other requirements in ASU 2011-05 are not affected by this Update. For a public entity, the ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption was permitted. The adoption of these pronouncements resulted in a change to the presentation of the Company sfinancial statements but did not have an impact on the Company sfinancial condition or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. The provisions of ASU No. 2011-08 simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The provisions of ASU No. 2011-05 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15,2011 , if an entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU No. 2011-08 is not expected to have a material effect on the Company s consolidated financial statements. The Company will perform annual testing for goodwill impairment at December 31, 2012.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, and similar expressions. These forward looking statements include:
statements of our goals, intentions, and expectations;
statements regarding our business plans, prospects, growth, and operating strategies;
statements regarding the asset quality of our loan and investment portfolios; and
estimates of our risks and future costs and benefits.
These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:
the effect of the current financial economic downturn on our loan portfolio, investment portfolio, and deposit and other customers;
significantly increased competition among depository and other financial institutions;
inflation and changes in the interest rate environment or other changes that reduce our interest margins or reduce the fair value of financial instruments;
general economic conditions, either nationally or in our market areas, that are worse than expected;
adverse changes in the securities markets;
legislative or regulatory changes that adversely affect our business;
our ability to enter new markets successfully and take advantage of growth opportunities, and the possible dilutive effect of potential acquisitions or de novo branches, if any;
changes in consumer spending, borrowing and savings habits;
changes in accounting policies and practices, as may be adopted by bank regulatory agencies, the Financial Accounting Standards Board, the Public Company Accounting Oversight Board and other promulgating authorities;

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inability of borrowers and/or third-party providers to perform their obligations to us;
the effect of recent governmental legislation restructuring the U.S. financial and regulatory system;
the effect of developments in the secondary market affecting our loan pricing;
the level of future deposit insurance premiums; and
changes in our organization, compensation, and benefit plans.
Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

## Critical Accounting Policies

Note 1 to the Company s Audited Consolidated Financial Statements for the year ended December 31, 2011, included in the Company s Annual Report on Form 10-K, as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the Consolidated Balance Sheets at estimated fair value or the lower of cost or estimated fair value. Policies with respect to the methodologies used to determine the allowance for loan losses and judgments regarding the valuation of intangible assets and securities as well as the valuation allowance against deferred tax assets are the most critical accounting policies because they are important to the presentation of the Company s financial condition and results of operations, involve a higher degree of complexity, and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could result in material differences in the results of operations or financial condition. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors. For a further discussion of the critical accounting policies of the Company, see Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K, for the year ended December 31, 2011.

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## Overview

This overview highlights selected information and may not contain all the information that is important to you in understanding our performance during the period. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates, you should read this entire document carefully, as well as our Annual Report on Form 10-K for the year ended December 31, 2011.

Net income amounted to $\$ 4.9$ million for the three months ended March 31, 2012, as compared to $\$ 5.0$ million for the three months ended March 31, 2011. Basic and diluted earnings per share were $\$ 0.13$ for the three months ended March 31, 2012, compared to $\$ 0.12$ for the three months ended March 31, 2011. For the three months ended March 31, 2012, our return on average assets was $0.84 \%$, as compared to $0.90 \%$ for the three months ended March 31, 2011. For the three months ended March 31, 2012, our return on average stockholders equity was $5.18 \%$, as compared to $5.08 \%$ for the three months ended March 31, 2011. The decrease in net income was due primarily to an increase in non-interest expenses offset by increases in our net interest income and non-interest income, as well as a decrease in our provision for loan losses during the three months ended March 31, 2012, as compared to the three months ended March 31, 2011.

Assets increased by $1.2 \%$ to $\$ 2.41$ billion at March 31, 2012, from $\$ 2.38$ billion at December 31, 2011. The increase in total assets reflected an increase in securities available for sale, of $\$ 85.7$ million, or $7.8 \%$, which was partially offset by decreases in loans held for investment, net and interest-bearing deposits in other financial institutions. Deposits increased $\$ 7.0$ million to $\$ 1.50$ billion at March 31, 2012, from $\$ 1.49$ billion at December 31, 2011. The increase in deposits was attributable to growth in transaction accounts partially offset by a decrease in certificates of deposit and savings accounts. Borrowed funds decreased $\$ 4.8$ million to $\$ 477.1$ million at March 31, 2012, from $\$ 481.9$ million at December 31, 2011.

## Comparison of Financial Condition at March 31, 2012, and December 31, 2011

Total assets increased $\$ 28.9$ million, or $1.2 \%$, to $\$ 2.41$ billion at March 31, 2012, from $\$ 2.38$ billion at December 31, 2011. The increase was primarily attributable to an increase in securities available for sale of $\$ 85.7$ million. This increase was partially offset by decreases of $\$ 31.4$ million in net loans held-for-investment, cash and cash equivalents of $\$ 19.4$ million and other assets of $\$ 3.8$ million.

