Northfield Bancorp, Inc.
Form 10-Q
August 09, 2013

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 June 30, 2013

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 1-35791

NORTHFIELD BANCORP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 80-0882592 |
| (State or other jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 581 Main Street, Woodbridge, New Jersey | 07095 |
| (Address of principal executive offices) | (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 x No o.

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

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):

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 o | Accelerated filer x |
| Non-accelerated filer o (Do not check if smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

58,226,326 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of August 2, 2013.

Table of Contents

NORTHFIELD BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

PART I

ITEM1 FINANCIAL STATEMENTS

NORTHFIELD BANCORP, INC.

CONSOLIDATED BALANCE SHEETS
June 30, 2013, and December 31, 2012

(In thousands, except share amounts)

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|---|---|
| ASSETS: | | |
| Cash and due from banks | $ 12,344 | $ 25,354 |
| Interest-bearing deposits in other financial institutions | 13,009 | 103,407 |
| Total cash and cash equivalents | 25,353 | 128,761 |
| Trading securities | 5,268 | 4,677 |
| Securities available-for-sale, at estimated fair value (encumbered $249,490 in 2013 and $254,190 in 2012) | 1,142,128 | 1,275,631 |
| Securities held-to-maturity, at amortized cost (estimated fair value of $2,309 in 2012) (encumbered $0 in 2012) | - | 2,220 |
| Loans held-for-sale | 557 | 5,447 |
| Purchased credit-impaired (PCI) loans held-for-investment | 68,191 | 75,349 |
| Loans acquired | 92,197 | 101,433 |
| Originated loans held-for-investment, net | 1,172,388 | 1,066,200 |
| Loans held-for-investment, net | 1,332,776 | 1,242,982 |
| Allowance for loan losses | (26,820) | (26,424) |
| Net loans held-for-investment | 1,305,956 | 1,216,558 |
| Accrued interest receivable | 8,147 | 8,154 |
| Bank owned life insurance | 110,438 | 93,042 |
| Federal Home Loan Bank of New York stock, at cost | 12,847 | 12,550 |
| Premises and equipment, net | 30,421 | 29,785 |
| Goodwill | 16,159 | 16,159 |
| Other real estate owned | 776 | 870 |
| Other assets | 32,168 | 19,347 |
| Total assets | $ 2,690,218 | $ 2,813,201 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| LIABILITIES: | | |
| Deposits | $ 1,533,951 | $ 1,956,860 |
| Securities sold under agreements to repurchase | 226,000 | 226,000 |
| Other borrowings | 186,337 | 193,122 |
| Advance payments by borrowers for taxes and insurance | 5,673 | 3,488 |

| | | |
|---|---|---|
| Accrued expenses and other liabilities | 18,682 | 18,858 |
| Total liabilities | 1,970,643 | 2,398,328 |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued or outstanding | - | - |
| Common stock, $0.01 par value: 150,000,000 shares authorized, 58,212,604 and 46,904,286 shares issued at June 30, 2013, and December 31, 2012, respectively, 58,212,604 and 41,486,819 outstanding at June 30, 2013 and December 31, 2012, respectively | 582 | 469 |
| Additional paid-in-capital | 506,550 | 230,253 |
| Unallocated common stock held by employee stock ownership plan | (27,682) | (13,965) |
| Retained earnings | 238,707 | 249,892 |
| Accumulated other comprehensive income | 1,418 | 18,231 |
| Treasury stock at cost; 0 and 5,417,467 shares at June 30, 2013 and December 31, 2012, respectively | - | (70,007) |
| Total stockholders' equity | 719,575 | 414,873 |
| Total liabilities and stockholders' equity | $ 2,690,218 | $ 2,813,201 |

See accompanying notes to consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
Three and Six months ended June 30, 2013, and 2012

(Unaudited)

(In thousands, except share data)

