

Northfield Bancorp, Inc.  
Form 10-Q  
August 10, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2009**

**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)**

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

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

Smaller reporting  
company

(Do not check if a 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 .

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. 44,738,561 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of August 5, 2009.

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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**

June 30, 2009, and December 31, 2008

(In thousands, except share amounts)

|   | <b>June 30,<br/>2009<br/>(Unaudited)</b> | <b>December 31,<br/>2008</b> |
|---|--|------------------------------|
| <b>ASSETS:</b>  |  |                              |
| Cash and due from banks   | \$ 9,262                                 | 9,014                        |
| Interest-bearing deposits in other financial institutions   | 67,856                                   | 41,114                       |
| Total cash and cash equivalents   | 77,118                                   | 50,128                       |
| Certificates of deposit in other financial institutions   |  | 53,653                       |
| Trading securities  | 2,940                                    | 2,498                        |
| Securities available-for-sale, at estimated fair value (encumbered \$178,665 in 2009 and \$183,711 in 2008)   | 1,044,024                                | 957,585                      |
| Securities held-to-maturity, at amortized cost (estimated fair value of \$12,304 in 2009 and \$14,588 in 2008) (encumbered \$924 in 2009 and \$1,241 in 2008) | 12,101                                   | 14,479                       |
| Loans held-for-sale   | 203                                      |                              |
| Loans held-for-investment, net  | 657,578                                  | 589,984                      |
| Allowance for loan losses   | (12,073)                                 | (8,778)                      |
| Net loans held-for-investment   | 645,505                                  | 581,206                      |
| Accrued interest receivable   | 7,545                                    | 8,319                        |
| Bank owned life insurance   | 42,872                                   | 42,001                       |
| Federal Home Loan Bank of New York stock, at cost   | 9,841                                    | 9,410                        |
| Premises and equipment, net   | 10,565                                   | 8,899                        |
| Goodwill  | 16,159                                   | 16,159                       |
| Other real estate owned   | 993                                      | 1,071                        |
| Other assets  | 8,830                                    | 12,353                       |
| <b>Total assets</b>   | <b>\$1,878,696</b>                       | <b>1,757,761</b>             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>   |  |                              |
| <b>LIABILITIES:</b>   |  |                              |
| Deposits  | \$1,110,154                              | 1,024,439                    |
| Borrowings  | 345,506                                  | 332,084                      |
| Advance payments by borrowers for taxes and insurance   | 2,207                                    | 3,823                        |
| Accrued expenses and other liabilities  | 30,616                                   | 10,837                       |
| <b>Total liabilities</b>  | <b>1,488,483</b>                         | <b>1,371,183</b>             |

**STOCKHOLDERS EQUITY:**

|  |                    |                  |
|--|--------------------|------------------|
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued or outstanding  |                    |                  |
| Common stock, \$0.01 par value: 90,000,000 shares authorized, 45,639,711 and 44,803,061 shares issued at June 30, 2009, and December 31, 2008, respectively, 44,867,361 and 44,803,061 outstanding at June 30, 2009, and December 31, 2008, respectively | 456                | 448              |
| Additional paid-in-capital   | 200,815            | 199,453          |
| Unallocated common stock held by employee stock ownership plan   | (16,099)           | (16,391)         |
| Retained earnings  | 206,414            | 203,085          |
| Accumulated other comprehensive income (loss)  | 6,734              | (17)             |
| Treasury stock at cost; 772,350 and 0 shares at June 30, 2009 and December 31, 2008, respectively  | (8,107)            |                  |
| <b>Total stockholders equity</b>   | <b>390,213</b>     | <b>386,578</b>   |
| <b>Total liabilities and stockholders equity</b>   | <b>\$1,878,696</b> | <b>1,757,761</b> |

See accompanying notes to the unaudited consolidated financial statements.

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**NORTHFIELD BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Three and six months ended June 30, 2009, and 2008  
(Unaudited)  
(In thousands, except share data)

|   | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30</b>            |             | <b>June 30</b>          |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| <b>Interest income:</b>                             |                           |             |                         |             |
| Loans   | \$ 9,253                  | 7,397       | 17,824                  | 14,386      |
| Mortgage-backed securities                          | 10,924                    | 9,346       | 22,038                  | 17,771      |
| Other securities                                    | 522                       | 226         | 804                     | 936         |
| Federal Home Loan Bank of New York dividends        | 107                       | 204         | 187                     | 335         |
| Deposits in other financial institutions            | 207                       | 924         | 642                     | 1,984       |
| <br>  |                           |             |                         |             |
| Total interest income                               | 21,013                    | 18,097      | 41,495                  | 35,412      |
| <b>Interest expense:</b>                            |                           |             |                         |             |
| Deposits  | 4,586                     | 4,431       | 9,543                   | 9,216       |
| Borrowings  | 2,590                     | 2,119       | 5,354                   | 4,058       |
| <br>  |                           |             |                         |             |
| Total interest expense                              | 7,176                     | 6,550       | 14,897                  | 13,274      |
| <br>  |                           |             |                         |             |
| Net interest income                                 | 13,837                    | 11,547      | 26,598                  | 22,138      |
| <br>  |                           |             |                         |             |
| Provision for loan losses                           | 3,099                     | 1,240       | 4,743                   | 1,838       |
| <br>  |                           |             |                         |             |
| Net interest income after provision for loan losses | 10,738                    | 10,307      | 21,855                  | 20,300      |
| <br>  |                           |             |                         |             |
| <b>Non-interest income:</b>                         |                           |             |                         |             |
| Fees and service charges for customer services      | 716                       | 756         | 1,375                   | 1,521       |
| Income on bank owned life insurance                 | 438                       | 424         | 871                     | 3,357       |
| Gain (loss) on securities transactions, net         | 294                       | (16)        | 140                     | (343)       |
| Other   | 76                        | 43          | 107                     | 71          |
| <br>  |                           |             |                         |             |
| Total non-interest income                           | 1,524                     | 1,207       | 2,493                   | 4,606       |
| <br>  |                           |             |                         |             |
| <b>Non-interest expense:</b>                        |                           |             |                         |             |
| Compensation and employee benefits                  | 4,321                     | 3,066       | 8,089                   | 6,067       |
| Occupancy   | 1,073                     | 831         | 2,193                   | 1,659       |
| Furniture and equipment                             | 269                       | 221         | 557                     | 441         |
| Data processing                                     | 589                       | 635         | 1,433                   | 1,271       |
| FDIC insurance                                      | 1,063                     | 30          | 1,477                   | 67          |
| Professional fees                                   | 476                       | 304         | 1,002                   | 669         |

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|   |          |       |        |        |
|---|----------|-------|--------|--------|
| Other                                       | 1,270    | 852   | 2,092  | 1,751  |
| Total non-interest expense                  | 9,061    | 5,939 | 16,843 | 11,925 |
| Income before income tax expense            | 3,201    | 5,575 | 7,505  | 12,981 |
| <b>Income tax expense</b>                   | 1,079    | 2,010 | 2,648  | 3,811  |
| <b>Net income</b>                           | \$ 2,122 | 3,565 | 4,857  | 9,170  |
| <b>Basic and diluted earnings per share</b> | \$ 0.05  | 0.08  | 0.11   | 0.21   |

See accompanying notes to the unaudited consolidated financial statements.