Cash and cash equivalents decreased $\$ 19.4$ million, or $29.8 \%$, to $\$ 45.8$ million at March 31,2012 , from $\$ 65.3$ million at December 31, 2011. The Company routinely maintains liquid assets in interest-bearing accounts in other well-capitalized financial institutions.

Securities available-for-sale increased $\$ 85.7$ million, or $7.8 \%$, to $\$ 1.18$ billion at March 31, 2012, from $\$ 1.10$ billion at December 31, 2011. The increase was primarily attributable to purchases of $\$ 298.5$ million partially offset by maturities and pay-downs of $\$ 115.7$ million, and sales of $\$ 98.7$ million.

Securities held-to-maturity decreased $\$ 293,000$, or $8.1 \%$, to $\$ 3.3$ million at March 31, 2012, from $\$ 3.6$ million at December 31, 2011. The decrease was attributable to maturities and paydowns during the three months ended March 31, 2012.

Originated loans held-for-investment, net, totaled $\$ 957.3$ million at March 31, 2012, as compared to $\$ 985.9$ million at December 31, 2011. The decrease was primarily due to decreases in insurance premium loans of $\$ 55.4$ million, due to the sale of the majority of the portfolio, and in commercial real estate loans of $\$ 8.1$ million. This was partially offset by an increase in multi-family real estate loans, which increased $\$ 38.3$ million, or $8.4 \%$, to $\$ 496.7$ million at March 31, 2012, from $\$ 458.4$ million at December 31, 2011. Currently, management is focused on originating multi-family loans, with less emphasis on other loan types.

Purchased credit-impaired (PCI) loans, acquired as part of a Federal Deposit Insurance Corporation-assisted transaction, totaled $\$ 86.1$ million at March 31, 2012 as compared to $\$ 88.5$ million at December 31, 2011. The Company accounts for PCI loans utilizing generally accepting accounting principles applicable to loans acquired with deteriorated credit quality. The Company recorded accretion interest income of $\$ 1.6$ million for the quarter ended March 31, 2012.

Bank owned life insurance increased $\$ 719,000$, or $0.9 \%$, from December 31, 2011 to March 31, 2012. The increase resulted from income earned on bank owned life insurance for the three months ended March 31, 2012.

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Federal Home Loan Bank of New York stock, at cost, decreased $\$ 225,000$, or $1.8 \%$, to $\$ 12.5$ million at March 31, 2012, from $\$ 12.7$ million at December 31, 2011. This decrease was attributable to a decrease in borrowings outstanding with the Federal Home Loan Bank of New York over the same time period.

Premises and equipment, net, increased $\$ 2.2$ million, or $11.0 \%$, to $\$ 22.2$ million at March 31, 2012, from $\$ 20.0$ million at December 31, 2011. This increase is primarily attributable to leasehold improvements made to new branches and the renovation of existing branches.

Other real estate owned decreased $\$ 915,000$, or $27.2 \%$, to $\$ 2.4$ million at March 31, 2012, from $\$ 3.4$ million at December 31, 2011. This decrease is attributable to the sales of several properties during the three months ended March 31, 2012.

Other assets decreased $\$ 3.8$ million, or $25.2 \%$, to $\$ 11.3$ million at March 31,2012 , from $\$ 15.1$ million at December 31, 2011. The decrease in other assets was attributable to a decrease in amounts due us from taxing authorities, and a decrease in prepaid FDIC insurance premiums due to amortization related to the FDIC prepayment of insurance premiums that was made in 2009 partially offset by an increase in prepaid expenses.

The increase in deposits for the three months ended March 31, 2012, was due in part to an increase in transaction accounts of $\$ 20.4$ million, or $3.0 \%$. This increase was partially offset by a decrease in certificates of deposit accounts (issued by the Bank) of $\$ 10.4$ million, or $2.2 \%$, a decrease in savings accounts of $\$ 330,000$ and a decrease of $\$ 2.7$ million in short-term certificates of deposit originated through the CDARS ${ }^{\circledR}$ Network. Deposits originated through the CDARS ${ }^{\circledR}$ Network totaled $\$ 658,000$ at March 31, 2012 and $\$ 3.4$ million at December 31, 2011. The Company utilizes the CDARS ${ }^{\circledR}$ Network as a cost effective alternative to other short-term funding sources.

Borrowings, consisting primarily of repurchase agreements from other financial institutions and Federal Home Loan Bank advances, decreased $\$ 4.8$ million, or $1.0 \%$, to $\$ 477.1$ million at March 31, 2012, from $\$ 481.9$ million at December 31, 2011. The decrease in borrowings was primarily the result of maturities during the quarter ended March 31, 2012.