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Interest income: | | | | | | | | |
| Loans | $ | 16,707 | $ | 14,875 | $ | 33,194 | $ | 30,025 |
| Mortgage-backed securities | 5,606 | | 6,843 | | 11,998 | | 13,619 | |
| Other securities | 502 | | 890 | | 943 | | 1,543 | |
| Federal Home Loan Bank of New York dividends | 118 | | 142 | | 274 | | 284 | |
| Deposits in other financial institutions | 21 | | 10 | | 61 | | 28 | |
| Total interest income | 22,954 | | 22,760 | | 46,470 | | 45,499 | |
| Interest expense: | | | | | | | | |
| Deposits | 1,600 | | 2,461 | | 3,738 | | 4,985 | |
| Borrowings | 2,599 | | 3,286 | | 5,212 | | 6,576 | |
| Total interest expense | 4,199 | | 5,747 | | 8,950 | | 11,561 | |
| Net interest income | 18,755 | | 17,013 | | 37,520 | | 33,938 | |
| Provision for loan losses | 417 | | 544 | | 694 | | 1,159 | |
| Net interest income after provision for loan losses | 18,338 | | 16,469 | | 36,826 | | 32,779 | |
| Non-interest income: | | | | | | | | |
| Fees and service charges for customer services | 773 | | 763 | | 1,484 | | 1,565 | |
| Income on bank owned life insurance | 824 | | 710 | | 1,589 | | 1,429 | |
| Gain on securities transactions, net | 385 | | (77) | | 2,198 | | 2,060 | |
| Other-than-temporary impairment losses on securities | (362) | | - | | (434) | | - | |
| Portion recognized in other comprehensive income (before taxes) | - | | - | | - | | - | |
| Net impairment losses on securities recognized in earnings | (362) | | - | | (434) | | - | |
| Other | 78 | | 34 | | 117 | | 351 | |
| Total non-interest income | 1,698 | | 1,430 | | 4,954 | | 5,405 | |
| Non-interest expense: | | | | | | | | |
| Compensation and employee benefits | 6,602 | | 5,644 | | 13,514 | | 11,931 | |
| Occupancy | 2,458 | | 2,064 | | 4,860 | | 4,029 | |

| | | | | |
|---|---|---|---|---|
| Furniture and equipment | 454 | 356 | 883 | 689 |
| Data processing | 954 | 920 | 2,550 | 2,003 |
| Professional fees | 722 | 938 | 1,468 | 1,796 |
| FDIC insurance | 365 | 383 | 752 | 809 |
| Other | 1,654 | 1,496 | 3,548 | 3,186 |
| Total non-interest expense | 13,209 | 11,801 | 27,575 | 24,443 |
| Income before income tax expense | 6,827 | 6,098 | 14,205 | 13,741 |
| Income tax expense | 2,528 | 2,150 | 5,114 | 4,845 |
| Net income | $ 4,299 | $ 3,948 | $ 9,091 | $ 8,896 |
| Net income per common share: | | | | |
| Basic | $ 0.08 | $ 0.07 | $ 0.17 | $ 0.16 |
| Diluted | $ 0.08 | $ 0.07 | $ 0.16 | $ 0.16 |
| Other comprehensive (loss) income: | | | | |
| Unrealized (losses) gains on securities: | | | | |
| Net unrealized holding (losses) gains on securities | $ (21,216) | $ 2,173 | $ (26,130) | $ 3,965 |
| Less: reclassification adjustment for gains included in net income (included in gain on securities transactions, net) | (322) | (66) | (1,892) | (1,807) |
| Net unrealized (losses) gains | (21,538) | 2,107 | (28,022) | 2,158 |
| Reclassification adjustment for OTTI impairment included in net income (included OTTI losses on securities) | 362 | - | 434 | - |
| Other comprehensive (loss) income , before tax | (21,176) | 2,107 | (27,588) | 2,158 |
| Income tax (benefit) expense related to net unrealized holding (losses) gains on securities | (8,269) | 868 | (10,192) | 1,586 |
| Income tax expense related to reclassification adjustment for gains included in net income | (129) | (26) | (757) | (723) |
| Income tax benefit related to reclassification adjustment for OTTI impairment included in net income | 145 | - | 174 | - |
| Other comprehensive (loss) income, net of tax | (12,923) | 1,265 | (16,813) | 1,295 |
| Comprehensive (loss) income | $ (8,624) | $ 5,213 | $ (7,722) | $ 10,191 |

See accompanying notes to consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six months ended June 30, 2013, and 2012

(Unaudited)

