

Northfield Bancorp, Inc.  
Form 10-Q  
November 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 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.**

**(Exact name of registrant as specified in its charter)**

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**United States of America**  
(State or other jurisdiction)

**42-1572539**  
(I.R.S. Employer

of incorporation)

Identification No.)

**1410 St. Georges Avenue, Avenel, New Jersey**  
(Address of principal executive offices)

**07001**  
(Zip Code)

**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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its 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 to post such files). Yes  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

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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. 40,216,999 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of November 2, 2012.

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**NORTHFIELD BANCORP, INC.**

Form 10-Q Quarterly Report

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**Table of Contents****PART I****ITEM 1. FINANCIAL STATEMENTS****NORTHFIELD BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

September 30, 2012, and December 31, 2011

(In thousands, except share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS:</b>		
Cash and due from banks	\$ 11,849	\$ 15,539
Interest-bearing deposits in other financial institutions	20,162	49,730
Total cash and cash equivalents	32,011	65,269
Trading securities	4,737	4,146
Securities available-for-sale, at estimated fair value (encumbered \$286,585 in 2012 and \$309,816 in 2011)	1,209,006	1,098,725
Securities held-to-maturity, at amortized cost (estimated fair value of \$2,656 in 2012 and \$3,771 in 2011) (encumbered \$0 in 2012 and 2011)	2,537	3,617
Loans held-for-sale	856	3,900
Purchased credit-impaired (PCI) loans held-for-investment	77,423	88,522
Originated loans held-for-investment, net	1,023,928	985,945
Loans held-for-investment, net	1,101,351	1,074,467
Allowance for loan losses	(27,069)	(26,836)
Net loans held-for-investment	1,074,282	1,047,631
Accrued interest receivable	7,346	8,610
Bank owned life insurance	79,917	77,778
Federal Home Loan Bank of New York stock, at cost	14,478	12,677
Premises and equipment, net	24,074	19,988
Goodwill	16,159	16,159
Other real estate owned	633	3,359
Other assets	25,075	15,059
<b>Total assets</b>	<b>2,491,111</b>	<b>2,376,918</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
<b>LIABILITIES:</b>		
Deposits	1,570,780	1,493,526
Securities sold under agreements to repurchase	256,000	276,000
Other borrowings	243,934	205,934
Advance payments by borrowers for taxes and insurance	3,995	2,201
Accrued expenses and other liabilities	20,608	16,607

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<b>Total liabilities</b>	2,095,317	1,994,268
<b>STOCKHOLDERS EQUITY:</b>		
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 September 30, 2012, and December 31, 2011, respectively, 40,216,999 and 40,518,591 outstanding at September 30, 2012 and December 31, 2011, respectively	456	456
Additional paid-in-capital	211,997	209,302
Unallocated common stock held by employee stock ownership plan	(14,133)	(14,570)
Retained earnings	246,657	235,776
Accumulated other comprehensive income	20,824	17,470
Treasury stock at cost; 5,415,612 and 5,114,020 shares at September 30, 2012 and December 31, 2011, respectively	(70,007)	(65,784)
<b>Total stockholders equity</b>	395,794	382,650
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,491,111</b>	<b>\$ 2,376,918</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****NORTHFIELD BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**

Three and nine months ended September 30, 2012, and 2011

(Unaudited)

(In thousands, except share data)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Interest income:</b>				
Loans	\$ 15,162	\$ 14,044	\$ 45,187	\$ 39,296
Mortgage-backed securities	6,799	7,746	20,418	24,838
Other securities	559	781	2,102	2,538
Federal Home Loan Bank of New York dividends	151	113	435	343
Deposits in other financial institutions	19	35	47	140
<b>Total interest income</b>	<b>22,690</b>	<b>22,719</b>	<b>68,189</b>	<b>67,155</b>
<b>Interest expense:</b>				
Deposits	2,447	3,111	7,432	9,399
Borrowings	3,244	3,331	9,820	9,879
<b>Total interest expense</b>	<b>5,691</b>	<b>6,442</b>	<b>17,252</b>	<b>19,278</b>
Net interest income	16,999	16,277	50,937	47,877
Provision for loan losses	502	2,000	1,661	5,117
Net interest income after provision for loan losses	16,497	14,277	49,276	42,760
<b>Non-interest income:</b>				
Fees and service charges for customer services	720	740	2,285	2,181
Income on bank owned life insurance	710	749	2,139	2,235
Gain (loss) on securities transactions, net	428	(271)	2,488	2,373
Other-than-temporary impairment losses on securities				(1,152)
Portion recognized in other comprehensive income (before taxes)				743
Net impairment losses on securities recognized in earnings				(409)
Other	(148)	22	203	159
<b>Total non-interest income</b>	<b>1,710</b>	<b>1,240</b>	<b>7,115</b>	<b>6,539</b>
<b>Non-interest expense:</b>				
Compensation and employee benefits	5,950	4,890	17,881	15,101
Director compensation	409	370	1,212	1,141
Occupancy	2,201	1,685	6,230	4,508
Furniture and equipment	375	312	1,064	891
Data processing	826	720	2,829	2,054
Professional fees	684	382	2,480	1,242

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FDIC insurance	409	454	1,218	1,523
Other	1,174	973	3,557	2,863
<b>Total non-interest expense</b>	<b>12,028</b>	<b>9,786</b>	<b>36,471</b>	<b>29,323</b>
Income before income tax expense	6,179	5,731	19,920	19,976
<b>Income tax expense</b>	<b>2,285</b>	<b>2,035</b>	<b>7,130</b>	<b>6,963</b>
<b>Net income</b>	<b>\$ 3,894</b>	<b>\$ 3,696</b>	<b>\$ 12,790</b>	<b>\$ 13,013</b>
<b>Net income per common share - basic and diluted</b>	<b>\$ 0.10</b>	<b>\$ 0.09</b>	<b>\$ 0.33</b>	<b>\$ 0.32</b>
<b>Other comprehensive income, before tax:</b>				
Unrealized gains on securities:				
Net unrealized holding gains on securities	\$ 3,432	\$ 6,346	\$ 5,590	\$ 14,181
Other comprehensive income, before tax	3,432	6,346	5,590	14,181
Income tax expense related to items of other comprehensive income	1,373	2,537	2,236	5,671
<b>Other comprehensive income, net of tax</b>	<b>2,059</b>	<b>3,809</b>	<b>3,354</b>	<b>8,510</b>
<b>Comprehensive income</b>	<b>\$ 5,953</b>	<b>\$ 7,505</b>	<b>\$ 16,144</b>	<b>\$ 21,523</b>

See accompanying notes to consolidated financial statements.

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## NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Nine months ended September 30, 2012, and 2011

(Unaudited)

(Dollars in thousands)

	Common Stock		Additional	Unallocated Common Stock Held by the Employee	Retained	Accumulated Other Comprehensive Income	Treasury	Total
	Shares	Par Value	Paid-in Capital	Stock Ownership Plan	Earnings	(Loss), Net of tax	Stock	Stockholders Equity
<b>Balance at December 31, 2010</b>	45,632,611	\$ 456	\$ 205,863	\$ (15,188)	\$ 222,655	\$ 10,910	\$ (27,979)	\$ 396,717
Comprehensive income:								
Net income					13,013			13,013
Other comprehensive income						8,510		8,510
ESOP shares allocated or committed to be released			150	438				588
Stock compensation expense			2,282					2,282
Additional tax benefit on equity awards			186					186
Exercise of stock options					(1)		6	5
Cash dividends declared (\$0.17 per common share)					(2,805)			(2,805)
Treasury stock (average cost of \$13.47 per share)							(28,242)	(28,242)
<b>Balance at September 30, 2011</b>	45,632,611	\$ 456	\$ 208,481	\$ (14,750)	\$ 232,862	\$ 19,420	\$ (56,215)	\$ 390,254
<b>Balance at December 31, 2011</b>	45,632,611	\$ 456	\$ 209,302	\$ (14,570)	\$ 235,776	\$ 17,470	\$ (65,784)	\$ 382,650
Comprehensive income:								
Net income					12,790			12,790
Other comprehensive income						3,354		3,354
ESOP shares allocated or committed to be released			192	437				629
Stock compensation expense			2,299					2,299
Additional tax benefit on equity awards			204					204
Exercise of stock options					(187)		121	(66)
Cash dividends declared (\$0.12 per common share)					(1,722)			(1,722)
Treasury stock (average cost of \$13.81 per share)							(4,344)	(4,344)
<b>Balance at September 30, 2012</b>	45,632,611	\$ 456	\$ 211,997	\$ (14,133)	\$ 246,657	\$ 20,824	\$ (70,007)	\$ 395,794

See accompanying notes to consolidated financial statements.





**Table of Contents****NORTHFIELD BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Nine months ended September 30, 2012, and 2011

(Unaudited) (In thousands)

	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,790	\$ 13,013
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Provision for loan losses	1,661	5,117
ESOP and stock compensation expense	2,928	2,870
Depreciation	2,076	1,566
Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees	277	967
Amortization of intangible assets	273	74
Income on bank owned life insurance	(2,139)	(2,235)
Gain on sale of premises and equipment and other real estate owned		(84)
Net gain on sale of loans held-for-sale	111	(25)
Proceeds from sale of loans held-for-sale	13,303	7,739
Origination of loans held-for-sale	(10,370)	(8,099)
Gain on securities transactions, net	(2,488)	(2,373)
Net impairment losses on securities recognized in earnings		409
Net purchases of trading securities	(135)	(235)
Decrease in accrued interest receivable	1,264	69
Decrease (increase) in other assets	1,192	(1,660)
(Decrease) increase in accrued expenses and other liabilities	(1,098)	114
<b>Net cash provided by operating activities</b>	<b>19,645</b>	<b>17,227</b>
<b>Cash flows from investing activities:</b>		
Net (increase) in loans receivable	(28,538)	(140,045)
(Purchases) redemptions of Federal Home Loan Bank of New York stock, net	(1,801)	253
Purchases of securities available-for-sale	(606,140)	(423,400)
Principal payments and maturities on securities available-for-sale	318,165	280,713
Principal payments and maturities on securities held-to-maturity	1,079	932
Proceeds from sale of securities available-for-sale	176,586	140,724
Proceeds from sale of other real estate owned	2,706	571
Purchases and improvements of premises and equipment	(6,162)	(3,769)
<b>Net cash used in investing activities</b>	<b>(144,105)</b>	<b>(144,021)</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	77,254	81,985
Dividends paid	(1,722)	(2,805)
Exercise of stock options	16	5
Purchase of treasury stock	(4,344)	(28,242)
Additional tax benefit on equity awards	204	186
Increase in advance payments by borrowers for taxes and insurance	1,794	2,208
Repayments under capital lease obligations	(186)	(161)
Proceeds from securities sold under agreements to repurchase and other borrowings	351,186	467,864
Repayments related to securities sold under agreements to repurchase and other borrowings	(333,000)	(404,594)

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Net cash provided by financing activities	91,202	116,446
Net (decrease) in cash and cash equivalents	(33,258)	(10,348)
Cash and cash equivalents at beginning of period	65,269	43,852
Cash and cash equivalents at end of period	\$ 32,011	\$ 33,504
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 17,490	\$ 19,059
Income taxes	5,334	7,853
Non-cash transactions:		
Loans charged-off, net	1,428	1,433
Other real estate owned charged-off	437	26
Transfers of loans to other real estate owned	306	376
Increase (decrease) in due to broker for purchases of securities available-for-sale	5,099	(57,007)
(Increase) in due from broker for sales of securities available-for-sale	(13,779)	

See accompanying notes to consolidated financial statements.