Accrued expenses and other liabilities increased $\$ 22.6$ million, to $\$ 39.2$ million at March 31, 2012, from $\$ 16.6$ million at December 31, 2011. The increase was primarily a result of an increase in due to securities brokers of $\$ 19.8$ million.

Total stockholders equity increased by $\$ 2.5$ million to $\$ 385.2$ million at March 31, 2012, from $\$ 382.7$ million at December 31, 2011. This increase was primarily attributable to net income of $\$ 4.9$ million for the quarter ended March 31, 2012, and an increase of $\$ 819,000$ in additional paid-in capital primarily related to the recognition of compensation expense associated with equity awards. The increase was partially offset by $\$ 1.7$ million in stock repurchases and the payment of $\$ 1.7$ million in cash dividends.

Under its current program, the Company intends to repurchase up to $2,066,379$ of its shares, representing approximately $5 \%$ of outstanding shares. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and prices, the Company s liquidity and capital requirements, and alternative uses of capital. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. The Company is conducting such repurchases in accordance with a Rule 10b5-1 trading plan. As of March 31, 2012, the Company has repurchased a total of $5,235,743$ shares of its common stock at an average price of $\$ 12.89$ per share.

## Comparison of Operating Results for the Three Months Ended March 31, 2012 and 2011

Net income. Net income was relatively unchanged at $\$ 4.9$ million for the quarter ended March 31, 2012, as compared to $\$ 5.0$ million for the quarter ended March 31, 2011. Results reflected an increase of $\$ 1.2$ million in net interest income, an $\$ 866,000$ increase in non-interest income, a decrease of $\$ 752,000$ in the provision for loan losses, a $\$ 105,000$ increase in income tax expense and a $\$ 2.7$ million increase in non-interest expense.

Interest income. Interest income increased $\$ 741,000$, or $3.4 \%$, to $\$ 22.7$ million for the three months ended March 31, 2012, from $\$ 22.0$ million for the three months ended March 31, 2011. The increase was primarily due to an increase in interest income on loans of $\$ 2.7$ million. The increase in interest income of loans can be attributed to an increase in the average balances of $\$ 220.5$ million, partially offset by a decrease of 27 basis points in the yield earned. These increases were partially offset by decreases in interest income on mortgage backed securities of $\$ 1.6$ million and interest income on other securities of $\$ 317,000$.

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The decrease in mortgage backed securities was primarily attributable to a decrease of 43 basis points in the yield earned and a decrease in the average balance of $\$ 84.0$ million. The decrease in the interest income earned on other securities was primarily attributable to a decrease in the average balance of $\$ 23.3$ million and a decrease of 55 basis points in the yield earned.

Interest expense. Interest expense decreased $\$ 413,000$, or $6.6 \%$, to $\$ 5.8$ million for the three months ended March 31, 2012, from $\$ 6.2$ million for the three months ended March 31, 2011. The decrease was comprised of a decrease of $\$ 493,000$ in interest expense on deposits, partially offset by an increase in interest expense on borrowings of $\$ 80,000$. The decrease in interest expense on deposits was attributed to a decrease in the cost of interest bearing deposits of 23 basis points to $0.76 \%$ from $0.99 \%$, partially offset by an increase in average balance of interest bearing deposit accounts of $\$ 102.1$ million, or $8.3 \%$, to $\$ 1.34$ billion for the three months ended March 31, 2012 from $\$ 1.24$ billion for the three months ended March 31, 2011. The increase in interest expense on borrowings was attributed to an increase in the cost of nine basis points to 2.74\% from $2.65 \%$, partially offset by a decrease in balances of borrowings of $\$ 9.8$ million, or $2.0 \%$, to $\$ 482.2$ million for the three months ended March 31, 2012 from $\$ 492.0$ million for the three months ended March 31, 2011.

Net Interest Income. Net interest income increased $\$ 1.2$ million, or $7.3 \%$, as interest-earning assets increased by $5.7 \%$ to $\$ 2.24$ billion. The increase in average interest earning assets was due primarily to increases in average loans outstanding of $\$ 220.5$ million and in interest-earning assets in other financial institutions of $\$ 5.3$ million, partially offset by decreases of $\$ 84.0$ million in mortgage-backed securities and in other securities of $\$ 23.3$ million. The quarter ended March 31, 2012 included prepayment loan income of $\$ 188,000$ compared to $\$ 80,000$ for the quarter ended March 31, 2011. Other securities consist primarily of investment-grade shorter-term corporate bonds, and government-sponsored enterprise bonds. Rates paid on interest-bearing liabilities decreased 18 basis points to $1.28 \%$ for the current quarter as compared to $1.46 \%$ for the prior year comparable period. This was offset by a 13 basis point decrease in yields earned on interest earning assets to $4.09 \%$ for the current quarter as compared to $4.22 \%$ for the prior year comparable period.