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**NORTHFIELD BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
Six months ended June 30, 2009, and 2008  
(Unaudited)  
(Dollars in thousands)

|  | Common Stock | Additional   | Unallocated<br>common<br>stock<br>held by<br>the<br>employee<br>stock<br>ownership<br>plan | Retained | Accumulated<br>other<br>comprehensive<br>income | Treasury stock | Total                  |
|--|--------------|--------------|--|----------|---|----------------|------------------------|
|  | Shares       | Par<br>value | paid-in<br>capital   | earnings | (loss)  | Stock          | stockholders<br>equity |
| Balance at<br>December 31,<br>2007   | 44,803,061   | \$448        | 199,395  | (16,977) | 187,992   | (3,518)        | 367,340                |
| Comprehensive<br>income:   |              |              |  |          |   |                |                        |
| Net income   |              |              |  | 9,170    |   |                | 9,170                  |
| Change in<br>accumulated<br>comprehensive<br>income (loss), net<br>of tax of \$2,347 |              |              |  |          | (3,229)   |                | (3,229)                |
| Total<br>comprehensive<br>income   |              |              |  |          |   |                | 5,941                  |
| ESOP shares<br>allocated or<br>committed to be<br>released                           |              |              | 13   | 292      |   |                | 305                    |
| Balance at<br>June 30, 2008  | 44,803,061   | 448          | 199,408  | (16,685) | 197,162   | (6,747)        | 373,586                |
| Balance at<br>December 31,<br>2008   | 44,803,061   | 448          | 199,453  | (16,391) | 203,085   | (17)           | 386,578                |
| Comprehensive<br>income:   |              |              |  |          |   |                |                        |
| Net income   |              |              |  | 4,857    |   |                | 4,857                  |

|  |            |       |         |          |         |         |         |         |
|--|------------|-------|---------|----------|---------|---------|---------|---------|
| Change in accumulated comprehensive income (loss), net of tax of \$5,072 |            |       |         |          |         | 6,751   |         | 6,751   |
| Total comprehensive income   |            |       |         |          |         |         |         | 11,608  |
| ESOP shares allocated or committed to be released                        |            |       | 18      | 292      |         |         |         | 310     |
| Stock compensation expense   |            |       | 1,352   |          |         |         |         | 1,352   |
| Dividends declared (\$0.08 per share)                                    |            |       |         |          |         | (1,528) |         | (1,528) |
| Issuance of Restricted Stock   | 836,650    | 8     | (8)     |          |         |         |         |         |
| Treasury stock (average cost of \$10.50 per share)                       |            |       |         |          |         |         | (8,107) | (8,107) |
| Balance at June 30, 2009   | 45,639,711 | \$456 | 200,815 | (16,099) | 206,414 | 6,734   | (8,107) | 390,213 |

See accompanying notes to the unaudited consolidated financial statements.

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**NORTHFIELD BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Six months ended June 30, 2009, and 2008

(Unaudited) (In thousands)

|   | <b>Six months ended June 30</b> |             |
|---|---------------------------------|-------------|
|   | <b>2009</b>                     | <b>2008</b> |
| Cash flows from operating activities:   |                                 |             |
| Net income  | \$ 4,857                        | 9,170       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |             |
| Provision for loan losses   | 4,743                           | 1,838       |
| ESOP and stock-based compensation   | 1,662                           | 305         |
| Depreciation  | 803                             | 667         |
| Accretion of discounts, and deferred loan fees, net of amortization of premiums             | (1,961)                         | (682)       |
| Amortization of mortgage servicing rights   | 56                              | 66          |
| Income on bank owned life insurance   | (871)                           | (847)       |
| Gain on bank owned life insurance death benefit   |                                 | (2,510)     |
| Net gain on sale of loans held-for-sale   | (44)                            | (19)        |
| Proceeds from sale of loans held-for-sale   | 3,641                           | 3,012       |
| Origination of loans held-for-sale  | (3,800)                         | (2,723)     |
| (Gain) loss on securities transactions, net   | (140)                           | 343         |
| Net purchases of trading securities   | (302)                           | (424)       |
| Decrease in accrued interest receivable   | (774)                           | (1,655)     |
| Increase in other assets  | (1,303)                         | (464)       |
| Decrease in accrued expenses and other liabilities  | (428)                           | (8,259)     |
| Amortization of core deposit intangible   | 190                             | 190         |
| Net cash provided by (used in) operating activities   | 6,329                           | (1,992)     |
| Cash flows from investing activities:   |                                 |             |
| Net increase in loans receivable  | (68,839)                        | (93,307)    |
| Purchase of Federal Home Loan Bank of New York stock, net                                   | (431)                           | (7,928)     |
| Purchases of securities available-for-sale  | (232,301)                       | (219,458)   |
| Principal payments and maturities on securities available-for-sale                          | 178,782                         | 170,955     |
| Principal payments and maturities on securities held-to-maturity                            | 2,382                           | 2,717       |
| Proceeds from sale of securities available-for-sale   | 1,998                           | 2,261       |
| Purchases of certificates of deposit in other financial institutions                        | (63)                            | (118,527)   |
| Proceeds from maturities of certificates of deposit in other financial institutions         | 53,716                          | 48,500      |
| Cash received from bank owned life insurance settlement                                     |                                 | 3,790       |
| Purchases and improvements of premises and equipment  | (2,469)                         | (1,236)     |
| Net cash used in investing activities   | (67,225)                        | (212,233)   |
| Cash flows from financing activities:   |                                 |             |
| Net increase in deposits  | 85,715                          | 31,807      |

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|  |           |           |
|--|-----------|-----------|
| Dividends paid   | (1,528)   |           |
| Purchase of treasury stock   | (8,107)   |           |
| (Decrease) increase in advance payments by borrowers for taxes and insurance | (1,616)   | 527       |
| Repayments under capital lease obligations                                   | (78)      | (65)      |
| Proceeds from borrowings   | 92,000    | 320,799   |
| Repayments related to borrowings   | (78,500)  | (147,000) |
| Net cash provided by financing activities                                    | 87,886    | 206,068   |
| Net increase (decrease) in cash and cash equivalents                         | 26,990    | (8,157)   |
| Cash and cash equivalents at beginning of period                             | 50,128    | 25,088    |
| Cash and cash equivalents at end of period                                   | \$ 77,118 | 16,931    |
| Supplemental cash flow information:  |           |           |
| Cash paid during the period for:   |           |           |
| Interest   | \$ 15,360 | 12,807    |
| Income taxes   | 4,887     | 16,255    |
| Non-cash transaction:  |           |           |
| Loans charged-off  | 1,448     | 11        |
| See accompanying notes to the unaudited consolidated financial statements.   |           |           |

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**NORTHFIELD BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Table dollar amounts in thousands, except share amounts)  
(unaudited)

**Note 1 Basis of Presentation**

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

In the opinion of management, all adjustments (consisting 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 month periods ended June 30, 2009, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2009. Certain prior year amounts have been reclassified to conform to the current year presentation.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for the preparation of interim financial statements. The consolidated financial statements presented should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2008, of Northfield Bancorp, Inc. as filed with the SEC.

**Note 2 Equity Incentive Plan**

At the Special Meeting of the Stockholders of the Company (the Meeting ) held on December 17, 2008, the stockholders of the Company approved the Northfield Bancorp, Inc. 2008 Equity Incentive Plan. On January 30, 2009, certain officers and employees of the Company were granted an aggregate of 1,478,900 stock options and 582,700 shares of restricted stock, and non-employee directors received an aggregate of 623,700 stock options and 249,750 shares of restricted stock. On May 29, 2009, an employee was granted 3,800 stock options and 4,200 restricted stock awards. All stock options and restricted stock vest in equal installments over a five year period beginning one year from the date of grant. The vesting of options and restricted stock awards may accelerate in accordance with terms of the plan. Stock options were granted at an exercise price equal to the fair value of the Company's common stock on the grant date based on quoted market prices and all have an expiration period of ten years. The fair value of stock options granted on January 30, 2009, was estimated utilizing the Black-Scholes option pricing model using the following assumptions: an expected life of 6.5 years utilizing the simplified method, risk-free rate of return of 2.17%, volatility of 35.33% and a dividend yield of 1.61%. The fair value of stock options granted on May 29, 2009, were estimated utilizing the Black-Scholes option pricing model using the following assumptions: an expected life of 6.5 years utilizing the simplified method, risk-free rate of return of 2.88%, volatility of 38.39% and a dividend yield of 1.50%. The Company is expensing the grant date fair value of all employee and director share-based compensation over the requisite service periods on a straight-line basis.