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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 and nine months ended September 30, 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. generally accepted accounting principles (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, impairment on investment securities, 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. GAAP 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**

The following is a comparative summary of mortgage-backed securities and other securities available-for-sale at September 30, 2012, and December 31, 2011 (in thousands):

	September 30, 2012			
	Amortized	Gross	Gross	Estimated
	cost	unrealized	unrealized	fair
		gains	losses	value
<b>Mortgage-backed securities:</b>				
<b>Pass-through certificates:</b>				
Government sponsored enterprises (GSE)	\$ 480,881	\$ 27,655	\$	\$ 508,536
Non-GSE				
<b>Real estate mortgage investment conduits (REMICs):</b>				
GSE	594,871	6,315	233	600,953
Non-GSE	11,108	520	38	11,590
	1,086,860	34,490	271	1,121,079
<b>Other securities:</b>				
Equity investments-mutual funds	12,856	106		12,962

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Corporate bonds	74,115	850		74,965
	86,971	956		87,927
Total securities available-for-sale	\$ 1,173,831	\$ 35,446	\$ 271	\$ 1,209,006

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	Amortized cost	December 31, 2011 Gross unrealized		Estimated fair value
		gains	losses	
<b>Mortgage-backed securities:</b>				
<b>Pass-through certificates:</b>				
GSE	\$ 490,184	\$ 24,709	\$	\$ 514,893
Non-GSE	8,770		1,255	7,515
<b>Real estate mortgage investment conduits (REMICs):</b>				
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
<b>Other securities:</b>				
Equity investments-mutual funds	11,787	48		11,835
Corporate bonds	100,922	358	623	100,657
	112,709	406	623	112,492
<b>Total securities available-for-sale</b>	<b>\$ 1,069,139</b>	<b>\$ 31,636</b>	<b>\$ 2,050</b>	<b>\$ 1,098,725</b>

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at September 30, 2012 (in thousands):

<b>Available-for-sale</b>	<b>Amortized cost</b>	<b>Estimated fair value</b>
Due in one year or less	\$ 35,303	\$ 35,459
Due after one year through five years	38,812	39,506
	<b>\$ 74,115</b>	<b>\$ 74,965</b>

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 and nine months ended September 30, 2012, the Company had gross proceeds of \$46.3 million and \$176.6 million, respectively, on sales of securities available-for-sale with gross realized gains of approximately \$715,000 and \$2.0 million, respectively. The Company had gross realized losses of \$490,000 for the three and nine months ended September 30, 2012. For the three and nine months ended September 30, 2011, the Company had gross proceeds of \$26.3 million and \$140.7 million, respectively, on sales of securities available-for-sale with gross realized gains of approximately \$296,000 and \$2.8 million, respectively, and no gross realized losses. The Company recognized \$203,000 and \$456,000 in gains on its trading securities portfolio during the three and nine months ended September 30, 2012, respectively. The Company recognized \$567,000 and \$428,000 in losses on its trading securities portfolio during the three and nine months ended September 30, 2011, respectively. The Company did not recognize any other-than-temporary impairment charges during the three and nine months ended September 30, 2012. The Company did not recognize any other-than-temporary impairment charges during the three months ended September 30, 2011 and recognized other-than-temporary impairment of \$409,000 during the nine months ended September 30, 2011 related to one equity investment in a mutual fund and two private label mortgage-backed securities.

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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 and nine months ended September 30, 2012 and 2011, is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	\$ 578	\$ 578	\$ 578	\$ 330
Additions to the credit component on debt securities in which other-than-temporary impairment was not previously recognized				248
Reductions due to sales	(578)		(578)	
Cumulative pre-tax credit losses, end of period	\$	\$ 578	\$	\$ 578

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 September 30, 2012, and December 31, 2011, were as follows (in thousands):

	Less than 12 months		September 30, 2012 12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Real estate mortgage investment conduits (REMICs):						
GSE	233	147,667			233	147,667
Non-GSE			38	700	38	700
Total	\$ 233	\$ 147,667	\$ 38	\$ 700	\$ 271	\$ 148,367

	Less than 12 months		December 31, 2011 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

During the current quarter the Company sold two pass-through non-GSE mortgage-backed securities issued by private companies (private label) that were rated less than investment grade at a combined loss of \$490,000. As a result of management's evaluation of these securities, the Company did not recognize any other-than-temporary impairment during the nine months ended September 30, 2012. These securities are included in the above available-for-sale security amounts at December 31, 2011.

The Company held one corporate bond that was in a continuous unrealized loss position of greater than twelve months at September 30, 2012. There were 15 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 September 30, 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

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

	September 30, 2012	December 31, 2011
Real estate loans:		
Multifamily	\$ 573,316	\$ 458,370
Commercial mortgage	312,379	327,074
One-to-four family residential mortgage	65,023	72,592
Home equity and lines of credit	32,622	29,666
Construction and land	23,204	23,460
<b>Total real estate loans</b>	<b>1,006,544</b>	<b>911,162</b>
Commercial and industrial loans	14,155	12,710
Insurance premium loans	26	59,096
Other loans	1,401	1,496
<b>Total commercial and industrial, insurance premium, and other loans</b>	<b>15,582</b>	<b>73,302</b>
Deferred loan cost, net	1,802	1,481
<b>Originated loans held-for-investment, net</b>	<b>1,023,928</b>	<b>985,945</b>
PCI Loans	77,423	88,522
<b>Loans held for investment, net</b>	<b>1,101,351</b>	<b>1,074,467</b>
Allowance for loan losses	(27,069)	(26,836)
<b>Net loans held-for-investment</b>	<b>\$ 1,074,282</b>	<b>\$ 1,047,631</b>

Loans held-for-sale amounted to \$856,000 and \$3.9 million at September 30, 2012 and December 31, 2011, respectively. Loans held-for-sale are comprised of one-to-four family residential mortgage loans.

PCI loans, acquired as part of a Federal Deposit Insurance Corporation-assisted transaction, totaled \$77.4 million at September 30, 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 33% commercial real estate and 56% commercial and industrial loans, with the remaining balance in residential and home equity loans. The following details the accretible yield for the three and nine months ended September 30, 2012:

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Balance at the beginning of period	\$ 39,311	\$ 42,493
Accretion into interest income	(1,499)	(4,681)
<b>Balance at end of period</b>	<b>\$ 37,812</b>	<b>\$ 37,812</b>

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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.

During the quarter ended September 30, 2012, we sold the servicing rights of the \$34.5 million of loans for Freddie Mac to a third party bank. 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 the time of sale to the third party, 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.

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

	<b>At or for the nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Beginning balance	\$ 26,836	\$ 21,819
Provision for loan losses	1,661	5,117
Charge-offs, net	(1,428)	(1,433)
Ending balance	\$ 27,069	\$ 25,503

The following tables set forth activity in our allowance for loan losses, by loan type, for the nine months ended September 30, 2012 and the year ended December 31, 2011. 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 September 30, 2012 and December 31, 2011 (in thousands).

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	At September 30, 2012									
	Real Estate				Home Equity and Lines of Credit	Commercial and Industrial	Insurance Premium	Other	Unallocated	Total
	Multifamily	Commercial	One -to- Four Family	Construction and Land						
<b>Allowance for loan losses:</b>										
Beginning Balance	\$ 6,772	\$ 14,120	\$ 967	\$ 1,189	\$ 418	\$ 2,035	\$ 186	\$ 40	\$ 1,109	\$ 26,836
Charge-offs	(58)	(1,245)		(43)	(3)	(90)	(198)	(2)		(1,639)
Recoveries	5	66				122	18			211
Provisions	807	778	(367)	(177)	197	185	(4)	1	241	1,661
Ending Balance	\$ 7,526	\$ 13,719	\$ 600	\$ 969	\$ 612	\$ 2,252	\$ 2	\$ 39	\$ 1,350	\$ 27,069
Ending balance: individually evaluated for impairment										
	\$ 339	\$ 2,101	\$ 8	\$	\$ 125	\$ 1,550	\$	\$	\$	\$ 4,123
Ending balance: collectively evaluated for impairment										
	\$ 7,187	\$ 11,618	\$ 592	\$ 969	\$ 487	\$ 702	\$ 2	\$ 39	\$ 1,350	\$ 22,946
<b>Originated loans, net:</b>										
Ending Balance	\$ 574,574	\$ 312,525	\$ 65,090	\$ 23,217	\$ 32,917	\$ 14,178	\$ 26	\$ 1,401	\$	\$ 1,023,928
Ending balance: individually evaluated for impairment										
	\$ 2,919	\$ 42,143	\$ 1,013	\$	\$ 1,947	\$ 5,778	\$	\$	\$	\$ 53,800
Ending balance: collectively evaluated for impairment										
	\$ 571,655	\$ 270,382	\$ 64,077	\$ 23,217	\$ 30,970	\$ 8,400	\$ 26	\$ 1,401	\$	\$ 970,128

	At December 31, 2011									
	Real Estate				Home Equity and Lines of Credit	Commercial and Industrial	Insurance Premium	Other	Unallocated	Total
	Multifamily	Commercial	One -to- Four Family	Construction and Land						
<b>Allowance for loan losses:</b>										
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
Ending balance: individually evaluated for impairment										
	\$ 338	\$ 1,895	\$ 408	\$	\$ 30	\$ 1,393	\$	\$	\$	\$ 4,064

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Ending balance:  
collectively evaluated  
for impairment

	\$	6,434	\$	12,225	\$	559	\$	1,189	\$	388	\$	642	\$	186	\$	40	\$	1,109	\$	22,772
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**Originated loans, net:**

Ending balance	\$	459,434	\$	327,141	\$	72,679	\$	23,478	\$	29,906	\$	12,715	\$	59,096	\$	1,496	\$		\$	985,945
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Ending balance:  
individually evaluated  
for impairment

	\$	2,945	\$	43,448	\$	2,532	\$	1,709	\$	1,593	\$	2,043	\$		\$		\$		\$	54,270
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Ending balance:  
collectively evaluated  
for impairment

	\$	456,489	\$	283,693	\$	70,147	\$	21,769	\$	28,313	\$	10,672	\$	59,096	\$	1,496	\$		\$	931,675
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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 and adjusted if necessary. Periodically, 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

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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 collectively evaluated for impairment 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's internal 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.