(In thousands, except share data)

| | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Unallocated Common Stock Held by the Employee Stock Ownership Plan | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of tax |
|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | 45,632,611 | $ 456 | $ 209,302 | $ (14,570) | $ 235,776 | $ 1 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 8,896 | |
| Other comprehensive income, net of tax | | | | | | 1,295 |
| ESOP shares allocated or committed to be released | | | 118 | 291 | | |
| Stock compensation expense | | | 1,498 | | | |
| Additional tax benefit on equity awards | | | 204 | | | |
| Cash dividends declared ($0.09 per common | | | | | (1,716) | |

| | | | | | | |
|---|---|---|---|---|---|---|
| share) | | | | | | |
| Treasury stock (average cost of $9.84 per share) | | | | | | |
| Balance at June 30, 2012 | 45,632,611 | $ 456 | $ 211,122 | $ (14,279) | $ 242,956 | $ 1 |
| Balance at December 31, 2012 | 46,904,286 | $ 469 | $ 230,253 | $ (13,965) | $ 249,892 | $ 1 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 9,091 | |
| Other comprehensive income, net of tax | | | | | | (16,813) |
| ESOP shares allocated or committed to be released | | | 207 | 507 | | |
| Stock compensation expense | | | 1,567 | | | |
| Additional tax benefit on equity awards | | | 296 | | | |
| Corporate reorganization: | | | | | | |
| Merger of Northfield Bancorp, MHC | (24,641,684) | (246) | 370 | | | |
| Exchange of common stock | (16,845,135) | (169) | 169 | | | |
| Treasury stock retired | (5,417,467) | (54) | (69,953) | | | |
| Proceeds of stock offering, net of costs | 58,199,819 | 582 | 329,396 | | | |
| Purchase of common stock by ESOP | | | 14,224 | (14,224) | | |
| Exercise of stock options | 12,785 | | 21 | | | |
| Cash dividends declared ($0.37 per common share) | | | | | (20,276) | |
| Balance at June 30, 2013 | 58,212,604 | $ 582 | $ 506,550 | $ (27,682) | $ 238,707 | $ |

See accompanying notes to consolidated financial statements.

5

Table of Contents

NORTHFIELD BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 30, 2013, and 2012

(Unaudited) (In thousands)

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 9,091 | $ 8,896 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 694 | 1,159 |
| ESOP and stock compensation expense | 2,281 | 1,907 |
| Depreciation | 1,756 | 1,336 |
| Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees | 1,175 | 504 |
| Amortization intangible assets | 223 | 163 |
| Income on bank owned life insurance | (1,589) | (1,429) |
| Net gain on sale of loans held-for-sale | (9) | (123) |
| Proceeds from sale of loans held-for-sale | 7,183 | 10,161 |
| Origination of loans held-for-sale | (2,284) | (6,493) |
| Gain on securities transactions, net | (2,198) | (2,060) |
| Net purchases of trading securities | (285) | (91) |
| Decrease in accrued interest receivable | 7 | 820 |
| (Increase) decrease in other assets | (1,835) | 1,747 |
| Decrease in accrued expenses and other liabilities | (176) | (1,506) |
| Net cash provided by operating activities | 14,034 | 14,991 |
| Cash flows from investing activities: | | |
| Net (increase) decrease in loans receivable | (90,451) | 384 |
| Redemptions of Federal Home Loan Bank of New York stock, net | (297) | (1,531) |
| Purchases of securities available-for-sale | (264,594) | (466,713) |
| Principal payments and maturities on securities available-for-sale | 224,662 | 217,587 |
| Principal payments and maturities on securities held-to-maturity | 2,219 | 784 |
| Proceeds from sale of securities available-for-sale | 146,490 | 130,276 |
| Purchases of bank owned life insurance | (16,000) | - |
| Death benefits received from bank owned life insurance | 193 | - |
| Proceeds from sale of other real estate owned | 94 | 1,416 |
| Purchases and improvements of premises and equipment | (2,392) | (4,494) |
| Net cash used in investing activities | (76) | (122,291) |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (133,355) | 49,655 |
| Dividends paid | (20,276) | (1,716) |
| Net proceeds from sale of common stock | 54,648 | - |
| Merger of Northfield Bancorp, MHC | 124 | - |
| Purchase of common stock for ESOP | (14,224) | - |

| | | |
|---|---|---|
| Exercise of stock options | 21 | - |
| Purchase of treasury stock | - | (4,344) |
| Additional tax benefit on equity awards | 296 | 204 |
| Increase in advance payments by borrowers for taxes and insurance | 2,185 | 976 |
| Repayments under capital lease obligations | (140) | (122) |
| Proceeds from securities sold under agreements to repurchase and other borrowings | 56,301 | 175,759 |
| Repayments related to securities sold under agreements to repurchase and other borrowings | (62,946) | (144,000) |
| Net cash (used in) provided by financing activities | (117,366) | 76,412 |
| Net decrease in cash and cash equivalents | (103,408) | (30,888) |
| Cash and cash equivalents at beginning of period | 128,761 | 65,269 |
| Cash and cash equivalents at end of period | $ 25,353 | $ 34,381 |
| | | |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 8,865 | $ 11,741 |
| Income taxes | 9,449 | 4,229 |
| Non-cash transactions: | | |
| Loans charged-off, net | 298 | 953 |
| Other real estate owned write-downs | - | 101 |
| Transfers of loans to other real estate owned | - | 306 |
| Deposits utilized to purchase common stock | 289,554 | - |

See accompanying notes to consolidated financial statements.