During the three and six months ended June 30, 2009, the Company recorded \$792,000 and \$1.4 million of stock-based compensation, respectively. There was no stock based compensation during the three and six months ended June 30, 2008.

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**NORTHFIELD BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Table dollar amounts in thousands, except share amounts)

(unaudited)

The following table is a summary of the Company's non-vested stock options as of June 30, 2009, and changes therein during the six months then ended:

|                                | Number of<br>Stock<br>Options | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Life<br>(years) |
|--------------------------------|-------------------------------|---|--|---|
| Outstanding- December 31, 2008 |                               |   |  |   |
| Granted                        | 2,106,400                     | \$ 3.22   | \$ 9.94                                  | 10  |
| Forfeited                      |                               |   |  |   |
| Outstanding- June 30, 2009     | 2,106,400                     | \$ 3.22   | \$ 9.94                                  | 9.58  |

Exercisable- June 30, 2009

Expected future stock option expense related to the non-vested options outstanding as of June 30, 2009, is \$6.2 million over an average period of 4.53 years.

The following is a summary of the status of the Company's restricted shares as of June 30, 2009, and changes therein during the six months then ended.

|                                 | Number of<br>Shares<br>Awarded | Weighted<br>Average<br>Grant<br>Date<br>Fair Value |
|---------------------------------|--------------------------------|--|
| Non-vested at December 31, 2008 |                                |  |
| Granted                         | 836,650                        | \$ 9.94  |
| Vested                          |                                |  |
| Forfeited                       |                                |  |
| Non-vested at June 30, 2009     | 836,650                        | \$ 9.94  |

Expected future stock award expense related to the non-vested restricted awards as of June 30, 2009, is \$7.6 million over an average period of 4.52 years.

Upon the exercise of stock options, management expects to utilize treasury stock as the source of issuance for these shares.

**Note 3 Stock Repurchase Program**

On February 13, 2009, the Board of Directors of the Company authorized a stock repurchase program pursuant to which the Company intends to repurchase up to 2,240,153 shares, representing approximately 5% of its outstanding shares. The timing of the repurchases will depend on certain factors, including but not limited to, market conditions and prices, the Company's liquidity and capital requirements, and alternative uses of capital. Any repurchased shares are expected to be held as treasury stock and available for general corporate purposes. The Company is conducting

such repurchases in accordance with a Rule 10b5-1 trading plan. A total of 772,350 shares were purchased under this repurchase plan at a weighted average cost of \$10.50 as of June 30, 2009.

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**NORTHFIELD BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Table dollar amounts in thousands, except share amounts)  
(unaudited)

**Note 4 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.

The following is a summary of the Company's earnings per share calculations and reconciliation of basic to diluted earnings per share.

|   | <b>For the three months ended</b> |             | <b>For the six months ended</b> |             |
|---|-----------------------------------|-------------|---------------------------------|-------------|
|   | <b>June 30</b>                    |             | <b>June 30</b>                  |             |
|   | <b>2009</b>                       | <b>2008</b> | <b>2009</b>                     | <b>2008</b> |
| Net income available to common stockholders                         | \$ 2,122                          | 3,565       | 4,857                           | 9,170       |
| Weighted average shares outstanding-basic                           | 42,625,593                        | 43,126,414  | 42,856,503                      | 43,119,145  |
| Effect of non-vested restricted stock and stock options outstanding | 94,072                            |             | 54,575                          |             |
| Weighted average shares outstanding-diluted                         | 42,719,665                        | 43,126,414  | 42,911,078                      | 43,119,145  |
| Earnings per share-basic  | \$ 0.05                           | 0.08        | 0.11                            | 0.21        |
| Earnings per share-diluted  | \$ 0.05                           | 0.08        | 0.11                            | 0.21        |



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**Note 5 Net Loans Held-for-Investment**

Net loans held-for-investment are as follows:

|   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|--------------------------|------------------------------|
| Real estate loans:                              |                          |                              |
| Commercial mortgage                             | \$317,351                | 289,123                      |
| One- to four-family residential mortgage        | 97,342                   | 103,128                      |
| Home equity and lines of credit                 | 23,204                   | 24,182                       |
| Construction and land                           | 43,911                   | 52,158                       |
| Multifamily                                     | 149,714                  | 108,534                      |
| Total real estate loans                         | 631,522                  | 577,125                      |
| Commercial and industrial loans                 | 23,663                   | 11,025                       |
| Other loans                                     | 1,976                    | 1,339                        |
| Total commercial and industrial and other loans | 25,639                   | 12,364                       |
| Total loans held-for-investment                 | 657,161                  | 589,489                      |
| Deferred loan cost, net                         | 417                      | 495                          |
| Loans held-for-investment, net                  | 657,578                  | 589,984                      |
| Allowance for loan losses                       | (12,073)                 | (8,778)                      |
| Net loans held-for-investment                   | \$645,505                | 581,206                      |

Activity in the allowance for loan losses is as follows:

|                           | <b>At or for the<br/>six months ended<br/>June 30,</b> |             |
|---------------------------|--|-------------|
|                           | <b>2009</b>  | <b>2008</b> |
| Beginning balance         | \$ 8,778   | 5,636       |
| Provision for loan losses | 4,743  | 1,838       |
| Charge-offs               | (1,448)  | (11)        |
| Ending balance            | \$12,073   | 7,463       |

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The following tables summarize impaired loans:

|  | <b>Recorded</b>   | <b>June 30, 2009</b><br><b>Allowance</b><br><b>for Loan</b> | <b>Net</b>        |
|--|-------------------|---|-------------------|
|  | <b>Investment</b> | <b>Losses</b>   | <b>Investment</b> |
| Non-accruing loans                                     | \$ 11,348         | (1,218)   | 10,130            |
| Non-accruing loans subject to restructuring agreements | 11,494            | (35)  | 11,459            |
| Accruing loans subject to restructuring agreements     | 6,838             | (57)  | 6,781             |
| <br>   |                   |   |                   |
| Total impaired loans                                   | \$ 29,680         | (1,310)   | 28,370            |

|  | <b>Recorded</b>   | <b>December 31, 2008</b><br><b>Allowance</b><br><b>for Loan</b> | <b>Net</b>        |
|--|-------------------|---|-------------------|
|  | <b>Investment</b> | <b>Losses</b>   | <b>Investment</b> |
| Non-accruing loans                                     | \$ 5,679          | (185)   | 5,494             |
| Non-accruing loans subject to restructuring agreements | 950               | (125)   | 825               |
| <br>   |                   |   |                   |
| Total impaired loans                                   | \$ 6,629          | (310)   | 6,319             |

The average balance of impaired loans was \$25.7 million for the six months ending June 30, 2009. The Company recorded \$186,000 and \$0 of interest income on impaired loans for the six months ending June 30, 2009, and 2008, respectively.

Included in loans held-for-investment, net, are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The principal amount of these nonaccrual loans (including impaired loans) was \$27.5 million and \$9.5 million at June 30, 2009 and December 31, 2008, respectively. Loans past due 90 days or more past maturity and still accruing interest were \$3.5 million and \$137,000 at June 30, 2009, and December 31, 2008, respectively. All such loans are past maturity but are paying in accordance with their pre-maturity terms, and are considered well secured and in the process of collection. The Company has commitments of approximately \$360,000 to lend additional funds to borrowers whose loans are on nonaccrual status or who are past due 90 days or more and still accruing interest. These commitments will be used to fund completion of construction developments. The funding will coincide with signed commitments for the purchase of completed homes.