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 September 30, 2012, and December 31, 2011 (in thousands).

At September 30, 2012								
Multifamily	Real Estate Commercial	One- to Four- Family	Construction and Land	Home Equity and	Commercial and Industrial	Insurance Premium	Other	Total

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							<b>Lines of Credit</b>					
	<b>&lt; 35% LTV</b>	<b>=&gt; 35% LTV</b>	<b>&lt; 35% LTV</b>	<b>=&gt; 35% LTV</b>	<b>&lt; 60% LTV</b>	<b>=&gt; 60% LTV</b>						
<b>Internal Risk</b>												
Rating Pass	\$ 18,914	\$ 535,381	\$ 31,613	\$ 209,179	\$ 40,916	\$ 20,198	\$ 12,519	\$ 30,554	\$ 10,302	\$ 24	\$ 1,401	\$ 911,001
Special Mention	118	12,549	257	22,459	1,441	386	5,141	669	782	2		43,804
Substandard	513	7,099	1,695	47,322	1,094	1,055	5,557	1,694	3,094			69,123
<b>Total Loans</b>												
Receivable, net	\$ 19,545	\$ 555,029	\$ 33,565	\$ 278,960	\$ 43,451	\$ 21,639	\$ 23,217	\$ 32,917	\$ 14,178	\$ 26	\$ 1,401	\$ 1,023,928

**At December 31, 2011**

**Real Estate**

							<b>Home Equity and Construction and Lines of Credit Commercial and Insurance Other</b>						<b>Total</b>
	<b>Multifamily</b>		<b>Commercial</b>		<b>One- to Four- Family</b>		<b>Construction and Land</b>	<b>Lines of Credit</b>	<b>Commercial and Industrial</b>	<b>Insurance Premium</b>	<b>Other</b>		
	<b>&lt; 35% LTV</b>	<b>=&gt; 35% LTV</b>	<b>&lt; 35% LTV</b>	<b>=&gt; 35% LTV</b>	<b>&lt; 60% LTV</b>	<b>=&gt; 60% LTV</b>							
<b>Internal Risk</b>													
Rating Pass	\$ 23,595	\$ 419,433	\$ 30,478	\$ 214,120	\$ 39,808	\$ 27,806	\$ 17,229	\$ 27,751	\$ 8,761	\$ 58,817	\$ 1,496	\$ 869,294	
Special Mention		11,989	624	23,271	1,730		631	389	1,118	142		39,894	
Substandard	555	3,862	2,027	56,621	821	2,514	5,618	1,766	2,836	137		76,757	
<b>Total Loans</b>													
Receivable, net	\$ 24,150	\$ 435,284	\$ 33,129	\$ 294,012	\$ 42,359	\$ 30,320	\$ 23,478	\$ 29,906	\$ 12,715	\$ 59,096	\$ 1,496	\$ 985,945	

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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 \$33.2 million and \$43.8 million at September 30, 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 \$29.7 million and \$36.1 million at September 30, 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 \$3.5 million and \$4.3 million at September 30, 2012 and December 31, 2011, respectively. Non-accrual amounts included in loans held-for-sale were \$3.4 million at December 31, 2011. There were not any non-accrual loans held-for-sale loans at September 30, 2012. Loans past due 90 days or more and still accruing interest were \$37,000 and \$85,000 at September 30, 2012 and December 31, 2011, respectively, 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 September 30, 2012 and December 31, 2011 (in thousands). The following table excludes PCI loans at September 30, 2012, which have been segregated into pools in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 September 30, 2012, expected future cash flows of each PCI loan pool were consistent with those estimated at its purchase date.

	At September 30, 2012				90 Days or More Past Due and Accruing	Total Non-Performing Loans
	0-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total		
<b>Loans held-for-investment:</b>						
<b>Real estate loans:</b>						
<b>Commercial</b>						
LTV < 35%						
Substandard	1,695			1,695		1,695
Total	1,695			1,695		1,695
LTV => 35%						
Substandard	14,547	448	8,110	23,105		23,105
Total	14,547	448	8,110	23,105		23,105
Total commercial	16,242	448	8,110	24,800		24,800
<b>One-to-four family residential</b>						
LTV < 60%						
Special Mention		20	229	249	37	286
Substandard	50	452		502		502
Total	50	472	229	751	37	788
LTV => 60%						
Substandard	233	441	131	805		805
Total	233	441	131	805		805



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Total one-to-four family residential	283	913	360	1,556	37	1,593
Construction and land Substandard	2,070			2,070		2,070
<b>Total construction and land</b>	<b>2,070</b>			<b>2,070</b>		<b>2,070</b>
Multifamily LTV => 35% Substandard			1,840	1,840		1,840
<b>Total</b>			<b>1,840</b>	<b>1,840</b>		<b>1,840</b>
Total multifamily			1,840	1,840		1,840
Home equity and lines of credit Substandard	203		1,491	1,694		1,694
Total home equity and lines of credit	203		1,491	1,694		1,694
Commercial and industrial loans Substandard	537		724	1,261		1,261
Total commercial and industrial loans	537		724	1,261		1,261
<b>Total non-performing loans</b>	<b>\$ 19,335</b>	<b>\$ 1,361</b>	<b>\$ 12,525</b>	<b>\$ 33,221</b>	<b>\$ 37</b>	<b>\$ 33,258</b>

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	At December 31, 2011				90 Days or More Past Due and Accruing	Total Non-Performing Loans
	Non-Accruing Loans					
	0-29 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total		
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

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Home equity and lines of credit Substandard	102		1,664	1,766		1,766
<b>Total home equity and lines of credit</b>	<b>102</b>		<b>1,664</b>	<b>1,766</b>		<b>1,766</b>
Commercial and industrial loans						
Special Mention			724	724		724
Substandard	553		90	643		643
<b>Total commercial and industrial loans</b>	<b>553</b>		<b>814</b>	<b>1,367</b>		<b>1,367</b>
Insurance premium loans - substandard			137	137		137
<b>Total insurance premium loans</b>			<b>137</b>	<b>137</b>		<b>137</b>
<b>Total loans-held-for-investmet</b>	<b>19,034</b>	<b>4,033</b>	<b>17,266</b>	<b>40,333</b>	<b>85</b>	<b>40,418</b>
Loans held-for-sale:						
Commercial						
LTV < 35%						
Substandard			263	263		263
<b>Total</b>			<b>263</b>	<b>263</b>		<b>263</b>
LTV => 35%						
Substandard	458	175	1,449	2,082		2,082
<b>Total</b>	<b>458</b>	<b>175</b>	<b>1,449</b>	<b>2,082</b>		<b>2,082</b>
<b>Total commercial</b>	<b>458</b>	<b>175</b>	<b>1,712</b>	<b>2,345</b>		<b>2,345</b>
Construction and land Substandard						
			422	422		422
<b>Total construction and land</b>			<b>422</b>	<b>422</b>		<b>422</b>
Multifamily						
LTV < 35%						
Substandard			32	32		32
<b>Total</b>			<b>32</b>	<b>32</b>		<b>32</b>
LTV => 35%						
Substandard			441	441		441
<b>Total</b>			<b>441</b>	<b>441</b>		<b>441</b>
<b>Total multifamily</b>			<b>473</b>	<b>473</b>		<b>473</b>
<b>Commercial and industrial loans Substandard</b>			<b>208</b>	<b>208</b>		<b>208</b>
<b>Total commercial and industrial loans</b>			<b>208</b>	<b>208</b>		<b>208</b>

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Total loans held-for-sale	458	175	2,815	3,448		3,448
<b>Total non-performing loans</b>	<b>\$ 19,492</b>	<b>\$ 4,208</b>	<b>\$ 20,081</b>	<b>\$ 43,781</b>	<b>\$ 85</b>	<b>\$ 43,866</b>

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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 September 30, 2012 and December 31, 2011 (in thousands).

	At September 30, 2012			Non-Performing Loans	Total Loans Receivable, net
	Performing (Accruing) Loans				
	0-29 Days Past Due	30-89 Days Past Due	Total		
<b>Loans held-for-investment:</b>					
Real estate loans:					
Commercial					
LTV < 35%					
Pass	\$ 31,613	\$	\$ 31,613	\$	\$ 31,613
Special Mention	257		257		257
Substandard				1,695	1,695
<b>Total</b>	<b>31,870</b>		<b>31,870</b>	<b>1,695</b>	<b>33,565</b>
LTV > 35%					
Pass	208,053	1,126	209,179		209,179
Special Mention	22,459		22,459		22,459
Substandard	21,840	2,376	24,216	23,105	47,321
<b>Total</b>	<b>252,352</b>	<b>3,502</b>	<b>255,854</b>	<b>23,105</b>	<b>278,959</b>
<b>Total commercial</b>	<b>284,222</b>	<b>3,502</b>	<b>287,724</b>	<b>24,800</b>	<b>312,524</b>
One-to-four family residential					
LTV < 60%					
Pass	\$ 40,427	\$ 490	40,917		40,917
Special Mention	714	441	1,155	286	1,441
Substandard	124	468	592	502	1,094
<b>Total</b>	<b>41,265</b>	<b>1,399</b>	<b>42,664</b>	<b>788</b>	<b>43,452</b>
LTV > 60%					
Pass	18,499	1,699	20,198		20,198
Special Mention	386		386		386
Substandard	250		250	805	1,055
<b>Total</b>	<b>19,135</b>	<b>1,699</b>	<b>20,834</b>	<b>805</b>	<b>21,639</b>
<b>Total one-to-four family residential</b>	<b>60,400</b>	<b>3,098</b>	<b>63,498</b>	<b>1,593</b>	<b>65,091</b>
Construction and land					
Pass	12,519		12,519		12,519
Special Mention	5,141		5,141		5,141
Substandard	3,487		3,487	2,070	5,557
<b>Total construction and land</b>	<b>21,147</b>		<b>21,147</b>	<b>2,070</b>	<b>23,217</b>
Multifamily					
LTV < 35%					
Pass	18,776	138	18,914		18,914

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Special Mention	118		118		118
Substandard	513		513		513
Total	19,407	138	19,545		19,545
LTV > 35%					
Pass	535,115	265	535,380		535,380
Special Mention	10,838	1,711	12,549		12,549
Substandard	4,919	340	5,259	1,840	7,099
Total	550,872	2,316	553,188	1,840	555,028
Total multifamily	570,279	2,454	572,733	1,840	574,573
Home equity and lines of credit					
Pass	30,541	13	30,554		30,554
Special Mention	669		669		669
Substandard				1,694	1,694
Total home equity and lines of credit	31,210	13	31,223	1,694	32,917
Commercial and industrial loans					
Pass	10,278	24	10,302		10,302
Special Mention	782		782		782
Substandard	994	840	1,834	1,261	3,095
Total commercial and industrial loans	12,054	864	12,918	1,261	14,179
Insurance premium loans					
Pass	25		25		25
Special Mention	1		1		1
Substandard					
Total insurance premium loans	26		26		26
Other loans					
Pass	1,334	67	1,401		1,401
Total other loans	1,334	67	1,401		1,401
	<b>\$ 980,672</b>	<b>\$ 9,998</b>	<b>\$ 990,670</b>	<b>\$ 33,258</b>	<b>\$ 1,023,928</b>