6

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

The consolidated financial statements are comprised of the accounts of Northfield Bancorp, Inc. and its wholly owned subsidiaries, Northfield Investments, Inc. and Northfield Bank (the Bank) and the Bank's wholly-owned significant subsidiaries, NSB Services Corp. and NSB Realty Trust. 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 six months ended June 30, 2013, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2013. 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, 2012, of Northfield Bancorp, Inc. as filed with the SEC.

On January 24, 2013, Northfield Bancorp, Inc. completed its conversion from the mutual holding company to the stock holding company form of organization. A total of 35,558,927 shares of common stock were sold in the subscription and community offerings at a price of $10.00 per share, including 1,422,357 shares of common stock purchased by the Northfield Bank Employee Stock Ownership Plan. As part of the conversion, each existing share of Northfield-Federal common stock held by public shareholders was converted into the right to receive 1.4029 shares of Northfield-Delaware common stock. The exchange ratio ensured that, after the conversion and offering, the public shareholders of Northfield-Federal maintained approximately the same ownership interest in Northfield-Delaware as they owned previously. 58,199,819 shares of Northfield-Delaware common stock were outstanding after the completion of the offering and the exchange. The Company incurred costs of approximately $11.5 million related to the conversion.

Share amounts at December 31, 2012, have been restated to reflect the conversion at a rate of 1.4029-to-one, unless noted otherwise.

Note 2 – Securities

The following is a comparative summary of mortgage-backed securities and other securities available-for-sale at June 30, 2013, and December 31, 2012 (in thousands):

| | June 30, 2013 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Mortgage-backed securities: | | | | |
| Pass-through certificates: | | | | |
| Government sponsored enterprises (GSE) | $ 413,460 | $ 10,951 | $ 3,810 | $ 420,601 |
| Real estate mortgage investment conduits (REMICs): | | | | |
| GSE | 581,379 | 2,514 | 6,274 | 577,619 |
| Non-GSE | 5,654 | 184 | 27 | 5,811 |
| | 1,000,493 | 13,649 | 10,111 | 1,004,031 |
| Other securities: | | | | |
| GSE bonds | 30,494 | - | 263 | 30,231 |
| Equity investments-mutual funds | 12,195 | - | - | 12,195 |
| Corporate bonds | 96,114 | 141 | 584 | 95,671 |
| | 138,803 | 141 | 847 | 138,097 |
| Total securities available-for-sale | $ 1,139,296 | $ 13,790 | $ 10,958 | $ 1,142,128 |

Table of Contents

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Mortgage-backed securities: | | | | |
| Pass-through certificates: | | | | |
| GSE | $ 456,441 | $ 22,996 | $ 99 | $ 479,338 |
| Real estate mortgage investment conduits (REMICs): | | | | |
| GSE | 694,087 | 7,092 | 62 | 701,117 |
| Non-GSE | 7,543 | 266 | 33 | 7,776 |
| | 1,158,071 | 30,354 | 194 | 1,188,231 |
| Other securities: | | | | |
| Equity investments-mutual funds | 12,998 | — | — | 12,998 |
| Corporate bonds | 73,708 | 694 | — | 74,402 |
| | 86,706 | 694 | — | 87,400 |
| Total securities available-for-sale | $ 1,244,777 | $ 31,048 | $ 194 | $ 1,275,631 |

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at June 30, 2013 (in thousands):

| Available-for-sale | Amortized cost | Estimated fair value |
|---|---|---|
| Due in one year or less | $ - | $ - |
| Due after one year through five years | 126,608 | 125,902 |
| | $ 126,608 | $ 125,902 |