**Note 6 Deposits**

Deposits are as follows:

|  | <b>June 30,</b><br><b>2009</b> | <b>December 31,</b><br><b>2008</b> |
|--|--------------------------------|------------------------------------|
| Non-interest-bearing demand                            | \$ 102,458                     | 93,170                             |
| Interest-bearing negotiable orders of withdrawal (NOW) | 75,731                         | 64,382                             |
| Savings-passbook, statement, tiered, and money market  | 488,859                        | 449,302                            |
| Certificates of deposit                                | 443,106                        | 417,585                            |

\$1,110,154

1,024,439

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Interest expense on deposit accounts is summarized as follows for the periods indicated:

|   | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| Negotiable order of withdrawal, savings-passbook, statement, tiered, and money market | \$1,468                   | 1,242       | 3,104                   | 2,146       |
| Certificates of deposit   | 3,118                     | 3,189       | 6,439                   | 7,070       |
|   | \$4,586                   | 4,431       | 9,543                   | 9,216       |

**Note 7 Other Postretirement Benefits**

The following table sets forth the components of net periodic postretirement benefit costs:

|                                       | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---------------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                       | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                                       | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| Service cost                          | \$ 1                      | 1           | 2                       | 2           |
| Interest cost                         | 24                        | 24          | 48                      | 48          |
| Amortization of transition obligation | 4                         | 4           | 8                       | 8           |
| Amortization of prior service costs   | 4                         | 4           | 8                       | 8           |
| Amortization of unrecognized loss     | 4                         | 5           | 8                       | 10          |
|                                       | \$37                      | 38          | 74                      | 76          |

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**Note 8 Securities Available-for-Sale**

The following is a comparative summary of mortgage-backed securities and other securities available-for-sale at June 30, 2009 and December 31, 2008 (in thousands):

|  | <b>June 30, 2009</b> |                   |                   | <b>Estimated</b> |
|--|----------------------|-------------------|-------------------|------------------|
|  | <b>Amortized</b>     | <b>Gross</b>      | <b>Gross</b>      | <b>fair</b>      |
|  | <b>cost</b>          | <b>unrealized</b> | <b>unrealized</b> | <b>value</b>     |
|  |                      | <b>gains</b>      | <b>losses</b>     |                  |
| Mortgage-backed securities:                        |                      |                   |                   |                  |
| Pass-through certificates:                         |                      |                   |                   |                  |
| Government sponsored enterprises (GSE)             | \$ 480,921           | 13,818            | 24                | 494,715          |
| Non-GSE  | 79,807               | 1,465             | 4,966             | 76,306           |
| Real estate mortgage investment conduits (REMICs): |                      |                   |                   |                  |
| GSE  | 243,921              | 4,212             | 261               | 247,872          |
| Non-GSE  | 122,482              | 420               | 2,982             | 119,920          |
|  | 927,131              | 19,915            | 8,233             | 938,813          |
| Other securities:                                  |                      |                   |                   |                  |
| Equity investments mutual funds                    | 8,458                |                   | 5                 | 8,453            |
| Corporate bonds                                    | 96,284               | 566               | 92                | 96,758           |
|  | 104,742              | 566               | 97                | 105,211          |
| Total securities available-for-sale                | \$ 1,031,873         | 20,481            | 8,330             | 1,044,024        |

|  | <b>December 31, 2008</b> |                   |                   | <b>Estimated</b> |
|--|--------------------------|-------------------|-------------------|------------------|
|  | <b>Amortized</b>         | <b>Gross</b>      | <b>Gross</b>      | <b>fair</b>      |
|  | <b>cost</b>              | <b>unrealized</b> | <b>unrealized</b> | <b>value</b>     |
|  |                          | <b>gains</b>      | <b>losses</b>     |                  |
| Mortgage-backed securities:                        |                          |                   |                   |                  |
| Pass-through certificates:                         |                          |                   |                   |                  |
| Government sponsored enterprises (GSE)             | \$ 532,870               | 13,457            | 83                | 546,244          |
| Non-GSE  | 65,040                   | 359               | 9,621             | 55,778           |
| Real estate mortgage investment conduits (REMICs): |                          |                   |                   |                  |
| GSE  | 242,557                  | 3,049             | 114               | 245,492          |
| Non-GSE  | 90,446                   | 515               | 7,266             | 83,695           |
|  | 930,913                  | 17,380            | 17,084            | 931,209          |

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|                                     |                          |            |        |         |
|-------------------------------------|--------------------------|------------|--------|---------|
| Other securities:                   |                          |            |        |         |
| Equity Investments                  | money market mutual fund | 9,025      |        | 9,025   |
| Corporate bonds                     |                          | 17,319     | 102    | 17,351  |
|                                     |                          | 26,344     | 102    | 26,376  |
| Total securities available-for-sale |                          | \$ 957,257 | 17,482 | 957,585 |

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The following is a summary of the expected maturity distribution of debt securities available-for-sale other than mortgage-backed securities at June 30, 2009 (in thousands):

| <b>Available-for-sale</b> | <b>Amortized<br/>cost</b> | <b>Estimated<br/>fair<br/>value</b> |
|---------------------------|---------------------------|-------------------------------------|
| Due within one year       | \$ 17,295                 | 17,390                              |
| One through five years    | 78,989                    | 79,368                              |
| <b>Total</b>              | <b>96,284</b>             | <b>96,758</b>                       |

For the six months ended June 30, 2009, the Company had gross proceeds of \$2.0 million on sales of securities available-for-sale with gross realized gains and gross realized losses of approximately \$7,000 and \$0, respectively. For the six months ended June 30, 2008, the Company had gross proceeds of \$2.2 million on sales of securities available-for-sale with gross realized gains and gross realized losses of approximately \$15,000 and \$0, respectively. The Company did not record other than temporary impairment charges during the six months ended June 30, 2009, or 2008.

Gross unrealized losses on mortgage-backed securities, equity securities, 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, 2009, and December 31, 2008, were as follows (in thousands):

|                             | <b>June 30, 2009</b>         |                                 |                              |                                 |                              |                                 |
|-----------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
|                             | <b>Less than 12 months</b>   |                                 | <b>12 months or more</b>     |                                 | <b>Total</b>                 |                                 |
|                             | <b>Unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> | <b>Unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> | <b>Unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Mortgage-backed securities: |                              |                                 |                              |                                 |                              |                                 |
| Pass-through certificates:  |                              |                                 |                              |                                 |                              |                                 |
| GSE                         | \$ 2                         | 532                             | 22                           | 5,866                           | 24                           | 6,398                           |
| Non-GSE                     | 152                          | 8,605                           | 4,814                        | 16,714                          | 4,966                        | 25,319                          |
| REMICs                      |                              |                                 |                              |                                 |                              |                                 |
| GSE                         | 136                          | 17,418                          | 125                          | 22,566                          | 261                          | 39,984                          |
| Non-GSE                     | 1,132                        | 58,021                          | 1,850                        | 17,151                          | 2,982                        | 75,172                          |
| Mutual funds                | 5                            | 4,995                           |                              |                                 | 5                            | 4,995                           |
| Corporate bonds             | 92                           | 25,993                          |                              |                                 | 92                           | 25,993                          |
| <b>Total</b>                | <b>\$ 1,519</b>              | <b>115,564</b>                  | <b>6,811</b>                 | <b>62,297</b>                   | <b>8,330</b>                 | <b>177,861</b>                  |

|                             | <b>December 31, 2008</b>     |                                 |                              |                                 |                              |                                 |
|-----------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
|                             | <b>Less than 12 months</b>   |                                 | <b>12 months or more</b>     |                                 | <b>Total</b>                 |                                 |
|                             | <b>Unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> | <b>Unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> | <b>Unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Mortgage-backed securities: |                              |                                 |                              |                                 |                              |                                 |
| Pass-through certificates:  |                              |                                 |                              |                                 |                              |                                 |