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**At December 31, 2011**  
**Performing (Accruing) Loans**

	0-29 Days Past Due	30-89 Days Past Due	Total	Non-Performing Loans	Total Loans Receivable, net
<b>Real estate loans:</b>					
<b>Commercial</b>					
<b>LTV &lt; 35%</b>					
Pass	\$ 30,478	\$	\$ 30,478	\$	\$ 30,478
Special Mention	611		611	13	624
Substandard				1,764	1,764
<b>Total</b>	<b>31,089</b>		<b>31,089</b>	<b>1,777</b>	<b>32,866</b>
<b>LTV &gt; 35%</b>					
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
<b>Total</b>	<b>255,321</b>	<b>8,404</b>	<b>263,725</b>	<b>30,550</b>	<b>294,275</b>
<b>Total commercial</b>	<b>286,410</b>	<b>8,404</b>	<b>294,814</b>	<b>32,327</b>	<b>327,141</b>
<b>One-to-four family residential</b>					
<b>LTV &lt; 60%</b>					
Pass	39,420	388	39,808		39,808
Special Mention	974	398	1,372	358	1,730
Substandard	129	284	413	408	821
<b>Total</b>	<b>40,523</b>	<b>1,070</b>	<b>41,593</b>	<b>766</b>	<b>42,359</b>
<b>LTV &gt; 60%</b>					
Pass	26,618	1,188	27,806		27,806
Special Mention					
Substandard	1,942		1,942	572	2,514
<b>Total</b>	<b>28,560</b>	<b>1,188</b>	<b>29,748</b>	<b>572</b>	<b>30,320</b>
<b>Total one-to-four family residential</b>	<b>69,083</b>	<b>2,258</b>	<b>71,341</b>	<b>1,338</b>	<b>72,679</b>
<b>Construction and land</b>					
Pass	14,610	3,041	17,651		17,651
Special Mention	631		631		631
Substandard	3,487		3,487	1,709	5,196
<b>Total construction and land</b>	<b>18,728</b>	<b>3,041</b>	<b>21,769</b>	<b>1,709</b>	<b>23,478</b>
<b>Multifamily</b>					
<b>LTV &lt; 35%</b>					
Pass	23,595		23,595		23,595
Substandard				523	523
<b>Total</b>	<b>23,595</b>		<b>23,595</b>	<b>523</b>	<b>24,118</b>
<b>LTV &gt; 35%</b>					
Pass	416,453	3,453	419,906		419,906
Special Mention	10,526	1,463	11,989		11,989

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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
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
	<b>\$ 924,460</b>	<b>\$ 21,067</b>	<b>\$ 945,527</b>	<b>\$ 40,418</b>	<b>\$ 985,945</b>



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The following tables summarize impaired loans as of September 30, 2012 and December 31, 2011 (in thousands):

	At September 30, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With No Related Allowance Recorded:</b>			
Real estate loans:			
Commercial			
LTV < 35%			
Substandard	1,695	1,695	
LTV => 35%			
Pass	2,790	2,790	
Special Mention	1,044	1,052	
Substandard	25,285	26,490	
One-to-four family residential			
LTV < 60%			
Substandard	50	50	
LTV => 60%			
Substandard	489	489	
Construction and land			
Substandard	2,373	3,031	
Multifamily			
LTV < 35%			
Substandard	513	513	
LTV => 35%			
Loss	112	583	
Commercial and industrial loans			
Special Mention	38	38	
Substandard	1,542	1,542	
<b>With a Related Allowance Recorded:</b>			
Real estate loans:			
Commercial			
LTV => 35%			
Special Mention	642	669	(64)
Substandard	13,108	13,715	(2,100)
One-to-four family residential			
LTV < 60%			
Special Mention	524	524	(9)
Multifamily			
LTV => 35%			
Substandard	3,125	3,153	(402)
Home equity and lines of credit			
Special Mention	360	360	(20)
Substandard	1,587	1,589	(105)
Commercial and industrial loans			
Substandard	493	493	(1,423)
<b>Total:</b>			
Real estate loans			
Commercial	44,564	46,411	(2,164)
One-to-four family residential	1,063	1,063	(9)
Construction and land	2,373	3,031	
Multifamily	3,750	4,249	(402)
Home equity and lines of credit	1,947	1,949	(125)
Commercial and industrial loans	2,073	2,073	(1,423)

\$ 55,770      \$ 58,776      \$ (4,123)

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	At December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With No Allowance Recorded:</b>			
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	
<b>With a Related Allowance Recorded:</b>			
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%			
Substandard	1,552	1,552	(338)
Home equity and lines of credit			
Substandard	1,593	1,593	(30)
Commercial and industrial loans			
Substandard	462	462	(1,393)
<b>Total:</b>			
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 September 30, 2012 are loans with carrying balances of \$35.9 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 September 30, 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 nine months ended September 30, 2012 and 2011 was \$55.0 million and \$62.6 million, respectively. The Company recorded \$938,000 and \$2.2 million of interest income on impaired loans for the three and nine months ended September 30, 2012, respectively, as compared to \$246,000 and \$1.9 million of interest income on impaired loans for the three and nine months ended September 30, 2011, respectively.

The following table summarizes loans that were modified in troubled debt restructurings during the nine months ended September 30, 2012.

	Number of Relationships	Nine Months Ended September 30, 2012	
		Pre-Modification Outstanding Recorded Investment (in thousands)	Post-Modification Outstanding Recorded Investment
<b>Troubled Debt Restructurings</b>			
Commercial real estate loans			
Substandard	1	6,306	6,306
One-to-four Family			
Substandard	2	489	489
Home equity and lines of credit			
Special Mention	2	360	360
Total Troubled Debt Restructurings	5	\$ 7,155	\$ 7,155

At September 30, 2012 and December 31, 2011, we had troubled debt restructurings of \$45.1 million and \$41.6 million, respectively.

All five 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.

One loan that was restructured during the last twelve months has subsequently defaulted. The loan was a one-to-four family loan with a recorded investment of \$256,000 and currently is maintained on non-accrual status as of September 30, 2012.

**Table of Contents****Note 4 Deposits**

Deposits are as follows (in thousands):

	September 30, 2012	December 31, 2011
Non-interest-bearing demand	\$ 175,279	\$ 156,493
Interest-bearing negotiable orders of withdrawal (NOW)	106,232	91,829
Savings-passbook, statement, tiered, and money market	815,213	765,081
Certificates of deposit	474,056	480,123
	\$ 1,570,780	\$ 1,493,526

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Negotiable order of withdrawal, savings-passbook, statement, tiered, and money market	\$ 996	\$ 1,155	\$ 3,115	\$ 3,453
Certificates of deposit	1,451	1,956	4,317	5,946
	\$ 2,447	\$ 3,111	\$ 7,432	\$ 9,399

**Note 5 Equity Incentive Plan**

The following table is a summary of the Company's stock options outstanding as of September 30, 2012 and changes therein during the nine months then ended:

	Number of Stock Options	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Outstanding - December 31, 2011	2,056,660	\$ 3.22	\$ 9.95	7.02
Granted				
Forfeited	(3,560)	3.22	9.94	
Exercised	(42,680)	3.22	9.94	
Outstanding - September 30, 2012	2,010,420	\$ 3.22	\$ 9.95	6.32
Exercisable - September 30, 2012	1,240,040	\$ 3.22	\$ 9.95	6.32

Expected future stock option expense related to the non-vested options outstanding as of September 30, 2012 is \$1.8 million over an average period of 1.3 years.

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The following is a summary of the status of the Company's restricted share awards as of September 30, 2012 and changes therein during the nine months then ended.

	<b>Number of Shares Awarded</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested at December 31, 2011	488,830	\$ 9.97
Granted		
Vested	(162,650)	9.96
Forfeited	(1,240)	9.94
Non-vested at September 30, 2012	324,940	\$ 9.97

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Expected future stock award expense related to the non-vested restricted share awards as of September 30, 2012 is \$2.2 million over an average period of 1.3 years.

During the three and nine months ended September 30, 2012, the Company recorded \$800,000 and \$2.3 million of stock-based compensation related to the above plans, respectively. During the three and nine months ended September 30, 2011, the Company recorded \$748,000 and \$2.3 million 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 September 30, 2012, and December 31, 2011, by level within the fair value hierarchy as required by the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (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.

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	Fair Value Measurements at Reporting Date Using:			
	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Measured on a recurring basis:				
Assets:				
Investment securities:				
Available-for-sale:				
Mortgage-backed securities:				
GSE	\$ 1,109,489	\$	\$ 1,109,489	\$
Non-GSE	11,590		11,590	
Corporate bonds	74,965		74,965	
Equities	12,962	12,962		
Total available-for-sale	1,209,006	12,962	1,196,044	
Trading securities	4,737	4,737		
Total	\$ 1,213,743	\$ 17,699	\$ 1,196,044	\$
Measured on a non-recurring basis:				
Assets:				
Impaired loans:				
Real estate loans:				
Commercial real estate	\$ 30,591	\$	\$	\$ 30,591
One-to-four family residential mortgage	780			780
Construction and land	2,070			2,070
Multifamily	3,097			3,097
Home equity and lines of credit	1,947			1,947
Total impaired loans	38,485			38,485
Commercial and industrial loans	454			454
Other real estate owned	633			633
Total	\$ 39,572	\$	\$	\$ 39,572



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	Fair Value Measurements at Reporting Date Using:			
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
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 September 30, 2012:

	Fair Value (in thousands)	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans	\$ 38,939	Appraisals	Discount for costs to sell	7.0%
			Discount for quick sale	10.0% - 20.0%
			Discount for dated appraisal utilizing changes in real estate indexes	Varies
Other real estate owned	\$ 633	Appraisals	Discount for costs to sell	7.0%
				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 nine months ended September 30, 2012.

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

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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 September 30, 2012 and December 31, 2011, the Company had originated impaired loans held-for-investment and held-for-sale with outstanding principal balances of \$43.8 million and \$39.1 million, respectively, which were recorded at their estimated fair value of \$38.9 million and \$35.7 million, respectively. The Company recorded net impairment charges of \$58,000 and \$2.3 million for the nine months ended September 30, 2012, and 2011, respectively, and charge-offs of \$1.6 million and \$1.5 million for the nine months ended September 30, 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 September 30, 2012, and December 31, 2011, the Company had assets acquired through foreclosure, or deed in lieu of foreclosure, of \$633,000 and \$3.4 million, respectively, recorded at estimated fair value, less estimated selling costs when acquired, 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.