Provision for Loan Losses. The provision for loan losses was $\$ 615,000$ for the quarter ended March 31, 2012, a decrease of $\$ 752,000$, or $55.0 \%$, from the $\$ 1.4$ million provision recorded in the quarter ended March 31, 2011. The decrease in the provision for loan losses in the current quarter was due primarily to a shift in the composition of our loan portfolio to multi-family loans, which generally require lower general reserves than commercial real estate loans, less growth in the loan portfolio as compared to the same prior year period and a decrease in non-performing loans during the quarter ended March 31, 2012, as compared to the quarter ended March 31, 2011. During the quarter ended March 31, 2012, the Company recorded net charge-offs of $\$ 351,000$ compared to net charge-offs of $\$ 1.2$ million for the quarter ended March 31, 2011.

Non-interest Income. Non-interest income increased $\$ 866,000$, or $27.9 \%$, to $\$ 4.0$ million for the quarter ended March 31, 2012, as compared to $\$ 3.1$ million for the quarter ended March 31, 2011. This increase was primarily a result of a $\$ 108,000$ increase in fees and service charges for customer services, an increase in securities transactions, net of $\$ 332,000$, a decrease in losses on other-than- temporary-impairment of securities of $\$ 161,000$ and an increase in other income of $\$ 287,000$, partially offset by a decrease in income on bank owed life insurance of $\$ 22,000$. The Company routinely sells securities when market pricing presents, in management $s$ assessment, an economic benefit that outweighs holding such securities, and when smaller balance securities become cost prohibitive to carry.

Non-interest Expense. Non-interest expense increased $\$ 2.7$ million, or $27.0 \%$, to $\$ 12.6$ million for the quarter ended March 31, 2012, as compared to $\$ 10.0$ million for the quarter ended March 31 , 2011, due primarily to compensation and employee benefits increasing by $\$ 1.1$ million, or $21.8 \%$, due to increased staff primarily related to branch openings and an acquisition, an increase in occupancy expense of $\$ 473,000$ primarily relating to new branches and the renovation of existing branches, an increase of $\$ 411,000$ in data processing fees primarily related to conversion costs associated with the FDIC assisted transaction, an increase of $\$ 418,000$ in professional fees and an increase in other non-interest expense of $\$ 258,000$.

Income Tax Expense. The Company recorded an income tax expense of $\$ 2.7$ million for the quarter ended March 31, 2012, compared to $\$ 2.6$ million for the quarter ended March 31, 2011. The effective expense tax rate for the quarter ended March 31, 2012, was 35.3\%, as compared to $34.3 \%$ for the quarter ended March 31, 2011.

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## NORTHFIELD BANCORP, INC

## ANALYSIS OF NET INTEREST INCOME

(Dollars in thousands)

|  | For the Three Months Ended March 31, |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2012 ( |  |  | 2011 |  |  |
|  | Average Outstanding Balance | Interest | Average <br> Yield/ <br> Rate (1) | Average Outstanding Balance | Interest | Average Yield/ Rate <br> (1) |
| Interest-earning assets: |  |  |  |  |  |  |
| Loans (5) | \$ 1,061,927 | \$ 15,150 | 5.74 \% | \$ 841,400 | \$ 12,474 | 6.01 \% |
| Mortgage-backed securities | 986,110 | 6,776 | 2.76 | 1,070,119 | 8,417 | 3.19 |
| Other securities | 128,171 | 653 | 2.05 | 151,435 | 970 | 2.60 |
| Federal Home Loan Bank of New York stock | 12,703 | 142 | 4.50 | 10,839 | 109 | 4.08 |
| Interest-earning deposits in financial institutions | 48,035 | 18 | 0.15 | 42,709 | 28 | 0.27 |
| Total interest-earning assets | 2,236,946 | 22,739 | 4.09 | 2,116,502 | 21,998 | 4.22 |
| Non-interest-earning assets | 144,237 |  |  | 127,783 |  |  |
| Total assets | \$ 2,381,183 |  |  | \$ 2,244,285 |  |  |