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|                 |           |         |       |        |        |         |
|-----------------|-----------|---------|-------|--------|--------|---------|
| GSE             | \$ 2      | 634     | 81    | 1,346  | 83     | 1,980   |
| Non-GSE         | 2,708     | 7,290   | 6,913 | 17,525 | 9,621  | 24,815  |
| REMICs          |           |         |       |        |        |         |
| GSE             | 42        | 29,267  | 72    | 18,981 | 114    | 48,248  |
| Non-GSE         | 7,266     | 68,966  |       |        | 7,266  | 68,966  |
| Corporate bonds | 70        | 4,298   |       |        | 70     | 4,298   |
| Total           | \$ 10,088 | 110,455 | 7,066 | 37,852 | 17,154 | 148,307 |

At June 30, 2009, there were 14 non-GSE mortgage-backed securities in an unrealized loss position all but two were rated AAA at June 30, 2009. Of the two securities, one with an estimated fair value of \$5.8 million (unrealized loss of \$3.1 million) was rated BBB+ and the second, with an estimated fair value of \$5.4 million



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(unrealized loss of \$1.8 million), was rated CCC. The Company continues to receive principal and interest payments in accordance with the contractual terms on both securities. Management has evaluated, among other things, delinquency status, estimated prepayment speeds and the estimated default rates and loss severity in liquidating the underlying collateral for each of these two securities and believes that such losses are temporary at June 30, 2009. The Company has no intent to sell, nor is it more likely than not than the Company will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

Mortgage-backed securities issued or guaranteed by GSEs (12 securities) and corporate bonds (2 securities) are investment grade securities with no apparent credit weaknesses. The declines in value are deemed to 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 has no intent to sell, nor is it more likely than not than the Company will be required to sell, the securities contained in the table above 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 obligation or other securities deteriorate 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.

**Note 9 Securities Held-to-Maturity**

The following is a comparative summary of mortgage-backed securities held-to-maturity at December 31, (in thousands):

|                                   | <b>June 30, 2009</b>      |                                       |  |                                     |
|-----------------------------------|---------------------------|---------------------------------------|--|-------------------------------------|
|                                   | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair<br/>value</b> |
| Mortgage-backed securities:       |                           |                                       |  |                                     |
| Pass-through certificates:        |                           |                                       |  |                                     |
| GSE                               | \$ 4,925                  | 130                                   |  | 5,055                               |
| REMICs:                           |                           |                                       |  |                                     |
| GSE                               | 7,176                     | 73                                    |  | 7,249                               |
| <br>                              |                           |                                       |  |                                     |
| Total securities held-to-maturity | \$ 12,101                 | 203                                   |  | 12,304                              |

|                             | <b>December 31, 2008</b>  |                                       |  |                                     |
|-----------------------------|---------------------------|---------------------------------------|--|-------------------------------------|
|                             | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair<br/>value</b> |
| Mortgage-backed securities: |                           |                                       |  |                                     |
| Pass-through certificates:  |                           |                                       |  |                                     |
| GSE                         | \$ 6,132                  | 141                                   |  | 6,273                               |
| REMICs:                     |                           |                                       |  |                                     |
| GSE                         | 8,347                     | 13                                    | 45                                     | 8,315                               |

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|                                   |           |     |    |        |
|-----------------------------------|-----------|-----|----|--------|
| Total securities held-to-maturity | \$ 14,479 | 154 | 45 | 14,588 |
|-----------------------------------|-----------|-----|----|--------|

The Company did not sell any held-to-maturity securities during the six months ended June 30, 2009, or 2008.

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Gross unrealized losses on mortgage-backed securities held-to-maturity and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008 (in thousands):

|         | Less than 12 months |            | December 31, 2008<br>12 months or more |            | Total      |            |
|---------|---------------------|------------|--|------------|------------|------------|
|         | Unrealized          | Estimated  | Unrealized                             | Estimated  | Unrealized | Estimated  |
|         | losses              | fair value | losses                                 | fair value | losses     | fair value |
| REMICs: |                     |            |  |            |            |            |
| GSE     | \$ 45               | 5,536      |  |            | 45         | 5,536      |
| Total   | \$ 45               | 5,536      |  |            | 45         | 5,536      |

Mortgage-backed securities issued or guaranteed by GSEs are investment grade securities with no apparent credit weaknesses. The declines in value are deemed to 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 securities have recovered subsequent to December 31, 2008.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligation or other securities deteriorate and our credit enhancement levels does 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.

**Note 10 Fair Value Measurements**

The following table presents the assets reported on the consolidated balance sheet at their estimated fair value as of June 30, 2009, by level within the fair value hierarchy as required by Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements. 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.

The following tables summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2009, and December 31, 2008, respectively, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

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|                            | <b>June 30,<br/>2009</b> | <b>Fair Value Measurements at Reporting Date<br/>Using:</b>  |   |   |
|----------------------------|--------------------------|--|---|---|
|                            |                          | <b>Quoted<br/>Prices<br/>in Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/><br/>(Level 1)</b> | <b>Significant<br/>Other<br/><br/>Observable<br/><br/>Inputs<br/><br/>(Level 2)</b> | <b>Significant<br/><br/>Unobservable<br/><br/>Inputs<br/><br/>(Level 3)</b> |
| Assets:                    |                          |  |   |   |
| Investment securities:     |                          |  |   |   |
| Available-for-sale:        |                          |  |   |   |
| Mortgage-backed securities | \$ 938,813               | \$   | \$ 938,813  | \$  |
| Corporate bonds            | 96,758                   |  | 96,758  |   |
| Equities                   | 8,453                    | 8,453  |   |   |
| Total available-for-sale   | 1,044,024                | 8,453  | 1,035,571   |   |
| Trading securities         | 2,940                    | 2,940  |   |   |
| Total                      | \$ 1,046,964             | \$ 11,393  | \$ 1,035,571  | \$  |

|                            | <b>December 31,<br/>2008</b> | <b>Fair Value Measurements at Reporting<br/>Date Using:</b>  |   |   |
|----------------------------|------------------------------|--|---|---|
|                            |                              | <b>Quoted<br/>Prices<br/>in Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/><br/>(Level 1)</b> | <b>Significant<br/>Other<br/><br/>Observable<br/><br/>Inputs<br/><br/>(Level 2)</b> | <b>Significant<br/><br/>Unobservable<br/><br/>Inputs<br/><br/>(Level 3)</b> |
| Assets:                    |                              |  |   |   |
| Investment securities:     |                              |  |   |   |
| Available-for-sale:        |                              |  |   |   |
| Mortgage-backed securities | \$ 931,209                   | \$   | \$ 931,209  | \$  |
| Corporate bonds            | 17,351                       |  | 17,351  |   |
| Equities                   | 9,025                        | 9,025  |   |   |
| Total available-for-sale   | 957,585                      | 9,025  | 948,560   |   |

|                    |    |         |    |        |               |
|--------------------|----|---------|----|--------|---------------|
| Trading securities |    | 2,498   |    | 2,498  |               |
| Total              | \$ | 960,083 | \$ | 11,523 | \$ 948,560 \$ |

**Available -for- Sale Securities:** The estimated fair values for mortgage-backed 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 value of equity securities classified as Level 1 are derived from quoted market prices in active markets, these assets consist of money market mutual funds.

At June 30, 2009, securities available-for-sale included residential mortgage-backed securities not guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae, referred to as private label securities. These private label securities had an amortized cost of \$202.3 million, and an estimated fair value of \$196.2 million, at June 30, 2009. At June 30, 2009, the private label securities portfolio was in a net unrealized loss position of \$6.1 million, consisting of gross unrealized losses of \$8.0 million, and gross unrealized gains of \$1.9 million.

All but two of the private label securities were rated AAA at June 30, 2009. Of the two securities, one with an estimated fair value of \$5.8 million was rated BBB+ and the second, with an estimated fair value of \$5.4

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million, was rated CCC. The Company continues to receive principal and interest payments in accordance with the contractual terms on both securities. Management has evaluated, among other things, delinquency status, estimated prepayment speeds and the estimated default rates and loss severity in liquidating the underlying collateral for each of these two securities and believes that such losses are temporary at June 30, 2009.