There were no subsequent valuation adjustments to other real estate owned (REO) for the three and nine months ended September 30, 2012. 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 six 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.

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

The fair value for Federal Home Loan Bank of New York (FHLB) 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.

**Table of Contents****(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.

The estimated fair values of the Company's significant financial instruments at September 30, 2012, and December 31, 2011, are presented in the following tables (in thousands):

	Carrying Value	September 30, 2012 Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and cash equivalents	\$ 32,011	\$ 32,011	\$	\$	\$ 32,011
Trading securities	4,737	4,737			4,737
Securities available-for-sale	1,209,006	12,962	1,196,044		1,209,006
Securities held-to-maturity	2,537		2,656		2,656
Federal Home Loan Bank of New York stock, at cost	14,478		14,478		14,478
Loans held-for-sale	856			856	856
Net loans held-for-investment	1,074,282			1,141,886	1,141,886

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### Financial liabilities:

Deposits	\$ 1,570,780	\$	\$ 1,576,068	\$	\$ 1,576,068
Repurchase agreements and other borrowings	499,934		515,194		515,194
Advance payments by borrowers	3,995		3,995		3,995

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	December 31, 2011	
	Carrying value	Estimated Fair value
<b>Financial assets:</b>		
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
<b>Financial liabilities:</b>		
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's entire 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.

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.

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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 September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income available to common stockholders	\$ 3,894	\$ 3,696	\$ 12,790	\$ 13,013
Weighted average shares outstanding-basic	38,456,933	39,913,992	38,538,525	40,532,972
Effect of non-vested restricted stock and stock options outstanding	596,657	449,686	514,648	424,272
Weighted average shares outstanding-diluted	39,053,590	40,363,678	39,053,173	40,957,244
Earnings per share-basic	\$ 0.10	\$ 0.09	\$ 0.33	\$ 0.32
Earnings per share-diluted	\$ 0.10	\$ 0.09	\$ 0.33	\$ 0.32

**Note 8 Stock Repurchase Program**

As of September 30, 2012, the Company has repurchased a total of 5,384,510 shares of its common stock under its prior repurchase plans at an average price of \$12.91 per share. The Company announced on June 6, 2012, that it terminated its stock repurchase plan in connection with its adoption of a Plan of Conversion and Reorganization to a fully public company.

**Note 9 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.

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



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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's financial statements but did not have an impact on the Company's financial 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.

**Note 10 Other Matters and Subsequent Events**

On June 6, 2012, the Board of Trustees of Northfield Bancorp, MHC ("MHC") and the Board of Directors of the Company adopted a Plan of Conversion and Reorganization (the "Plan"). Pursuant to the Plan, the MHC will convert from the mutual holding company form of organization to the fully public form. The MHC will be merged into the Company, and the MHC will no longer exist. The Company will merge into a new Delaware corporation named Northfield Bancorp, Inc. As part of the conversion, the MHC's ownership interest of the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represents the remaining ownership interest in the Company, will be exchanged for new shares of common stock of Northfield Bancorp, Inc., the new Delaware Corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public shareholders of the Company will own the same aggregate percentage of Northfield Bancorp, Inc. common stock that they owned immediately prior to that time (excluding shares purchased in the stock offering and cash received in lieu of fractional shares). When the conversion and public offering are completed, all of the capital stock of Northfield Bank will be owned by Northfield Bancorp, Inc., the Delaware Corporation.

The Plan provides for the establishment, upon the completion of the conversion, of special liquidation accounts for the benefit of certain depositors of Northfield Bank in an amount equal to the greater of the MHC's ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus or the retained earnings of Northfield Bank at the time it reorganized into the MHC. Following the completion of the conversion, under the rules of the Board of Governors of the Federal Reserve System, Northfield Bank will not be permitted to pay dividends on its capital stock to Northfield Bancorp, Inc., its sole shareholder, if Northfield Bank's shareholder's equity would be reduced below the amount of the liquidation accounts. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation accounts.

Additionally, due to recent changes in federal regulations applicable to mutual holding companies relating to the waiver of dividends by parent mutual holding companies, the Board of Directors has determined to delay the payment of any further cash dividends on the Company's common stock.

Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. Costs of \$558,000 have been incurred related to the conversion as of September 30, 2012.

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On February 22, 2012, Northfield Bancorp, Inc., Northfield Bancorp, MHC, and Northfield Bank were served with a summons and complaint related to a personal injury matter. The plaintiff was seeking damages of \$40 million. The matter relates to an injury sustained by an individual on a property owned by a borrower of the Bank, which secures a loan to the Bank. The borrower was named as a co-defendant. The Bank does not operate the subject property or have any interest in the property, other than as collateral for its loan. The case was dismissed in federal court on May 23, 2012 due to lack of subject matter jurisdiction and was re-filed in state court on June 21, 2012. Management believes the lawsuit is without merit. The Bank has \$12 million in insurance coverage and the complaint is being defended by the Bank's insurer. No accrual for loss has been established at September 30, 2012.

Our primary market areas of Staten Island and Brooklyn, New York and Union and Middlesex Counties in New Jersey were significantly impacted by Hurricane Sandy, which struck the region on October 29, 2012. While our facilities sustained only minor damage, Hurricane Sandy caused significant property damage throughout our market area, resulting in widespread disruptions in power and transportation. Many properties and structures also have incurred flood and wind damage, which ranges from minor to moderate in many areas to very severe in the coastal areas of Brooklyn, Staten Island, and New Jersey. Substantially all of our loans are secured by real estate located in our market area. Based on our initial assessments of where our borrowers are located within the market area, we believe that many of our borrowers will likely have experienced power outages and wind damage, and to a lesser extent, flood damage. However, we believe most of our borrowers will not have suffered catastrophic damage to their businesses or the collateral securing their loans. For our collateral dependent loans, our policy is to require property insurance on all loans (which normally covers wind damage), as well as flood insurance if the property is located within a flood zone, which should reduce our exposure to potential loss. Properties not located within flood zones are not required to have flood insurance, and thus it is likely that insurance coverage will not be available for any flood-related damage to those properties. We are in the process of performing a detailed evaluation of the effects Hurricane Sandy may have had on our borrowers and our collateral, but we do not yet have sufficient information to reasonably estimate the potential financial impact of the storm on us. However, it is likely that our results of operations will be negatively impacted, and it is possible that the impact could be material.

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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 our customers;

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 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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### **Impact of Hurricane Sandy**

Our primary market areas of Staten Island and Brooklyn, New York and Union and Middlesex Counties in New Jersey were significantly impacted by Hurricane Sandy, which struck the region on October 29, 2012.

Although we experienced short-term service disruptions, the storm has not had a significant effect on our ability to continue to service our customers. With the exception of flooding at our Brighton Beach, Brooklyn office acquired in the Flatbush Federal Bancorp transaction, none of our branches sustained any significant damage as a result of the storm, although many were temporarily affected by power outages and telecommunication problems. As of November 6, 2012, our Woodbridge, New Jersey operations center was fully functional, all of our banking offices other than Brighton Beach were open for business, and our internet banking service was fully operational.

While our facilities sustained only minor damage, Hurricane Sandy caused significant property damage throughout our market area, resulting in widespread disruptions in power and transportation. Many properties and structures also have incurred flood and wind damage, which ranges from minor to moderate in many areas to very severe in the coastal areas of Brooklyn, Staten Island, and New Jersey. Substantially all of our loans are secured by real estate located in our market area. Based on our initial assessments of where our borrowers are located within the market area, we believe that many of our borrowers will likely have experienced power outages and wind damage, and to a lesser extent, flood damage. However, we believe most of our borrowers will not have suffered catastrophic damage to their businesses or the collateral securing their loans. For our collateral dependent loans, our policy is to require property insurance on all loans (which normally covers wind damage), as well as flood insurance if the property is located within a flood zone, which should reduce our exposure to potential loss. Properties not located within flood zones are not required to have flood insurance, and thus it is likely that insurance coverage will not be available for any flood-related damage to those properties.

We are in the process of performing a detailed evaluation of the effects Hurricane Sandy may have had on our borrowers and our collateral, but we do not yet have sufficient information to reasonably estimate the potential financial impact of the storm on us. However, it is likely that our results of operations will be negatively impacted, and it is possible that the impact could be material. For example, it is likely that we will experience increased delinquencies and loan restructurings, particularly in the short-term as customers undertake recovery and clean-up efforts, including the submission of insurance claims. Customers may also experience disruptions in their employment status or income if their employers were affected by the storm. These increases in delinquencies and restructurings would negatively impact our cash flow and, if not timely cured, would increase our non-performing assets and reduce our net interest income. Loan restructurings may also increase as we work with borrowers impacted by the storm. We may also experience increased provisions for loan losses as total loan delinquencies and loan restructurings increase, and to the extent that the combination of insurance proceeds and collateral values are insufficient to cover loan balances on loans that may default. Any increased provisions for loan losses could have a material adverse effect on our results of operations.

### **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 \$3.9 million and \$12.8 million for the three and nine months ended September 30, 2012, respectively, as compared to \$3.7 million and \$13.0 million for the three and nine months ended September 30, 2011, respectively. Basic and diluted earnings per share were \$0.10 and \$0.33 for the three and nine months ended September 30, 2012, respectively, compared to \$0.09 and \$0.32 for the three and nine months ended September 30, 2011, respectively. For the three and nine months ended September 30, 2012, our return on average assets was 0.63% and 0.70%, respectively, as compared to 0.63% and 0.76% for the three and nine months ended September 30, 2011, respectively. For the three and nine months ended September 30, 2012, our return on average stockholders' equity was 3.95% and 4.41%, respectively, as compared to 3.71% and 4.39% for the three and nine months ended September 30, 2011, respectively.

Assets increased by 4.8% to \$2.49 billion at September 30, 2012, from \$2.38 billion at December 31, 2011. The increase in total assets reflected an increase in securities available-for-sale of \$110.3 million, or 10.0%, and an increase in net loans held-for-investment of \$26.7 million, which was partially offset by decreases in cash and cash equivalents of \$33.3 million. Deposits increased \$77.3 million to \$1.57 billion at September 30, 2012, from \$1.49 billion at December 31, 2011. The increase in deposits was attributable to growth in transaction accounts and savings accounts, partially offset by decreases in certificates of deposit and short-term certificates of deposit originated through the CDARS<sup>®</sup> Network. Borrowed funds increased \$18.0 million to \$499.9 million at September 30, 2012, from \$481.9 million at December 31, 2011.

### **Comparison of Financial Condition at September 30, 2012, and December 31, 2011**

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Total assets increased \$114.2 million, or 4.8%, to \$2.49 billion at September 30, 2012, from \$2.38 billion at December 31, 2011. The increase was primarily attributable to increases in securities available-for-sale of \$110.3 million and net loans held-for-investment of \$26.7 million, partially offset by a decrease in cash and cash equivalents of \$33.3 million.