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

For the three months and six months ended June 30, 2013, the Company had gross proceeds of $121.4 million and $146.5 million, respectively, on sales of securities available-for-sale with gross realized gains of approximately $363,000 and $2.1 million, respectively, and gross realized losses of $41,000 and $177,000, respectively. For the three and six months ended June 30, 2012, the Company had gross proceeds of $31.5 million and $130.3 million, respectively, on sales of securities available-for-sale with gross realized gains of approximately $66,000 and $1.8 million, respectively, and no gross realized losses. The Company recognized $63,000 and

$306,000 in gains on its trading securities portfolio during the three and six months ended June 30, 2013, respectively. The Company recognized $106,000 in losses and $253,000 in gains on its trading securities portfolio during the three and six months ended June 30, 2012, respectively. The Company recognized $362,000 and $434,000 of other-than-temporary impairment charges during the three and six months ended June 30, 2013, respectively, and did not recognize any other-than-temporary impairment charges during the three and six months ended June 30, 2012.

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 six months ended June 30, 2013 and 2012, is as follows (in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | $ - | $ 578 | $ - | $ 578 |
| Additions to the credit component on debt securities in which other-than-temporary impairment was not previously recognized | - | - | - | - |
| Cumulative pre-tax credit losses, end of period | $ - | $ 578 | $ - | $ 578 |

Table of Contents

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 June 30, 2013, and December 31, 2012, were as follows (in thousands):

| | June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 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: | | | | | | |
| GSE | $ 3,810 | $ 168,856 | $ - | $ - | $ 3,810 | $ 168,856 |
| REMICs: | | | | | | |
| GSE | 6,243 | 308,594 | 31 | 28,640 | 6,274 | 337,234 |
| Non-GSE | - | - | 27 | 488 | 27 | 488 |
| Other securities: | | | | | | |
| GSE bonds | 263 | 30,231 | - | - | 263 | 30,231 |
| Corporate bonds | 584 | 85,297 | - | - | 584 | 85,297 |
| Total | $ 10,900 | $ 592,978 | $ 58 | $ 29,128 | $ 10,958 | $ 622,106 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 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: | | | | | | |
| GSE | $ 99 | $ 14,156 | $ - | $ - | $ 99 | $ 14,156 |
| REMICs: | | | | | | |
| GSE | 58 | 100,310 | 4 | 7,633 | 62 | 107,943 |
| Non-GSE | - | - | 33 | 604 | 33 | 604 |
| Total | $ 157 | $ 114,466 | $ 37 | $ 8,237 | $ 194 | $ 122,703 |

The Company held five REMIC mortgage-backed securities issued or guaranteed by GSEs and one REMIC mortgage-backed security not issued or guaranteed by GSEs that were in a continuous unrealized loss position of greater than twelve months at June 30, 2013.  There were 65 pass-through mortgage-backed securities issued or guaranteed by GSEs,  14 REMIC mortgage-backed securities issued or guaranteed by GSEs,  one GSE bond, and 18 corporate bonds that were in an unrealized loss position of less than twelve months, and rated investment grade at June 30, 2013. The declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligations or other securities deteriorates and our credit enhancement levels do not provide sufficient protections to our contractual principal and interest.

Note 3 – Loans

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

| | June 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Real estate loans: | | | | |
| Multifamily | $ | 696,932 | $ | 610,129 |
| Commercial mortgage | 325,796 | | 315,450 | |
| One-to-four family residential mortgage | 66,264 | | 64,733 | |
| Home equity and lines of credit | 40,841 | | 33,573 | |
| Construction and land | 23,715 | | 23,243 | |
| Total real estate loans | 1,153,548 | | 1,047,128 | |
| Commercial and industrial loans | 14,803 | | 14,786 | |
| Other loans | 1,499 | | 1,830 | |
| Total commercial and industrial and other loans | 16,302 | | 16,616 | |
| Deferred loan cost, net | 2,538 | | 2,456 | |
| Originated loans held-for-investment, net | 1,172,388 | | 1,066,200 | |
| PCI Loans | 68,191 | | 75,349 | |
| Loans acquired: | | | | |
| Multifamily | 4,791 | | 5,763 | |
| Commercial mortgage | 16,020 | | 17,053 | |
| One-to-four family residential mortgage | 71,010 | | 78,237 | |
| Construction and land | 376 | | 380 | |
| Total loans acquired | 92,197 | | 101,433 | |
| Loans held for investment, net | 1,332,776 | | 1,242,982 | |
| Allowance for loan losses | (26,820) | | (26,424) | |
| Net loans held-for-investment | $ | 1,305,956 | $ | 1,216,558 |

9

Loans held-for-sale amounted to $557,000 and $5.4 million at June 30, 2013, and December 31, 2012, respectively.