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

Also, 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 Assets:** At June 30, 2009, the Company had impaired loans with outstanding principal balances of \$12.9 million that were recorded at the estimated fair value of collateral, less cost to sell. The Company recorded net impairment charges of \$687,000 and \$1.6 million for the three and six months ended June 30, 2009, compared to \$232,000 and \$473,000 for the same prior periods, respectively, utilizing Level 3 inputs. Impaired assets are valued utilizing current appraisals adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date and the present value of expected cash flows for non-collateral dependent loans and troubled debt restructurings.

**Note 11 Fair Value of Financial Instruments**

Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments.

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

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

**(b) Securities**

The fair values for substantially all of our securities are obtained from an independent nationally recognized third-party 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 stock is its carrying value, since this is the amount for which it could be redeemed and there is no active market for this stock.

**(d) Loans**

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as 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.

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Fair value for significant nonperforming loans is based on external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

**(e) *Deposits***

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, and 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.

**(f) *Commitments to Extend Credit and Standby Letters of Credit***

The fair value of commitments to extend credit and standby letters of credit are 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.

**(g) *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.

**(h) *Advance Payments by Borrowers***

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



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The estimated fair values of the Company's significant financial instruments at June 30, 2009, and December 31, 2008, are presented in the following table (in thousands):

|  | <b>June 30,<br/>2009</b>  |                                     | <b>December 31,<br/>2008</b> |                                     |
|--|---------------------------|-------------------------------------|------------------------------|-------------------------------------|
|  | <b>Carrying<br/>value</b> | <b>Estimated<br/>Fair<br/>value</b> | <b>Carrying<br/>value</b>    | <b>Estimated<br/>Fair<br/>value</b> |
| <b>Financial assets:</b>                   |                           |                                     |                              |                                     |
| Cash and cash equivalents                  | \$ 77,118                 | 77,118                              | 50,128                       | 50,128                              |
| Certificates of deposit                    |                           |                                     | 53,653                       | 53,873                              |
| Trading securities                         | 2,940                     | 2,940                               | 2,498                        | 2,498                               |
| Securities available-for-sale              | 1,044,024                 | 1,044,024                           | 957,585                      | 957,585                             |
| Securities held-to-maturity                | 12,101                    | 12,304                              | 14,479                       | 14,588                              |
| FHLB stock                                 | 9,841                     | 9,841                               | 9,410                        | 9,410                               |
| Net loans held-for-investment              | 645,505                   | 654,466                             | 581,206                      | 610,713                             |
| Loans held-for-sale                        | \$ 203                    | 203                                 |                              |                                     |
| <b>Financial liabilities:</b>              |                           |                                     |                              |                                     |
| Deposits                                   | \$ 1,110,154              | 1,112,296                           | 1,024,439                    | 1,027,896                           |
| Repurchase Agreements and other borrowings | 345,506                   | 352,717                             | 332,084                      | 340,404                             |
| Advance payments by borrowers              | \$ 2,207                  | 2,207                               | 3,823                        | 3,823                               |

**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.

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**Note 12 Income Taxes**

The Company files income tax returns in the United States federal jurisdiction and in New York State and City jurisdictions. The Company and the Bank also file income tax returns in the State of New Jersey. With limited exceptions, the Company is no longer subject to federal, state, and local income tax examinations by tax authorities for years prior to 2004. The following is a reconciliation of the beginning and ending gross unrecognized tax benefits for the six months ended June 30, 2008. The Company settled all its unrecognized tax benefits in the second quarter of 2008. The amounts have not been reduced by the federal deferred tax effects of unrecognized state benefits.

|  |          |
|--|----------|
| Unrecognized tax benefits at January 1, 2008 | \$ 2,700 |
| Payments for tax positions of prior years    | (2,700)  |
| Unrecognized tax benefits at June 30, 2008   | \$       |

The Company records interest accrued related to uncertain tax benefits as tax expense. During the three and six months ended June 30, 2008, the Company expensed \$7,000 and \$62,000, respectively, in interest on uncertain tax positions. The Company records penalties accrued as other expenses. The Company has not accrued for penalties.

**Note 13 Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007) (SFAS No. 141R), *Business Combinations*. SFAS No. 141R replaces SFAS No. 141, *Business Combinations* and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141R retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for the acquirer to be identified for each business combination. SFAS No. 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of the acquisition date. SFAS No. 141R also requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. This changes the requirements of SFAS No. 141 which permitted deferred recognition of preacquisition contingencies, until the recognition criteria for SFAS No. 5,

*Accounting for Contingencies* were met. SFAS No. 141R will also require acquirers to expense acquisition-related costs as incurred rather than require allocation of such costs to the assets acquired and liabilities assumed. SFAS No. 141R is effective for business combination reporting for fiscal years beginning after December 15, 2008. In April, 2009, the FASB issued FASB Staff Position (FSP) SFAS 141R-1, *Accounting for Assets Acquired and liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141(R)-1). FSP 141(R)-1 amends the guidance in SFAS No. 141R and is effective for the first annual reporting period beginning on or after December 15, 2008. The provisions of SFAS No. 141R and FSP 141(R)-1 will apply to any business combination closing on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51. SFAS No. 160 amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Prior to SFAS No. 160, net income attributable to the noncontrolling interest generally was reported as an expense or other deduction in arriving at consolidated net income. Additional disclosures are required as a result of SFAS No. 160 to clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 160 as of January 1, 2009,

did not have a significant effect on the Company's condensed consolidated financial statements.

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In April 2009, the FASB issued the following three FSPs intended to provide additional guidance and enhance disclosures regarding fair value measurements and impairment of securities:

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have decreased significantly. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly.

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amends current other-than-temporary impairment guidance in generally accepted accounting principles (GAAP) for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

These three FSPs were effective for the period ended June 30, 2009, and did not have a significant effect on the Company's consolidated financial statements other than additional disclosures.

In May 2009, SFAS No. 165, *Subsequent Events* was issued which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This pronouncement was effective for the period ended June 30, 2009, and did not have a significant effect on the Company's consolidated financial statements.

In June 2009, SFAS No. 166, *Accounting for Transfers of Financial Assets – an Amendment of FASB Statement No. 140*, was issued to improve the information a reporting entity provides in its financial statements about a transfer of financial assets, including the effect of a transfer on an entity's financial position, financial performance and cash flows and the transferor's continuing involvement in the transferred assets. SFAS 166 eliminates the concept of a qualifying special-purpose entity and changes the guidance for evaluation for consolidation. This pronouncement is effective January 1, 2010, and is not expected to have a significant effect on the Company's consolidated financial statements.

In June 2009, SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, was issued to amend previous guidance to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly effect the entity's economic performance and (i) the obligation to absorb losses of the entity or (ii) the right to receive benefits from the entity. The pronouncement is effective January 1, 2010, and is not expected to have a significant effect on the Company's consolidated financial statements.

In June 2009, SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Principles, a Replacement of FASB Statement No. 162* was issued and established the FASB Accounting Standards Codification (Codification) as the source of authoritative U. S. generally accepted accounting

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principles recognized by the FASB to be applied by nongovernmental entities. Rules and interpretative releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All non-grandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. The pronouncement and the Codification will be effective in the period ending September 30, 2009 and is not expected to have a significant effect on the Company's consolidated financial statements.

**Note 14 Subsequent Events**

Subsequent events have been evaluated through August 10, 2009, which is the date the financial statements were issued.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Cautionary Statement Regarding Forward-Looking Information**

**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:

significantly increased competition among depository and other financial institutions;

inflation and changes in the interest rate environment or other changes that reduce our interest margins or reduce the fair value of financial instruments;

general economic conditions, either nationally or in our market areas, that are worse than expected;

adverse changes in the securities markets;

legislative or regulatory changes that adversely affect our business;

our ability to enter new markets successfully and take advantage of growth opportunities, and the possible dilutive effect of potential acquisitions or *de novo* branches, if any;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by bank regulatory agencies, the Financial Accounting Standards Board, the Public Company Accounting Oversight Board and other promulgating authorities;

inability of third-party providers to perform their obligations to us;

the effect of current governmental effort to restructure the U.S. financial and regulatory system;

the effect of developments in the secondary market affecting our loan pricing;

the level of future deposit insurance premiums

changes in our organization, compensation and benefit plans; and

the effect of the current financial crisis on our loan portfolio, investment portfolio, and deposit and other customers.