Cash and cash equivalents decreased \$33.3 million, or 51.0%, to \$32.0 million at September 30, 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 \$110.3 million, or 10.0%, to \$1.21 billion at September 30, 2012, from \$1.10 billion at December 31, 2011. The increase was primarily attributable to purchases of \$611.2 million partially offset by maturities and pay-downs of \$318.2 million and sales of \$190.4 million. At September 30, 2012, \$1.11 billion of the portfolio consisted of residential mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. We also held residential mortgage-backed securities not guaranteed by these three entities, referred to as private label securities. The private label securities had an amortized cost of \$11.1 million and an estimated fair value of \$11.6 million at September 30, 2012, a decrease of \$428.9 million from December 31, 2011. During the current quarter, we sold 2 pass-through non-GSE mortgage-backed securities issued by private companies (private label) that were rated less than investment grade at a combined loss of \$490,000. In addition to the above mortgage-backed securities, we held \$75.0 million in corporate bonds which were all rated investment grade at September 30, 2012, and \$13.0 million of equity investments in mutual funds, which focus on investments that qualify under the Community Reinvestment Act and money market mutual funds.

Securities held-to-maturity decreased \$1.1 million, or 29.9%, to \$2.5 million at September 30, 2012, from \$3.6 million at December 31, 2011. The decrease was attributable to maturities and paydowns during the nine months ended September 30, 2012.

Originated loans held-for-investment, net, totaled \$1.02 billion at September 30, 2012, as compared to \$985.9 million at December 31, 2011. The increase was primarily due to an increase in multifamily real estate loans, which increased \$114.9 million, or 25.1%, to \$573.3 million at September 30, 2012, from \$458.4 million at December 31, 2011. This was partially offset by a decrease in insurance premium loans of \$59.1 million, due to the sale of the majority of the portfolio, and a decrease in commercial real estate loans of \$14.7 million. Currently, management is primarily focused on originating multifamily loans, with less emphasis on other loan types.

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Purchased credit-impaired (PCI) loans, acquired as part of a transaction with the Federal Deposit Insurance Corporation, totaled \$77.4 million at September 30, 2012, as compared to \$88.5 million at December 31, 2011. The Company recorded accretion of interest income of \$4.7 million for the nine months ended September 30, 2012, attributable to these PCI loans.

Bank owned life insurance increased \$2.1 million, or 2.8%, to \$79.9 million at September 30, 2012 from \$77.8 million at December 31, 2011. The increase resulted from income earned on bank owned life insurance for the nine months ended September 30, 2012.

Federal Home Loan Bank of New York stock, at cost, increased \$1.8 million, or 14.2%, to \$14.5 million at September 30, 2012, from \$12.7 million at December 31, 2011. This increase was attributable to an increase in borrowings outstanding with the Federal Home Loan Bank of New York over the same time period.

Premises and equipment, net, increased \$4.1 million, or 20.4%, to \$24.1 million at September 30, 2012, from \$20.0 million at December 31, 2011. This increase was primarily attributable to new branches and the renovation of existing branches.

Other real estate owned decreased \$2.7 million, or 81.2%, to \$633,000 at September 30, 2012, from \$3.4 million at December 31, 2011. This decrease was attributable to the sale of properties during the nine months ended September 30, 2012.

Other assets increased \$10.0 million, or 66.5%, to \$25.1 million at September 30, 2012, from \$15.1 million at December 31, 2011. The increase in other assets was attributable to an increase in amounts due from brokers due to the sale of several securities with trade dates prior to September 30, 2012 settling in October 2012, and an increase in prepaid expenses, partially offset by a decrease in amounts due to 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.

Deposits increased \$77.3 million, or 5.2%, to \$1.57 billion at September 30, 2012 from \$1.49 billion at December 31, 2011. The increase in deposits for the nine months ended September 30, 2012, was due to an increase in savings and money market accounts of \$50.1 million, or 6.6%, as compared to December 31, 2011, and an increase in transaction accounts of \$33.2 million, or 13.4%, as compared to December 31, 2011. These increases were partially offset by decreases in certificate of deposit accounts (issued by the Bank) of \$3.3 million, or 0.7%, from December 31, 2011 to September 30, 2012 and of \$2.7 million in short-term certificates of deposit originated through the CDARS® Network. Deposits originated through the CDARS® Network totaled \$661,000 at September 30, 2012, and \$3.4 million at December 31, 2011. The Company utilizes the CDARS® 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, increased \$18.0 million, or 3.7%, to \$499.9 million at September 30, 2012, from \$481.9 million at December 31, 2011. The increase in borrowings was primarily the result of increased FHLB advances.

Accrued expenses and other liabilities increased \$4.0 million, to \$20.6 million at September 30, 2012, from \$16.6 million at December 31, 2011. The increase was primarily a result of an increase in escrow payables.

Total stockholders' equity increased by \$13.1 million to \$395.8 million at September 30, 2012, from \$382.7 million at December 31, 2011. This increase was primarily attributable to net income of \$12.8 million for the nine months ended September 30, 2012, a \$3.4 million increase in accumulated other comprehensive income and an increase of \$2.7 million in additional paid-in capital primarily related to the recognition of compensation expense associated with equity awards. The increase was partially offset by \$4.2 million in stock repurchases net of stock option exercises and the payment of approximately \$1.7 million in dividends. As previously announced, we have temporarily suspended dividend payments pending the completion of Northfield Bancorp, MHC's second-step conversion.

As of September 30, 2012, the Company has repurchased a total of 5,384,510 shares of its common stock under its prior repurchase plans at an average price of \$12.91 per share. The Company announced on June 6, 2012, that it suspended dividend payments and terminated its stock repurchase plan in connection with its adoption of a Plan of Conversion and Reorganization to a fully public company.

**Table of Contents****Comparison of Operating Results for the Three Months Ended September 30, 2012 and 2011**

**Net income.** Net income was \$3.9 million for the quarter ended September 30, 2012, as compared to \$3.7 million for the quarter ended September 30, 2011. Results reflected an increase of \$722,000 in net interest income, a \$470,000 increase in non-interest income, a decrease of \$1.5 million in the provision for loan losses, a \$2.2 million increase in non-interest expense, and a \$250,000 increase in income tax expense.

**Interest income.** Interest income was relatively flat at \$22.7 million for both the three months ended September 30, 2012 and September 30, 2011. Interest income on loans increased by \$1.1 million, primarily attributable to an increase in the average balances of \$145.6million, partially offset by a decrease of 37 basis points in the yield earned. Interest income on loans for the quarter ended September 30, 2012 reflected prepayment loan income of \$542,000 compared to \$331,000 for the quarter ended September 30, 2011. Interest income on mortgage backed securities decreased by \$947,000, primarily attributable to a decrease of 38 basis points in the yield earned partially offset by an increase in the average balance of \$13.2 million.

**Interest expense.** Interest expense decreased \$751,000, or 11.7%, to \$5.7 million for the three months ended September 30, 2012, from \$6.4 million for the three months ended September 30, 2011. The decrease was comprised of a decrease of \$664,000 in interest expense on deposits and a decrease in interest expense on borrowings of \$87,000. The decrease in interest expense on deposits was attributed to a decrease in the cost of interest bearing deposits of 22 basis points to 0.70% from 0.92%, partially offset by an increase in average balance of interest bearing deposit accounts of \$60.4 million, or 4.5%, to \$1.39 billion for the three months ended September 30, 2012, from \$1.33 billion for the three months ended September 30, 2011. The decrease in interest expense on borrowings was attributed to a decrease in the cost of 39 basis points to 2.60% for the three months ended September 30, 2012 from 2.99% for the three months ended September 30, 2011, partially offset by an increase in average balances of borrowings of \$54.4million, or 12.3%, to \$496.6 million for the three months ended September 30, 2012 from \$442.2 million for the three months ended September 30, 2011.

**Net Interest Income.** Net interest income increased \$722,000, or 4.4%, as average interest-earning assets increased by 6.7% to \$2.33 billion. The increase in average interest-earning assets was due primarily to increases in average loans outstanding of \$145.6 million and in mortgage-backed securities of \$13.2 million, partially offset by a decrease in average interest-earning deposits of \$12.4 million. Rates paid on interest-bearing liabilities decreased 24 basis points to 1.20% for the current quarter as compared to 1.44% for the prior year comparable period. This was partially offset by a 26 basis point decrease in yields earned on interest earning assets to 3.88% for the current quarter as compared to 4.14% for the 2011 quarter.

**Provision for Loan Losses.** The provision for loan losses was \$502,000 for the quarter ended September 30, 2012; a decrease of \$1.5 million, or 74.9%, from the \$2.0 million provision recorded in the quarter ended September 30, 2011. The decrease in the provision for loan losses was due primarily to a shift in the composition of our loan portfolio to multifamily loans, which generally require lower general reserves than our other commercial real estate loans, and a decrease in non-performing loans during the quarter ended September 30, 2012 as compared to the prior year period. During the quarter ended September 30, 2012, the Company recorded net charge-offs of \$475,000 compared to net charge-offs of \$17,000 for the quarter ended September 30, 2011.

**Non-interest Income.** Non-interest income increased \$470,000 or 37.9%, to \$1.7 million for the quarter ended September 30, 2012, as compared to \$1.2 million for the quarter ended September 30, 2011. This increase was primarily a result of an increase in gains on securities transactions, net of \$699,000 to income of \$428,000 for the quarter ended September 30, 2012, compared to a loss of \$271,000 for the quarter ended September 30, 2011, partially offset by a decrease in other income of \$170,000.

**Non-interest Expense.** Non-interest expense increased \$2.2 million, or 22.9%, for the quarter ended September 30, 2012, as compared to the quarter ended September 30, 2011, due primarily to compensation and employee benefits increasing by \$1.1 million primarily related to increased staff due to branch openings and acquisitions, an increase in occupancy expense of \$516,000 primarily relating to new branches and the renovation of existing branches, an increase of \$106,000 in data processing fees primarily related to conversion costs associated with the Federal Deposit Insurance Corporation-assisted transaction, a \$302,000 increase in professional fees primarily related to merger activity and an increase in other non-interest expense of \$201,000.

**Income Tax Expense.** We recorded income tax expense of \$2.3 million for the quarter ended September 30, 2012, compared to \$2.0 million for the quarter ended September 30, 2011. The effective tax rate for the quarter ended September 30, 2012, was 37.0%, as compared to 35.5% for the quarter ended September 30, 2011. The increase in the effective tax rate was primarily attributable to merger related expenses from the Flatbush Federal transaction which are not deductible for tax purposes.





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## NORTHFIELD BANCORP, INC.