| Interest-bearing liabilities: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Savings, NOW, and money market accounts | \$ 862,812 | \$ | 1,096 | 0.51 | \$ | 695,572 | \$ | 1,134 | 0.66 |
| Certificates of deposit | 476,282 |  | 1,428 | 1.21 |  | 541,373 |  | 1,883 | 1.41 |
| Total interest-bearing deposits | 1,339,094 |  | 2,524 | 0.76 |  | 1,236,945 |  | 3,017 | 0.99 |
| Borrowed funds | 482,238 |  | 3,290 | 2.74 |  | 491,957 |  | 3,210 | 2.65 |
| Total interest-bearing liabilities | 1,821,332 |  | 5,814 | 1.28 |  | 1,728,902 |  | 6,227 | 1.46 |
| Non-interest bearing deposit accounts | 160,233 |  |  |  |  | 110,285 |  |  |  |
| Accrued expenses and other liabilities | 15,145 |  |  |  |  | 8,371 |  |  |  |
| Total liabilities | 1,996,710 |  |  |  |  | 1,847,558 |  |  |  |
| Stockholders equity | 384,473 |  |  |  |  | 396,727 |  |  |  |
| Total liabilities and stockholders equity | \$ 2,381,183 |  |  |  |  | 2,244,285 |  |  |  |


(1) Average yields and rates for the three months ended March 31, 2012 and 2011, are annualized.
(2) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average total interest-earning assets.
(5) Loans include non-accrual loans.

## Asset Quality

Nonperforming originated loans totaled $\$ 40.2$ million ( $3.8 \%$ of total loans) at March 31, 2012 as compared to $\$ 43.9$ million ( $4.3 \%$ of total loans) at December 31, 2011, $\$ 53.4$ million (5.5\% of total loans) at September 30, 2011, $\$ 58.0$ million ( $6.4 \%$ of total loans) at June 30, 2011 and $\$ 56.7$ million ( $6.6 \%$ of total loans) at March 31, 2011.

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The following table also shows, for the same dates, troubled debt restructurings (TDRs) on which interest is accruing, and accruing loans delinquent 30 to 89 days (dollars in thousands).

|  | March 31, <br> $\mathbf{2 0 1 2}$ | December 31, <br> $\mathbf{2 0 1 1}$ | September 30, <br> $\mathbf{2 0 1 1}$ | June 30, <br> $\mathbf{2 0 1 1}$ | March 31, <br> $\mathbf{2 0 1 1}$ |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Non-accruing loans: | $\$ 15,805$ | $\$$ | 17,489 | $\$$ | 28,035 | $\$$ | 29,036 |$\$$| 31,662 |
| :---: |
| Held-for-investment |
| Held-for-sale |

Loans subject to restructuring agreements and still

| accruing | $\$ 25,047$ | $\$$ | 18,349 | $\$$ | 18,355 | $\$$ | 15,622 | $\$$ | 12,259 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Accruing loans 30 to 89 days delinquent | $\$ 22,075$ | $\$$ | 21,067 | $\$$ | 30,973 | $\$$ | 14,169 | $\$$ | 14,551 |

Total Non-accruing Loans

Total non-accruing loans decreased $\$ 5.4$ million, to $\$ 38.4$ million at March 31, 2012, from $\$ 43.8$ million at December 31, 2011. This decrease was primarily attributable to loans held-for-sale of $\$ 3.4$ million being sold during the quarter ended March 31, 2012. There was $\$ 398,000$ in loans returned to accrual status during the quarter. Loans returned to accrual status were current as to principal and interest, and factors indicating doubtful collection no longer existed, including the borrower s performance under the original loan terms for at least six months. Non-accrual loans also decreased as a result of $\$ 1.5$ million of pay-offs and principal pay-downs, charge offs of $\$ 351,000$, the sale of $\$ 554,000$ of loans held-for-investment and the transfer of $\$ 166,000$ to other real estate owned. The above decreases in non-accruing loans during the quarter ended March 31, 2012, were partially offset by $\$ 837,000$ of loans being placed on non-accrual status and advances of $\$ 94,000$ during the quarter ended March 31, 2012.

## Delinquency Status of Total Non-accruing Loans

Generally, loans are placed on non-accrual status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have a minimum of six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent, and still be in a non-accruing status.

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The following tables detail the delinquency status of non-accruing loans at March 31, 2012 and December 31, 2011 (dollars in thousands):

March 31, 2012

|  | Days Past Due |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | ---: |
| Real estate loans: | $\mathbf{0}$ to 29 | $\mathbf{3 0}$ to 89 | $\mathbf{9 0}$ or more | Total |  |
| Commercial | $\$ 16,317$ | $\$$ | 20 | $\$$ | 14,052 |
| One -to- four family residential | 181 |  | 532 | 30,389 |  |
| Construction and land | 1,803 | - | 524 | 1,237 |  |
| Multifamily | 521 | - | - | 1,179 | 1,803 |
| Home equity and lines of credit | - | 101 | 1,663 | 1,760 |  |
| Commercial and industrial loans | 548 | - | 804 | 1,352 |  |
| Insurance premium loans | - | - | 123 | 123 |  |
| Total non-accruing loans |  |  |  |  |  |