PCI loans, primarily acquired as part of a Federal Deposit Insurance Corporation-assisted transaction, totaled $68.2 million at June 30, 2013, as compared to $75.3 million at December 31, 2012. The Company accounts for PCI loans utilizing generally accepting accounting principles applicable to loans acquired with deteriorated credit quality. PCI loans consist of approximately 37% commercial real estate and 48% commercial and industrial loans, with the remaining balance in residential and home equity loans. The following details the accretion of interest income for the periods indicated:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Balance at the beginning of period | $ | 41,908 | $ | 40,873 | $ | 43,431 | $ | 42,493 |
| Accretion into interest income | (1,454) | | (1,562) | | (2,977) | | (3,182) | |
| Balance at end of period | $ | 40,454 | $ | 39,311 | $ | 40,454 | $ | 39,311 |

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

| | At or for the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| Beginning balance | $ | 26,424 | $ | 26,836 |
| Provision for loan losses | 694 | | 1,159 | |
| Charge-offs, net | (298) | | (953) | |
| Ending balance | $ | 26,820 | $ | 27,042 |

The following tables set forth activity in our allowance for loan losses, by loan type, for the six months ended June 30, 2013, and the year ended December 31, 2012. The following tables also detail the amount of originated and acquired 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 June 30, 2013, and December 31, 2012 (in thousands). There was no related allowance for acquired loans as of June 30, 2013, and December 31, 2012.

10

Table of Contents

| | June 30, 2013 Real Estate | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | One-to-Four Family | Construction and Land | Multifamily | Home Equity and Lines of Credit | Commercia Industrial |
| Allowance for loan losses: | | | | | | |
| Beginning Balance | $ 13,343 | $ 623 | $ 994 | $ 7,086 | $ 623 | $ |
| Charge-offs | (651) | (1) | - | (154) | (96) | - |
| Recoveries | 12 | - | 556 | 9 | - | 32 |
| Provisions | (203) | 174 | (758) | 1,089 | 356 | (121) |
| Ending Balance | $ 12,501 | $ 796 | $ 792 | $ 8,030 | $ 883 | $ |
| Ending balance: individually evaluated for impairment | $ 822 | $ 94 | $ - | $ 294 | $ 154 | $ |
| Ending balance: collectively evaluated for impairment | $ 11,679 | $ 702 | $ 792 | $ 7,736 | $ 729 | $ |
| Originated loans, net: Ending Balance | $ 326,004 | $ 66,783 | $ 23,726 | $ 698,310 | $ 41,235 | $ |
| Ending balance: individually evaluated for impairment | $ 35,078 | $ 2,433 | $ 937 | $ 2,112 | $ 1,839 | $ |
| Ending balance: | $ 290,926 | $ 64,350 | $ 22,789 | $ 696,198 | $ 39,396 | $ |

collectively evaluated for impairment

| | December 31, 2012 Real Estate Commercial | One-to-Four Family | Construction and Land | Multifamily | Home Equity and Lines of Credit | Commercial Industrial |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning Balance | $ 14,120 | $ 967 | $ 1,189 | $ 6,772 | $ 418 | $ |
| Charge-offs | (1,828) | (1,300) | (43) | (729) | (2) | (90) |
| Recoveries | 107 | - | - | 9 | - | 86 |
| Provisions | 944 | 956 | (152) | 1,034 | 207 | 266 |
| Ending Balance | $ 13,343 | $ 623 | $ 994 | $ 7,086 | $ 623 | $ |
| Ending balance: individually evaluated for impairment | $ 1,617 | $ 5 | $ - | $ 317 | $ 123 | $ |
| Ending balance: collectively evaluated for impairment | $ 11,726 | $ 618 | $ 994 | $ 6,769 | $ 500 | $ |
| Originated loans, net: Ending balance | $ 315,603 | $ 65,354 | $ 23,255 | $ 611,469 | $ 33,879 | $ |
| Ending balance: individually evaluated for impairment | $ 41,568 | $ 2,061 | $ - | $ 2,040 | $ 1,943 | $ |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Ending balance: collectively evaluated for impairment | $ | 274,035 | $ | 63,293 | $ | 23,255 | $ | 609,429 | $ | 31,936 | $ |

11

Table of Contents

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 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 June 30, 2013, and December 31, 2012 (in thousands).