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, 2008, 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

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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, 2008.

**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, 2008.

Net income was \$2.1 million for the quarter ended June 30, 2009, compared to \$3.6 million for the quarter ended June 30, 2008. Net income for the quarter ending June 30, 2009, included a special FDIC assessment of approximately \$770,000. Basic and diluted earnings per share for the quarters ended June 30, 2009 and 2008, were \$0.05 and \$0.08, respectively.

Return on average assets and return on average equity were 0.47% and 2.18%, respectively, for the quarter ended June 30, 2009, as compared to 0.93% and 3.83% for the quarter ended June 30, 2008, respectively.

The quarter ended June 30, 2009, was highlighted by the following items:

Total assets increased \$120.9 million to \$1.9 billion at June 30, 2009, from \$1.8 billion at December 31, 2008.

- o Securities increased \$84.5 million.

- o Net loans held-for-investment increased \$64.3 million.

- o Purchased certificates of deposit decreased \$53.7 million

Total liabilities increased \$117.3 million to \$1.5 billion at June 30, 2009, from \$1.4 billion at December 31, 2008

- o Deposits increased \$85.7 million.

- o Borrowed funds increased \$13.4 million.

Net interest income increased \$2.3 million to \$13.8 million for the quarter ended June 30, 2009, as compared to \$11.5 million for the quarter ended June 30, 2008.

- o The net interest margin increased four basis points to 3.23% for the quarter ended June 30, 2009, as compared to 3.19% for the quarter ended June 30, 2008.

The provision for loan losses was \$3.1 million for the quarter ended June 30, 2009, compared to \$1.2 million for the quarter ended June 30, 2008.

Non-interest expense increased to \$9.1 million for the quarter ended June 30, 2009, compared to \$5.9 million for the quarter ended June 30, 2008.



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**Comparison of Financial Condition at June 30, 2009 and December 31, 2008**

Cash and cash equivalents increased \$27.0 million, or 53.8%, to \$77.1 million at June 30, 2009, from \$50.1 million at December 31, 2008. The Company has been maintaining increased balances in other financial institutions while it evaluates opportunities to deploy funds into higher yielding investments such as loans and mortgage-backed securities with acceptable risk characteristics.

Certificates of deposit in other financial institutions decreased to \$0 at June 30, 2009, from \$53.7 million at December 31, 2008. The decrease was attributable to maturities. When opportunities exist, the Company has deployed a strategy to fund investments in certificates of deposit in other financial institutions (fully insured by the FDIC) with similar term borrowings. Such opportunities did not exist in 2009.

Bank owned life insurance increased \$871,000, or 2.1%, to \$42.9 million at June 30, 2009, from \$42.0 million December 31, 2008. The increase was attributable to earnings on the policies for the six months ended June 30, 2009.

Securities available-for-sale increased \$86.4 million, or 9.0%, to \$1.04 billion at June 30, 2009, from \$957.6 million at December 31, 2008. The increase was attributable to purchases of \$252.5 million, an increase of \$10.5 million in the estimated fair value, and net accretion of discounts of \$2.1 million, partially offset by sales of \$2.0 million, and maturities and paydowns of \$178.8 million. The securities available-for-sale portfolio at June 30, 2009, included \$742.8 million in mortgage-backed debt securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae.

Loans held -for- investment, net totaled \$657.6 million at June 30, 2009, as compared to \$590.0 million at December 31, 2008. The increase was primarily in multifamily real estate loans which increased \$41.2 million, or 37.9%, to \$149.7 million, from \$108.5 million at December 31, 2008. Loans held- for -investment, net also increased due to an increase in commercial real estate loans of \$28.2 million, or 9.7%, to \$317.4 million, as well as an increase in commercial loans of \$12.6 million, or 114.63%, to \$23.7 million. These increases were partially offset by decreases in residential, home equity, and land & construction loans.

Deposits increased \$85.7 million, or 8.4%, to \$1.11 billion at June 30, 2009, from \$1.02 billion at December 31, 2008. The increase in deposits in 2009 was primarily due to an increase of \$53.9 million in money market account balances and \$25.6 million in certificates of deposits. Deposits also increased as a result of an increase of \$20.6 million in transaction accounts. These deposit increases were partially offset by a \$14.4 million decrease in passbook and statement savings accounts.

Borrowings increased \$13.4 million, or 4.0%, to \$345.5 million at June 30, 2009, from \$332.1 million at December 31, 2008. The increase was attributable to borrowings of \$92.0 million partially offset by repayments of approximately \$78.5 million.

Total stockholders equity increased to \$390.2 million at June 30, 2009, from \$386.6 million at December 31, 2008. The increase was primarily attributable to net income of \$4.9 million for the six months ended June 30, 2009, and an increase in other comprehensive income of \$6.8 million, related primarily to a decrease in market interest rates that resulted in an increase in the estimated fair values of our securities available-for-sale portfolio. These increases were partially offset by \$8.1 million in stock repurchases and dividends declared of approximately \$1.5 million for the six months ended June 30, 2009.

**Comparison of Operating Results for the Three Months Ended June 30, 2009, and 2008**

**Net income.** Net income for the quarter ended June 30, 2009, decreased \$1.4 million, or 40.5%, as compared to the prior year quarter. The decrease in net income was due primarily to an increase in the provision for loan losses of \$1.9 million and an increase in non-interest expense of \$3.1 million. These increases in expenses were partially offset by an increase in net interest income of \$2.3 million, primarily due to an increase in interest-

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earning assets in the second quarter of 2009 and a decrease in the cost of interest bearing liabilities, as compared to the comparable quarter of 2008.

**Interest income.** Interest income increased \$2.9 million, or 16.1%, to \$21.0 million for the three months ended June 30, 2009, from \$18.1 million for the three months ended June 30, 2008. The increase in interest income was primarily the result of an increase in average interest-earning assets of \$266.5 million, or 18.3%. The increase in average interest-earning assets was primarily attributable to an increase in average loans of \$171.3 million, or 36.6%, an increase in investment securities of \$38.6 million, or 134.2%, and an increase in average mortgage-backed securities of \$75.1 million, or 9.0%. These increases were partially offset by decreases in the average balances of Federal Home Loan Bank of New York stock of \$4.6 million, and \$14.0 million in interest-earning deposits in other financial institutions. The effect of the increase in average interest-earning assets was partially offset by a decrease in the yield earned from 5.01% for the three months ended June 30, 2008, to 4.90% for the three months ended June 30, 2009. The rate earned on the Company's loan portfolio, interest-earning deposits in other financial institutions, and corporate bonds and money market mutual funds decreased due to the general decline in market interest rates for these asset types. These decreases were partially offset by a 32 basis point increase in the rate earned on mortgage-backed securities, from 4.48% for the quarter ended June 30, 2008, to 4.80% for the quarter ended June 30, 2009 due to the purchase of higher yielding private label mortgage-backed securities.