## ANALYSIS OF NET INTEREST INCOME

(Dollars in thousands)

	For the Three Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest	Average Yield/ Rate (1)	Average Outstanding Balance	Interest	Average Yield/ Rate (1)
<b>Interest-earning assets:</b>						
Loans (5)	\$ 1,088,268	\$ 15,162	5.54%	\$ 942,701	\$ 14,044	5.91%
Mortgage-backed securities	1,060,837	6,799	2.55	1,047,610	7,746	2.93
Other securities	116,274	559	1.91	120,754	781	2.57
Federal Home Loan Bank of New York stock	13,796	151	4.35	9,508	113	4.72
Interest-earning deposits in financial institutions	46,103	19	0.16	58,527	35	0.24
Total interest-earning assets	2,325,278	22,690	3.88	2,179,100	22,719	4.14
Non-interest-earning assets	151,529			143,639		
Total assets	\$ 2,476,807			\$ 2,322,739		
<b>Interest-bearing liabilities:</b>						
Savings, NOW, and money market accounts	\$ 913,561	\$ 996	0.43	\$ 732,128	\$ 1,155	0.63
Certificates of deposit	481,187	1,451	1.20	602,257	1,956	1.29
Total interest-bearing deposits	1,394,748	2,447	0.70	1,334,385	3,111	0.92
Borrowed funds	496,591	3,244	2.60	442,239	3,331	2.99
Total interest-bearing liabilities	1,891,339	5,691	1.20	1,776,624	6,442	1.44
Non-interest bearing deposit accounts	176,752			135,355		
Accrued expenses and other liabilities	16,578			15,086		
Total liabilities	2,084,669			1,927,065		
Stockholders' equity	392,138			395,674		
Total liabilities and stockholders' equity	\$ 2,476,807			\$ 2,322,739		
<b>Net interest income</b>						
		\$ 16,999			\$ 16,277	
<b>Net interest rate spread (2)</b>						
Net interest-earning assets (3)	\$ 433,939		2.68%	\$ 402,476		2.70
<b>Net interest margin (4)</b>						
Average interest-earning assets to interest-bearing liabilities			122.94%			122.65

(1) Average yields and rates for the three months ended September 30, 2012 and 2011, are annualized.

(2)

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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.

### **Comparison of Operating Results for the Nine Months Ended September 30, 2012 and 2011**

**Net income.** Net income was \$12.8 million for the nine months ended September 30, 2012, as compared to \$13.0 million for the nine months ended September 30, 2011. Results reflected an increase of \$3.1 million in net interest income, a \$576,000 increase in non-interest income, a decrease of \$3.5 million in the provision for loan losses, a \$7.1 million increase in non-interest expense, and a \$167,000 increase in income tax expense.

**Interest income.** Interest income increased \$1.0 million, or 1.5%, to \$68.2 million for the nine months ended September 30, 2012, from \$67.2 million for the nine months ended September 30, 2011. The increase was primarily due to an increase in interest income on loans of \$5.9 million. The increase in interest income on loans can

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be attributed to an increase in the average balances of \$185.8 million, partially offset by a decrease of 29 basis points in the yield earned. Interest income on loans for the nine months ended September 30, 2012 reflected prepayment loan income of \$956,000 compared to \$491,000 for the nine months ended September 30, 2011. This increase in interest income on loans was partially offset by a decrease in interest income on mortgage backed securities of \$4.4 million. The decrease in interest income on mortgage backed securities was primarily attributable to a decrease of 41 basis points in the yield earned and a decrease in the average balance of \$55.6 million.

**Interest expense.** Interest expense decreased \$2.0 million, or 10.5%, to \$17.3 million for the nine months ended September 30, 2012, from \$19.3 million for the nine months ended September 30, 2011. The decrease resulted from a decrease of \$2.0 in interest expense on deposits. Interest expense on borrowings was relatively flat compared to the prior year period. The decrease in interest expense on deposits was attributed to a decrease in the cost of interest bearing deposits of 24 basis points to 0.73% for the nine months ended September 30, 2012, from 0.97% for the nine months ended September 30, 2011, partially offset by an increase in average balance of interest bearing deposit accounts of \$71.8 million, or 5.6%, to \$1.36 billion for the nine months ended September 30, 2012 from \$1.29 billion for the nine months ended September 30, 2011.

**Net Interest Income.** Net interest income increased \$3.1 million, or 6.4%, as interest-earning assets increased by 5.5% to \$2.28 billion. The increase in average interest-earning assets was due primarily to an increase in average loans outstanding of \$185.8 million, partially offset by decreases in average interest-earning deposits of \$10.3 million, average mortgage-backed securities of \$55.6 million, and average other securities of \$5.4 million. Rates paid on interest-bearing liabilities decreased 22 basis points to 1.24% as compared to 1.46% for the prior-year comparable period. This was partially offset by an 16 basis point decrease in yields earned on interest-earning assets to 4.00% as compared to 4.16% for the prior-year comparable period.

**Provision for Loan Losses.** The provision for loan losses was \$1.7 million for the nine months ended September 30, 2012; a decrease of \$3.4 million, or 67.5%, from the \$5.1 million provision recorded in the nine months ended September 30, 2011. The decrease in the provision for loan losses was due primarily to a shift in the composition of our loan portfolio to multifamily loans, which generally require lower general reserves than our other commercial real estate loans, and a decrease in non-performing loans during the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011. During both the nine months ended September 30, 2012 and 2011, the Company recorded net charge-offs of \$1.4 million.

**Non-interest Income.** Non-interest income increased \$576,000, or 8.8%, to \$7.1 million for the nine months ended September 30, 2012, as compared to \$6.5 million for the nine months ended September 30, 2011. This increase was primarily a result of a \$104,000 increase in fees and service charges for customer services, a decrease in losses on other-than-temporary-impairment of securities of \$409,000 and an increase in other income of \$44,000, an increase in gains on securities transactions, net of \$115,000 to \$2.5 million for the nine months ended September 30, 2012, compared to \$2.4 million for the nine months ended September 30, 2011, partially offset by a decrease in income on bank owned life insurance (BOLI) of \$96,000.

**Non-interest Expense.** Non-interest expense increased \$7.1 million, or 24.4%, to \$36.4 million for the nine months ended September 30, 2012, as compared to \$29.3 million for the nine months ended September 30, 2011, due primarily to compensation and employee benefits increasing by \$2.8 million primarily related to increased staff due to branch openings and acquisitions, an increase in occupancy expense of \$1.7 million primarily relating to new branches and the renovation of existing branches, an increase of \$775,000 in data processing fees primarily related to conversion costs associated with the Federal Deposit Insurance Corporation-assisted transaction, a \$1.2 million increase in professional fees related to merger activity and an increase in other non-interest expense of \$694,000.

**Income Tax Expense.** We recorded income tax expense of \$7.1 million for the nine months ended September 30, 2012, compared to \$7.0 million for the nine months ended September 30, 2011. The effective tax rate for the nine months ended September 30, 2012, was 35.8%, as compared to 34.9% for the nine months ended September 30, 2011. The increase in the effective tax rate was primarily attributable to merger related expenses from the Flatbush Federal transaction which are not deductible for tax purposes.

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## NORTHFIELD BANCORP, INC.

## ANALYSIS OF NET INTEREST INCOME

(Dollars in thousands)

	For the Nine Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest	Average Yield/ Rate (1)	Average Outstanding Balance	Interest	Average Yield/ Rate (1)
<b>Interest-earning assets:</b>						
Loans (5)	\$ 1,072,993	\$ 45,187	5.63%	\$ 887,201	\$ 39,296	5.92%
Mortgage-backed securities	1,026,377	20,418	2.66	1,081,940	24,838	3.07
Other securities	124,720	2,102	2.25	130,081	2,538	2.61
Federal Home Loan Bank of New York stock	13,322	435	4.36	10,145	343	4.52
Interest-earning deposits in financial institutions	41,042	47	0.15	51,354	140	0.36
Total interest-earning assets	2,278,454	68,189	4.00	2,160,721	67,155	4.16
Non-interest-earning assets	146,908			137,820		
Total assets	\$ 2,425,362			\$ 2,298,541		
<b>Interest-bearing liabilities:</b>						
Savings, NOW, and money market accounts	\$ 885,067	\$ 3,115	0.47	\$ 709,471	3,453	0.65
Certificates of deposit	477,236	4,317	1.21	581,077	5,946	1.37
Total interest-bearing deposits	1,362,303	7,432	0.73	1,290,548	9,399	0.97
Borrowed funds	491,884	9,820	2.67	478,066	9,879	2.76
Total interest-bearing liabilities	1,854,187	17,252	1.24	1,768,614	19,278	1.46
Non-interest bearing deposit accounts	167,353			122,089		
Accrued expenses and other liabilities	16,033			11,519		
Total liabilities	2,037,573			1,902,222		
Stockholders' equity	387,789			396,319		
Total liabilities and stockholders' equity	\$ 2,425,362			\$ 2,298,541		
<b>Net interest income</b>						
		\$ 50,937			\$ 47,877	
<b>Net interest rate spread (2)</b>						
			2.75%			2.70
Net interest-earning assets (3)	\$ 424,267			\$ 392,107		
<b>Net interest margin (4)</b>						
			2.99%			2.96%
Average interest-earning assets to interest-bearing liabilities			122.88%			122.17

(1) Average yields and rates for the nine months ended September 30, 2012 and 2011, are annualized.

(2)

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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**

#### ***Purchased Credit Impaired Loans***

PCI loans were recorded at estimated fair value using expected future cash flows deemed to be collectible on the date acquired. Based on its detailed review of PCI loans and experience in loan workouts, management believes it has a reasonable expectation about the amount and timing of future cash flows and accordingly has classified PCI loans (\$77.4 million at September 30, 2012 and \$88.5 million at December 31, 2011) as accruing, even though they may be contractually past due. At September 30, 2012, based on recorded contractual principal,

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5.7% of PCI loans were past due 30 to 89 days, and 11.5% were past due 90 days or more. At December 31, 2011, based on recorded contractual principal, 9.0% of PCI loans were past due 30 to 89 days, and 16.1% were past due 90 days or more, as compared to 8.0% and 13.9% at October 14, 2011. The amount and timing of expected cash flows as of September 30, 2012 did not change significantly from the October 2011 acquisition date.

***Originated loans***

The discussion that follows relates to originated loans, both held-for-investment and held-for-sale.

The following table shows total non-performing assets for the current and previous four quarters and also shows, for the same dates, non-performing originated loans to total loans, Troubled Debt Restructurings (TDR) on which interest is accruing, and accruing loans delinquent 30 to 89 days (dollars in thousands).