Table of Contents

| | At June 30, 2013<br>Real Estate | | | | | |
|---|---|---|---|---|---|---|
| | Multifamily | | Commercial | | One-to-Four Family | |
| | < 35% LTV | => 35% LTV | < 35% LTV | => 35% LTV | < 60% LTV | => 60% LT |
| Internal Risk Rating | | | | | | |
| Pass | $ 21,978 | $ 658,907 | $ 42,127 | $ 218,648 | $ 27,779 | $ 31, |
| Special Mention | 320 | 11,184 | 155 | 22,131 | 1,400 | 1,625 |
| Substandard | 23 | 5,898 | 3,089 | 39,854 | 1,055 | 3,002 |
| Originated loans held-for-investment, net | $ 22,321 | $ 675,989 | $ 45,371 | $ 280,633 | $ 30,234 | $ 36, |

| | At December 31, 2012<br>Real Estate | | | | | |
|---|---|---|---|---|---|---|
| | Multifamily | | Commercial | | One-to-Four Family | |
| | < 35% LTV | => 35% LTV | < 35% LTV | => 35% LTV | < 60% LTV | => 60% LT |
| Internal Risk Rating | | | | | | |
| Pass | $ 19,438 | $ 575,434 | $ 30,284 | $ 211,679 | $ 32,120 | $ 28, |
| Special Mention | 115 | 10,444 | 185 | 23,521 | 1,422 | 384 |
| Substandard | 510 | 5,528 | 1,699 | 48,235 | 1,066 | 2,271 |
| Originated loans held-for-investment, net | $ 20,063 | $ 591,406 | $ 32,168 | $ 283,435 | $ 34,608 | $ 30, |

13

Table of Contents

Included in originated and acquired 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 $22.6 million and $34.9 million at June 30, 2013, and December 31, 2012, 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 $17.4 million and $26.0 million at June 30, 2013, and December 31, 2012, 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 $4.5 million and $4.1 million at June 30, 2013, and December 31, 2012, respectively. Non-accrual amounts included in loans held-for-sale were $5.4 million at December 31, 2012. There were no non-accrual loans held-for-sale at June 30, 2013. Loans past due 90 days or more and still accruing interest were $806,000 and $621,000 at June 30, 2013, and December 31, 2012, 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 June 30, 2013, and December 31, 2012 (in thousands). The following table excludes PCI loans at June 30, 2013, and December 31, 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 June 30, 2013, expected future cash flows of each PCI loan pool were consistent with those estimated in our most recent recast of the cash flows.

Table of Contents

| | At June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total Non-Performing Loans | | | | | |
| | Non-Accruing Loans | | | | | |
| | 0-29 Days Past Due | 30-89 Days Past Due | 90 Days or More Past Due | Total | 90 Days or More Past Due and Accruing | Total Non-Performing Loans |
| Loans held-for-investment: | | | | | | |
| Real estate loans: | | | | | | |
| Commercial | | | | | | |
| LTV < 35% | | | | | | |
| Substandard | $ 1,676 | $ - | $ - | $ 1,676 | $ - | $ 1,676 |
| Total | 1,676 | - | - | 1,676 | - | 1,676 |
| LTV => 35% | | | | | | |
| Substandard | 9,888 | 433 | 3,111 | 13,432 | - | 13,432 |
| Total | 9,888 | 433 | 3,111 | 13,432 | - | 13,432 |
| Total commercial | 11,564 | 433 | 3,111 | 15,108 | - | 15,108 |
| One-to-four family residential | | | | | | |
| LTV < 60% | | | | | | |
| Special Mention | - | 17 | 229 | 246 | 37 | 283 |
| Substandard | - | 243 | 183 | 426 | 188 | 614 |
| Total | - | 260 | 412 | 672 | 225 | 897 |
| LTV => 60% | | | | | | |
| Substandard | - | - | 1,785 | 1,785 | 375 | 2,160 |
| Total | - | - | 1,785 | 1,785 | 375 | 2,160 |
| Total one-to-four family residential | - | 260 | 2,197 | 2,457 | 600 | 3,057 |
| Construction and land | | | | | | |
| Substandard | 937 | - | - | 937 | - | 937 |
| Total construction and land | 937 | - | - | 937 | - | 937 |
| Home equity and lines of credit | | | | | | |
| Pass | - | - | - | - | 135 | 135 |
| Special Mention | - | - | - | - | 43 | 43 |
| Substandard | - | 106 | 1,491 | 1,597 | - | 1,597 |
| Total home equity and lines of credit | - | 106 | 1,491 | 1,597 | 178 | 1,775 |
| Commercial and industrial loans | | | | | | |
| Pass | - | - | - | - | 14 | 14 |
| Special Mention | - | - | - | - | 12 | 12 |
| Substandard | 521 | 95 | 192 | 808 | - | 808 |
| | 521 | 95 | 192 | 808 | 26 | 834 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total commercial and industrial loans | | | | | | |
| Other loans | | | | | | |
| Pass | - | - | - | - | 2 | 2 |
| Total other loans | - | - | - | - | 2 | 2 |
| Total non-performing loans held-for-investment | $ 13,022 | $ 894 | $ 6,991 | $ 20,907 | $ 806 | $ 21,713 |
| Loans acquired: | | | | | | |
| One-to-four family residential | | | | | | |
| LTV < 60% | | | | | | |
| Substandard | - | - | 103 | 103 | - | 103 |
| Total | - | - | 103 | 103 | - | 103 |
| LTV => 60% | | | | | | |
| Substandard | - | - | 1,577 | 1,577 | - | 1,577 |
| Total | - | - | 1,577 | 1,577 | - | 1,577 |
| Total one-to-four family residential | - | - | 1,680 | 1,680 | - | 1,680 |
| Total non-performing loans acquired | - | - | 1,680 | 1,680 | - | 1,680 |
| Total non-performing loans | $ 13,022 | $ 894 | $ 8,671 | $ 22,587 | $ 806 | $ 23,393 |