| Real estate loans: | 0 to 29 |  | December 31, 2011 |  |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | $\begin{aligned} & \text { Past I } \\ & \text { to } 89 \end{aligned}$ | 90 or more |  |  |  |
| Commercial | \$ | 16,395 | \$ | 3,613 | \$ | 14,651 | \$ | 34,659 |
| One -to- four family residential |  | 210 |  | 595 |  | 534 |  | 1,338 |
| Construction and land |  | 1,709 |  | - |  | 422 |  | 2,131 |
| Multifamily |  | 523 |  | - |  | 1,652 |  | 2,175 |
| Home equity and lines of credit |  | 102 |  | - |  | 1,664 |  | 1,766 |
| Commercial and industrial loans |  | 553 |  | - |  | 1,022 |  | 1,575 |
| Insurance premium loans |  | - |  | - |  | 137 |  | 137 |
| Total non-accruing loans | \$ | 19,492 | \$ | 4,208 | \$ | 20,082 | \$ | 43,781 |

Loans Subject to Restructuring Agreements

Included in non-accruing loans are loans subject to restructuring agreements totaling $\$ 22.5$ million and $\$ 23.3$ million at March 31, 2012, and December 31, 2011, respectively. At March 31, 2012, $\$ 18.7$ million, or $83.1 \%$ of the $\$ 22.5$ million, were performing in accordance with their restructured terms.

The Company also holds loans subject to restructuring agreements, and still accruing, which totaled $\$ 25.0$ million and $\$ 18.3$ million at March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, $\$ 21.1$ million, or $84.2 \%$ of the $\$ 25.0$ million, were performing in accordance with their restructured terms.

The following table details the amounts and categories of the loans subject to restructuring agreements by loan type as of March 31, 2012, and December 31, 2011 (dollars in thousands).

|  | At March 31, 2012 |  |  | At December 31, 2011 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Non-Accruing | Accruing |  |  | crruing | Accruing |  |
| Troubled debt restructurings: |  |  |  |  |  |  |  |
| Real estate loans: |  |  |  |  |  |  |  |
| Commercial | \$ 19,293 | \$ | 19,608 | \$ | 20,420 | \$ | 13,389 |
| One- to four-family residential | 309 |  | 2,529 |  | - |  | 2,532 |
| Construction and land | 1,803 |  | - |  | 1,709 |  | - |
| Multifamily | 521 |  | 1,547 |  | 523 |  | 1,552 |
| Home equity and lines of credit | 102 |  | 367 |  | 102 |  | - |

Commercial and industrial ..... 455
996

| Total | \$ | 22,483 | \$ | 25,047 | \$ | 23,301 | \$ | 18,349 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |

## Loans 90 Days or More Past Due and Still Accruing and Other Real Estate Owned

Loans 90 days or more past due and still accruing increased $\$ 1.7$ million to $\$ 1.8$ million at March 31,2012 , as compared to $\$ 85,000$ at December 31, 2011. Loans 90 days or more past due and still accruing at March 31, 2012, were considered well-secured and in the process of collection or past maturity, paying interest in accordance with original loan terms, and in the process of renewal.

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Other real estate owned amounted to $\$ 2.4$ million at March 31, 2012 as compared to $\$ 3.4$ million at December 31, 2011.

## Delinquency Status of Accruing Loans 30-89 Days Delinquent

Loans 30 to 89 days delinquent and on accrual status at March 31, 2012, totaled $\$ 22.1$ million, an increase of $\$ 1.0$ million, from the December 31, 2011 balance of $\$ 21.1$ million. The following tables set forth delinquencies for accruing loans by type and by amount at March 31, 2012 and December 31, 2011 (dollars in thousands).

|  | $\$ 000,000,000,000,000$ <br> March 31, 2012 | $\$ 000,000,000,000,000$ <br> December 31, 2011 | $\$ 000,000,000,000,000$ |  |
| :--- | :---: | :---: | :---: | :---: |
| Real estate loans: | $\$$ | 6,888 | $\$$ | 8,404 |
| Commercial | 2,331 | 2,258 |  |  |
| One- to four-family residential | - | 3,041 |  |  |
| Construction and land | 9,389 | 6,468 |  |  |
| Multifamily | - | 30 |  |  |
| Home equity and lines of credit | 1,403 | 207 |  |  |
| Commercial and industrial loans | 1,975 | 568 |  |  |
| Insurance premium loans | 89 | 91 |  |  |
| Other loans |  |  |  |  |
|  |  | 22,075 | $\$$ | 21,067 |

## PCI Loans (Held-for-Investment)

PCI loans were recorded at estimated fair value using expected future cash flows deemed to be collectible on the date acquired. At March 31, 2012, based on recorded contractual principal, $6.0 \%$ of PCI loans were past due 30 to 89 days, and $14.4 \%$ were past due 90 days or more, as compared to $9.0 \%$ and $16.1 \%$ at December 31, 2011.