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
<b>Non-accruing loans:</b>					
Held-for-investment	\$ 12,231	\$ 12,680	\$ 15,805	\$ 17,489	\$ 28,035
Held-for-sale		80	80	2,991	
<b>Non-accruing loans subject to restructuring agreements:</b>					
Held-for-investment	20,990	21,609	22,483	22,844	23,763
Held-for-sale				457	
<b>Total non-accruing loans</b>	<b>33,221</b>	<b>34,369</b>	<b>38,368</b>	<b>43,781</b>	<b>51,798</b>
<b>Loans 90 days or more past due and still accruing:</b>					
Held-for-investment	37	424	1,786	85	1,595
Held-for-sale					
<b>Total loans 90 days or more past due and still accruing:</b>	<b>37</b>	<b>424</b>	<b>1,786</b>	<b>85</b>	<b>1,595</b>
<b>Total non-performing loans</b>	<b>33,258</b>	<b>34,793</b>	<b>40,154</b>	<b>43,866</b>	<b>53,393</b>
<b>Other real estate owned</b>	<b>633</b>	<b>2,139</b>	<b>2,444</b>	<b>3,359</b>	<b>34</b>
<b>Total non-performing assets</b>	<b>\$ 33,891</b>	<b>\$ 36,932</b>	<b>\$ 42,598</b>	<b>\$ 47,225</b>	<b>\$ 53,427</b>
<b>Non-performing originated loans to total loans</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.8%</b>	<b>4.1%</b>	<b>5.5%</b>
<b>Loans subject to restructuring agreements and still accruing</b>	<b>\$ 24,099</b>	<b>\$ 25,502</b>	<b>\$ 25,047</b>	<b>\$ 18,349</b>	<b>\$ 18,355</b>
<b>Accruing loans 30 to 89 days delinquent</b>	<b>\$ 9,998</b>	<b>\$ 12,121</b>	<b>\$ 22,075</b>	<b>\$ 21,067</b>	<b>\$ 30,973</b>
<b><u>Total Non-accruing Loans</u></b>					

Total non-accruing loans decreased \$10.6 million, to \$33.2 million at September 30, 2012, from \$43.8 million at December 31, 2011. This decrease was primarily attributable to loans held-for-sale of \$3.4 million sold during the nine months ended September 30, 2012, \$1.4 million of loans returned to accrual status, \$428,000 of pay-offs and principal pay-downs, charge-offs of \$1.1 million, the sale of \$7.7 million 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 nine months ended September 30, 2012, were partially offset by \$3.1 million of loans being placed on non-accrual status and advances of \$561,000 during the nine months ended September 30, 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

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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.

The following tables detail the delinquency status of non-accruing loans (held-for-investment and held-for-sale) at September 30, 2012 and December 31, 2011 (dollars in thousands). All delinquent loans in the following two tables are classified as held-for-investment, with the exception of \$3.4 million of loans held-for-sale at December 31, 2011, respectively.



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	September 30, 2012			Total
	Days Past Due			
	0 to 29	30 to 89	90 or more	
Real estate loans:				
Commercial	\$ 16,243	\$ 448	\$ 8,109	\$ 24,800
One -to- four family residential	284	913	359	1,556
Construction and land	2,070			2,070
Multifamily			1,840	1,840
Home equity and lines of credit	203		1,491	1,694
Commercial and industrial loans	537		724	1,261
Total non-accruing loans	\$ 19,337	\$ 1,361	\$ 12,523	\$ 33,221

	December 31, 2011			Total
	Days Past Due			
	0 to 29	30 to 89	90 or more	
Real estate loans:				
Commercial	\$ 16,395	\$ 3,613	\$ 14,651	\$ 34,659
One -to- four family residential	210	594	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	\$ 4,207	\$ 20,082	\$ 43,781

**Loans Subject to Restructuring Agreements**

Included in non-accruing loans are loans subject to restructuring agreements totaling \$21.0 million and \$23.3 million at September 30, 2012, and December 31, 2011, respectively. At September 30, 2012, \$17.8 million, or 84.8% of the \$21.0 million, were performing in accordance with their restructured terms, as compared to \$19.2 million, or 82.3%, at December 31, 2011.

The Company also holds loans subject to restructuring agreements and still accruing, which totaled \$24.1 million and \$18.3 million at September 30, 2012, and December 31, 2011, respectively. At September 30, 2012, \$21.7 million, or 90.1% of the \$24.1 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 September 30, 2012 and December 31, 2011 (dollars in thousands).

	At September 30, 2012		At December 31, 2011	
	Non-Accruing	Accruing	Non-Accruing	Accruing
Troubled debt restructurings:				
Real estate loans:				
Commercial	\$ 17,834	\$ 20,204	\$ 20,420	\$ 13,389
One- to four-family residential	539	524		2,532
Construction and land	2,070		1,709	
Multifamily		2,049	523	1,552
Home equity and lines of credit	96	360	102	
Commercial and industrial	451	962	547	876
Total	\$ 20,990	\$ 24,099	\$ 23,301	\$ 18,349

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Performing in accordance with restructured terms	84.81%	90.14%	82.34%	69.03%
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### 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 decreased \$48,000 to \$37,000 at September 30, 2012, as compared to \$85,000 at December 31, 2011. Loans 90 days or more past due and still accruing at September 30, 2012, are considered well-secured and in the process of collection.

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Other real estate owned declined to \$633,000 at September 30, 2012, as compared to \$3.4 million at December 31, 2011 due primarily to sales of \$2.4 million.

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

Loans 30 to 89 days delinquent and on accrual status at September 30, 2012, totaled \$10.0 million, a decrease of \$11.1 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 September 30, 2012, and December 31, 2011 (dollars in thousands).

	September 30, 2012	December 31, 2011
Real estate loans:		
Commercial	\$ 3,502	\$ 8,404
One- to four-family residential	3,098	2,258
Construction and land		3,041
Multifamily	2,454	6,468
Home equity and lines of credit	13	30
Commercial and industrial loans	864	207
Insurance premium loans		568
Other loans	67	91
 Total delinquent accruing loans	 \$ 9,998	 \$ 21,067

**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 amortization 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, 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 \$492.2 million at September 30, 2012, at a weighted average interest rate of 2.47%. A total of \$107.3 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 \$658.1 million, utilizing unencumbered securities of \$591.6 million and multifamily loans of \$133.7 million at September 30, 2012. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

**Capital Resources.** At September 30, 2012, and December 31, 2011, Northfield Bank exceeded all regulatory capital requirements to which it is subject.

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	Actual Ratio	Minimum Required for Capital Adequacy Purposes	Minimum Required to Be Well Capitalized under Prompt Corrective Action Provisions
<b>As of September 30, 2012:</b>			
Tangible capital to tangible assets	13.49%	1.50%	NA
Tier 1 capital (core) - (to adjusted assets)	13.49	4.00	5.00
Total capital (to risk-weighted assets)	22.65	8.00	10.00
<b>As of December 31, 2011:</b>			
Tangible capital to tangible assets	13.42%	1.50%	NA
Tier 1 capital (core) - (to adjusted assets)	13.42	4.00	5.00
Total capital (to risk-weighted assets)	24.71	8.00	10.00

On September 6, 2012, the OCC and the other federal bank regulatory agencies issued a series of proposed rules to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III). The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more, and top-tier savings and loan holding companies (banking organizations). Among other things, the proposed rules establish a new common equity tier 1 minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The proposed rules also limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rules will become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019.

**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 September 30, 2012:

Contractual Obligation	Total	Less than One Year	One to less than Three Years	Three to less than Five Years	Five Years and greater
			(in thousands)		
Debt obligations (excluding capitalized leases)	\$ 492,213	\$ 107,300	\$ 193,000	\$ 187,913	\$ 4,000
Commitments to originate loans	\$ 33,607	\$ 33,607	\$	\$	\$
Commitments to fund unused lines of credit	\$ 54,235	\$ 54,235	\$	\$	\$

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.

During the quarter ended September 30, 2012, we sold the servicing rights of the \$34.5 million of loans for Freddie Mac to a third party bank. 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



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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 the time of sale to the third party, 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.

**Table of Contents****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 directors 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.

The table below sets forth, as of September 30, 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).

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Change in Interest Rates (basis points)	NPV				Estimated NPV/ Present Value of Assets Ratio	Net Interest Income Percent Change
	Estimated Present Value of Assets	Estimated Present Value of Liabilities	Estimated NPV	Estimated Change In NPV		
+400	\$ 2,308,716	\$ 1,953,141	\$ 355,575	\$ (126,335)	15.40%	-17.58%
+300	2,369,781	1,984,017	385,764	(96,146)	16.28	-12.55
+200	2,439,507	2,015,899	423,608	(58,302)	17.36	-7.45
+100	2,508,766	2,048,834	459,932	(21,978)	18.33	-2.84
0	2,564,780	2,082,870	481,910		18.79	0.00
-100	2,595,059	2,110,259	484,800	2,890	18.68	-0.52
-200	2,635,944	2,116,739	519,205	37,295	19.70	-1.94

The table above indicates that at September 30, 2012, in the event of a 300 basis point increase in interest rates, we would experience a 251 basis point decrease in NPV ratio (18.79% versus 16.28%), and a 12.55% decrease in net interest income. In the event of a 200 basis point decrease in interest rates, we would experience an 91 basis point increase in NPV ratio (18.79% versus 19.70%) and a 1.94% 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 16%. Additionally, our policy states that our net portfolio value should be at least 8% of total assets before and after such shock. At September 30, 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 September 30, 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 September 30, 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 elsewhere in this Quarterly Report on Form 10-Q, in our other filings with the SEC and as follows, 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.

**Hurricane Sandy could adversely affect our asset quality and earnings.**

Our primary market areas of Staten Island and Brooklyn, New York and Union and Middlesex Counties in New Jersey were significantly affected by Hurricane Sandy, which struck the region on October 29, 2012. The storm caused significant damage throughout our market area, including widespread disruptions in power and transportation. Many properties and structures also have incurred flood and wind damage, which ranges from minor to moderate in many areas to very severe in coastal areas, which may adversely affect the value of certain collateral securing our loans, and, potentially, our borrowers' ability to repay their obligations to us. In addition, flood and property insurance may not be sufficient to fully cover our exposure to losses, and our borrowers may experience delays in receiving proceeds from insurance claims. We are in the process of performing a detailed evaluation of the effects that Hurricane Sandy may have had on our borrowers and our collateral, but we do not yet have enough information to reasonably estimate the potential financial impact of the storm on us. However, it is likely that our results of operations will be negatively impacted, and it is possible that the impact could be material. For example, it is likely that we will experience increased delinquencies and loan restructurings, particularly in the short-term, as customers undertake recovery and clean-up efforts, including the submission of insurance claims. Customers may also experience disruptions in their employment status or income if their employers were affected by the storm. These increases in delinquencies and restructurings would negatively affect our cash flows and, if not timely cured, would increase our non-performing assets and reduce our net interest income. Loan restructurings may also increase as we work with borrowers impacted by the storm. We may also experience increased provisions for loan losses as total loan delinquencies and loan restructurings increase, and to the extent that the combination of insurance proceeds and collateral values are insufficient to cover loan balances on loans that may default.

**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 Company announced on June 6, 2012, that it terminated its stock repurchase plan in connection with its adoption of a Plan of Conversion and Reorganization to a fully public company. As of September 30, 2012, the Company has repurchased a total of 5,384,510 shares of its common stock under its prior repurchase plans at an average price of \$12.91 per share.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**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: November 9, 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 September 30, 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**

\* Filed herewith.

\*\* Furnished, not filed