Table of Contents

| | At December 31, 2012 Total Non-Performing Loans Non-Accruing Loans | | | | | |
|---|---|---|---|---|---|---|
| | 0-29 Days Past Due | 30-89 Days Past Due | 90 Days or More Past Due | Total | 90 Days or More Past Due and Accruing | Total Non-Performing Loans |
| Loans held-for-investment: | | | | | | |
| Real estate loans: | | | | | | |
| Commercial | | | | | | |
| LTV < 35% | | | | | | |
| Substandard | $ 1,699 | $ - | $ - | $ 1,699 | $ - | $ 1,699 |
| Total | 1,699 | - | - | 1,699 | - | 1,699 |
| LTV => 35% | | | | | | |
| Substandard | 13,947 | 442 | 5,565 | 19,954 | 349 | 20,303 |
| Total | 13,947 | 442 | 5,565 | 19,954 | 349 | 20,303 |
| Total commercial | 15,646 | 442 | 5,565 | 21,653 | 349 | 22,002 |
| One-to-four family residential | | | | | | |
| LTV < 60% | | | | | | |
| Special Mention | - | 19 | 229 | 248 | 119 | 367 |
| Substandard | - | 429 | - | 429 | - | 429 |
| Total | - | 448 | 229 | 677 | 119 | 796 |
| LTV => 60% | | | | | | |
| Substandard | 233 | 201 | 1,437 | 1,871 | 151 | 2,022 |
| Total | 233 | 201 | 1,437 | 1,871 | 151 | 2,022 |
| Total one-to-four family residential | 233 | 649 | 1,666 | 2,548 | 270 | 2,818 |
| Construction and land | | | | | | |
| Substandard | 2,070 | - | - | 2,070 | - | 2,070 |
| Total construction and land | 2,070 | - | - | 2,070 | - | 2,070 |
| Multifamily | | | | | | |
| LTV => 35% | | | | | | |
| Substandard | | | 279 | 279 | - | 279 |
| Total multifamily | - | - | 279 | 279 | - | 279 |
| Home equity and lines of credit | | | | | | |
| Substandard | 107 | - | 1,587 | 1,694 | - | 1,694 |
| Total home equity and lines of credit | 107 | - | 1,587 | 1,694 | - | 1,694 |
| Commercial and industrial loans | | | | | | |
| Substandard | 532 | - | 724 | 1,256 | - | 1,256 |
| | 532 | - | 724 | 1,256 | - | 1,256 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total commercial and industrial loans | | | | | | |
| Other loans | | | | | | |
| Pass | - | - | - | - | 2 | 2 |
| Total other loans | - | - | - | - | 2 | 2 |
| Total non-performing loans held-for-investment | $ 18,588 | $ 1,091 | $ 9,821 | $ 29,500 | $ 621 | $ 30,121 |
| Loans held-for-sale: | | | | | | |
| Commercial | | | | | | |
| LTV => 35% | | | | | | |