## Liquidity and Capital Resources

Liquidity. The overall objective of our liquidity management is to ensure the availability of sufficient funds to meet financial commitments and to take advantage of lending and investment opportunities. We manage liquidity in order to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise.

Our primary sources of funds are deposits, principal and interest payments on loans and securities, borrowed funds, the proceeds from maturing securities and short-term investments, and to a lesser extent the proceeds from the sales of loans and securities and wholesale borrowings. The scheduled amortizations of loans and securities, as well as proceeds from borrowed funds, are predictable sources of funds. Other funding sources, however, such as deposit inflows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition. Northfield Bank is a member of the Federal Home Loan Bank of New York (FHLB), which provides an additional source of short-term and long-term funding. Northfield Bank also has borrowing capabilities with the Federal Reserve on a short-term basis. The Bank s borrowed funds, excluding capitalized lease obligations and floating rate advances, were $\$ 472.2$ million at March 31, 2012, at a weighted average interest rate of $2.71 \%$. A total of $\$ 77.3$ million of these borrowings will mature in less than one year. Borrowed funds, excluding capitalized lease obligations and floating rate advances, were $\$ 477.2$ million at December 31, 2011. The Company has the ability to obtain additional funding from the FHLB and Federal Reserve Bank discount window of approximately $\$ 535.0$ million, utilizing unencumbered securities of $\$ 484.0$ million and multifamily loans of $\$ 105.6$ million at March 31, 2012. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

Capital Resources. At March 31, 2012, and December 31, 2011, Northfield Bank exceeded all regulatory capital requirements to which it is subject.

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$\left.\begin{array}{lccc} & & \begin{array}{c}\text { Minimum } \\ \text { Required to Be } \\ \text { Well }\end{array} \\ \text { Minimum } \\ \text { Required for } \\ \text { Capital } \\ \text { Capitalized } \\ \text { cuder Prompt } \\ \text { Corrective Action } \\ \text { Provisions }\end{array}\right]$

## Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in the financial statements. These transactions primarily relate to lending commitments.

The following table shows the contractual obligations of the Company by expected payment period as of March 31, 2012:

| Contractual Obligation | Total | Less than <br> One Year | One to less <br> than Three <br> Years | Three to <br> less than <br> Five Years | Five Years <br> and greater |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (in thousands) |  |  |  |  |  |

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements (original or restructured). Commitments generally have a fixed expiration or other termination clauses which may or may not require payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.

As of March 31, 2012, we serviced $\$ 37.8$ million of loans for Freddie Mac. These one- to-four family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed for by the Company which, with other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At March 31, 2012, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage-related assets and loans, generally have longer maturities than our liabilities, which consist primarily of deposits and wholesale funding. As a result, a principal part of our business strategy involves managing interest rate risk and limiting the exposure of our net interest income to changes in market interest rates. Accordingly, our board of directors has established a management risk committee, comprised of our Treasurer, who chairs this Committee, our Chief Executive Officer, our Chief Operating Officer/Chief Financial Officer, our Chief Lending Officer, and our Executive Vice President of Operations. This committee is responsible for, among other things, evaluating the interest rate risk inherent in our assets and liabilities, for recommending to the risk management committee of our board of director s the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We seek to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:
originating commercial real estate loans and multifamily loans that generally tend to have shorter maturities and higher interest rates that generally reset at five years;
investing in shorter term investment grade corporate securities and mortgage-backed securities; and
obtaining general financing through lower-cost deposits and longer-term Federal Home Loan Bank advances and repurchase agreements.
Shortening the average term of our interest-earning assets by increasing our investments in shorter-term assets, as well as loans with variable interest rates, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates.

Net Portfolio Value Analysis. We compute amounts by which the net present value of our assets and liabilities (net portfolio value or NPV ) would change in the event market interest rates changed over an assumed range of rates. Our simulation model uses a discounted cash flow analysis to measure the interest rate sensitivity of NPV. Depending on current market interest rates we estimate the economic value of these assets and liabilities under the assumption that interest rates experience an instantaneous and sustained increase of $100,200,300$, or 400 basis points, or a decrease of 100 and 200 basis points, which is based on the current interest rate environment. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from $3 \%$ to $4 \%$ would mean, for example, a 100 basis point increase in the Change in Interest Rates column below.

Net Interest Income Analysis. In addition to NPV calculations, we analyze our sensitivity to changes in interest rates through our net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for a twelve-month period. Depending on current market interest rates we then calculate what the net interest income would be for the same period under the assumption that interest rates experience an instantaneous and sustained increase or decrease of 100, 200, 300 , or 400 basis points, or a decrease of 100 and 200 basis points, which is based on the current interest rate environment.

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The table below sets forth, as of March 31, 2012, our calculation of the estimated changes in our NPV, NPV ratio, and percent change in net interest income that would result from the designated instantaneous and sustained changes in interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied on as indicative of actual results (dollars in thousands).

| Change in <br> Interest Rates <br> (basis points) | Estimated <br> Present Value <br> of Assets | Estimated <br> Present Value <br> of Liabilities | NPV <br> Estimated <br> NPV | Estimated <br> Change In <br> NPV | Estimated <br> NPV/Present <br> Value of <br> Assets Ratio | Net Interest <br> Income Percent <br> Change |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| +400 | $\$ 2,197,175$ | $\$ 1,867,954$ | $\$ 329,221$ | $\$(119,279)$ | $14.98 \%$ | $-6.97 \%$ |
| +300 | $2,253,882$ | $1,900,923$ | 352,959 | $(95,541)$ | 15.66 | -4.91 |
| +200 | $2,321,733$ | $1,934,994$ | 386,739 | $(61,761)$ | 16.66 | -2.67 |
| 100 | $2,392,953$ | $1,970,218$ | 422,735 | $(25,765)$ | 17.67 | -0.79 |
| 0 | $2,455,149$ | $2,006,649$ | 448,500 | - | 18.27 | 0.00 |
| -100 | $2,492,288$ | $2,038,329$ | 453,959 | 5,459 | 18.21 | -0.75 |
| -200 | $2,525,055$ | $2,050,291$ | 474,764 | 26,264 | 18.80 | -3.80 |

The table above indicates that at March 31, 2012, in the event of a 300 basis point increase in interest rates, we would experience a 261 basis point decrease in NPV ratio ( $18.27 \%$ versus $15.66 \%$ ), and a $4.91 \%$ decrease in net interest income. In the event of a 200 basis point decrease in interest rates, we would experience a 53 basis point increase in NPV ratio ( $18.27 \%$ versus $18.80 \%$ ) and a $3.80 \%$ decrease in net interest income. Our policies provide that, in the event of a 300 basis point increase/decrease or less in interest rates, our net present value ratio should decrease by no more than 400 basis points and in the event of a 200 basis point increase/decrease, our projected net interest income should decrease by no more than $20 \%$. Additionally, our policy states that our net portfolio value should be at least $8.5 \%$ of total assets before and after such shock. At March 31, 2012, we were in compliance with all board approved policies with respect to interest rate risk management.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk through changes in NPV and net interest income. Modeling requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV and net interest income information presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assume that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although interest rate risk calculations provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

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## ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2012. Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective.

During the quarter ended March 31, 2012, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company $s$ internal control over financial reporting.

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## PART II

## ITEM 1. LEGAL PROCEEDINGS

The Company and subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company s financial condition or results of operations.

## ITEM 1A. RISK FACTORS

Except as disclosed in this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Unregistered Sale of Equity Securities. There were no sales of unregistered securities during the period covered by this report.
(b) Use of Proceeds. Not applicable
(c) Repurchases of Our Equity Securities.

The following table shows the Company s repurchase of its common stock for each calendar month in the three months ended March 31, 2012.

(1) On September 9, 2011 the Board of Directors of the Company authorized the continuance of the stock repurchase program. Under the program, the Company intends to repurchase up to $2,066,379$ additional shares, representing approximately $5 \%$ of its outstanding shares following the repurchase of the remaining shares authorized under the existing stock repurchase program announced on October 27, 2010. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and
prices, the Company s liquidity and capital requirements, and alternative uses of capital. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. The Company is conducting such repurchases in accordance with a Rule 10b5-1 trading plan. As of March 31, 2012, the Company has repurchased a total of 5,235,743 shares of its common stock at an average price of $\$ 12.89$ per share

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable

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ITEM 5. OTHER INFORMATION
None

ITEM 6. EXHIBITS
The exhibits required by Item 601 of Regulation S-K are included with this Form 10-Q and are listed on the Index to Exhibits immediately following the Signatures.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

## NORTHFIELD BANCORP, INC.

(Registrant)

Date: May 10, 2012
/s/ John W. Alexander
John W. Alexander
Chairman, President and Chief Executive Officer
/s/ Steven M. Klein
Steven M. Klein
Chief Operating Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)

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## INDEX TO EXHIBITS

Exhibit
Number Description
31.1 Certification of John W. Alexander, Chairman, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)*
31.2 Certification of Steven M. Klein, Chief Operating Officer and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)*

32 Certification of John W. Alexander, Chairman, President and Chief Executive Officer, and Steven M. Klein, Chief Operating Officer and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002*

101 The following materials from the Company s Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text**

* Filed herewith.
** Furnished, not filed