**Interest expense.** Interest expense increased \$626,000, or 9.56%, to \$7.2 million for the three months ended June 30, 2009, from \$6.6 million for the three months ended June 30, 2008. The increase was attributable to an increase in interest expense on deposits of \$155,000, or 3.5%, and an increase in interest expense on borrowings of \$471,000, or 22.2%. The increase in interest expense on deposits was attributable to average interest-bearing deposits increasing \$222.2 million, or 28.1%, to \$1.01 billion for the three months ended June 30, 2009, as compared to \$791.1 million for the three months ended June 30, 2008. The increase in average interest-bearing deposits was partially offset by a decrease in cost of 43 basis points, or 19.1%, to 1.82%, reflecting lower market interest rates. The increase in interest expense on borrowings was attributable to the average balance of borrowings increasing \$39.7 million, or 15.7%, to \$292.5 million for the three months ended June 30, 2009, from \$252.7 million for the three months ended June 30, 2008, and an increase in the cost of borrowings of 18 basis points to 3.55%.

**Net Interest Income.** Net interest income was \$13.8 million for the quarter ended June 30, 2009, an increase of \$2.3 million, or 19.8%, from \$11.5 million for the quarter ended June 30, 2008. The increase in net interest income was primarily the result of an increase in average interest-earning assets of \$266.5 million, or 18.3%. The net interest margin was 3.23%, an increase of four basis points from the quarter ended June 30, 2008.

**Provision for Loan Losses.** We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider, among other things, past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, and the levels of delinquent loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as information becomes available or conditions change. We assess the allowance for loan losses and make provisions for loan losses on a quarterly basis.

The provision for loan losses for the quarter ended June 30, 2009, was \$3.1 million, as compared to \$1.2 million for the quarter ended June 30, 2008. The increase related to an increase in reserves on impaired loans, loan growth, and increases in general loss factors in response to continued deterioration in general real estate collateral values and weakness in the overall economy. We recorded net charge-offs of \$853,000 and \$11,000 for the three months ended June 30, 2009, and 2008, respectively. The allowance for loan losses was \$12.1 million, or 1.84% of loans held for investment, net at June 30, 2009, compared to \$8.8 million, or 1.49% of loans held for investment, net at December 31, 2008.

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Nonperforming loans totaled \$31.0 million (4.71% of total loans) at June 30, 2009, \$24.1 million (3.86% of total loans) at March 31, 2009, and \$9.6 million, (1.63% of total loans) at December 31, 2008. Also shown for the same dates are troubled debt restructurings on which interest is accruing.

| (in thousands)   | June 30,<br>2009 | March 31,<br>2009 | December 31,<br>2008 |
|--|------------------|-------------------|----------------------|
| Non-accruing loans                                     | \$ 16,016        | 13,166            | 8,552                |
| Non-accruing loans subject to restructuring agreements | 11,494           | 9,650             | 950                  |
| Total non-accruing loans                               | 27,510           | 22,816            | 9,502                |
| Loans 90 days or more past maturity and still accruing | 3,483            | 1,281             | 137                  |
| Total non-performing loans                             | 30,993           | 24,097            | 9,639                |
| Other real estate owned                                | 993              | 1,071             | 1,071                |
| Total non-performing assets                            | \$ 31,986        | 25,168            | 10,710               |

Loans subject to restructuring agreements and still accruing

|  |          |       |
|--|----------|-------|
|  | \$ 6,838 | 2,414 |
|--|----------|-------|

Total non-accruing loans consist of the following categories at June 30, 2009: \$15.1 million in commercial real estate loans, \$6.7 million in construction and land loans, \$2.0 million in commercial and industrial loans, \$1.9 million in one- to four-family real estate loans, \$1.7 million in multifamily real estate loans, and \$98,000 in home equity and lines of credit.

Non-accruing loans subject to restructuring agreements increased to \$11.5 million at June 30, 2009. These related primarily to loans that were accruing but were demonstrating weaknesses that management believed warranted formal restructurings, with the objective of maximizing the ultimate collectability of the loans. Based on a borrower's payment performance prior to the restructuring and various other uncertainties, including changes in the current economic environment, management deemed it appropriate to place certain of these loans on a non-accrual status, and recognize interest income on a cash basis, as appropriate, until the borrowers demonstrate sustained performance under the restructured terms. In addition, loans 90 days or more past maturity and still accruing interest increased to \$3.5 million. These loans are current as to the original contractual interest payment terms, are considered well secured, and are currently in the process of either being refinanced with a third party or renewed by us.

**Non-interest Income.** Non-interest income increased \$317,000, or 26.3%, to \$1.5 million for the three months ended June 30, 2009, from \$1.2 million for the three months ended June 30, 2008. The increase was primarily due to a \$310,000 gain on securities transactions to \$294,000 for the three months ended June 30, 2009, from a loss of \$16,000 for the three months ended June 30, 2008.

**Non-interest Expense.** Total non-interest expense increased \$3.1 million, or 52.6%, to \$9.1 million at June 30, 2009, as compared to \$6.0 million for the quarter ended June 30, 2008. The increase was caused, in part, by higher employee compensation and benefits of \$1.3 million, due primarily to costs associated with equity awards granted on January 30, 2009, higher health care costs, and merit and market salary adjustments effective January 1, 2009. Non-interest expense also was higher due to increased FDIC insurance costs of \$1.1 million, due to higher insurance rates, increased deposit balances subject to these rates, and a special assessment levied on all FDIC-insured institutions, which for us was \$770,000. Occupancy, and furniture and equipment costs also increased \$290,000, and were associated with the Company's new operations center, leases on two new branch locations, and depreciation related to premises renovations, as well as increased maintenance and repairs.

**Income Tax Expense.** The Company recorded income tax expense of \$1.1 million and \$2.0 million for the quarters ended June 30, 2009, and 2008, respectively. The effective tax rate for the quarter ended June 30, 2009 was 33.7%, as compared to 36.1% for the quarter ended June 30, 2008. The decrease in the effective tax rate was the result

of a lower level of taxable income in 2009, as compared to 2008.

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NORTHFIELD BANCORP, INC.  
ANALYSIS OF NET INTEREST INCOME  
(Dollars in thousands)

|  | For the Quarter Ended June 30,    |          |                                  |                                   |          |                               |
|--|-----------------------------------|----------|----------------------------------|-----------------------------------|----------|-------------------------------|
|  | 2009                              |          |                                  | 2008                              |          |                               |
|  | Average<br>Outstanding<br>Balance | Interest | Average<br>Yield/<br>Rate<br>(1) | Average<br>Outstanding<br>Balance | Interest | Average<br>Yield/<br>Rate (1) |
| <b>Interest-earning assets:</b>                        |                                   |          |                                  |                                   |          |                               |
| Loans  | \$ 639,852                        | \$ 9,253 | 5.80%                            | \$ 468,535                        | \$ 7,397 | 6.35%                         |
| Mortgage-backed securities                             | 913,595                           | 10,924   | 4.80                             | 838,466                           | 9,346    | 4.48                          |
| Other securities                                       | 67,328                            | 522      | 3.11                             | 28,751                            | 226      | 3.16                          |
| Federal Home Loan Bank<br>of New York stock            | 8,046                             | 107      | 5.33                             | 12,598                            | 204      | 6.51                          |
| Interest-earning deposits in<br>financial institutions | 91,442                            | 207      | 0.91                             | 105,443                           | 924      | 3.52                          |
| Total interest-earning<br>assets                       | 1,720,263                         | 21,013   | 4.90                             | 1,453,793                         | 18,097   | 5.01                          |
| Non-interest-earning assets                            | 94,215                            |          |                                  | 82,224                            | .        |                               |
| Total assets   | \$ 1,814,478                      |          |                                  | \$ 1,536,017                      |          |                               |
| <b>Interest-bearing liabilities:</b>                   |                                   |          |                                  |                                   |          |                               |
| Savings, NOW, and money<br>market accounts             | \$ 552,512                        | 1,468    | 1.07                             | \$ 419,328                        | 1,242    | 1.19                          |
| Certificates of deposit                                | 460,785                           | 3,118    | 2.71                             | 371,753                           | 3,189    | 3.45                          |
| Total interest-bearing<br>deposits                     | 1,013,297                         | 4,586    | 1.82                             | 791,081                           | 4,431    | 2.25                          |
| Borrowed funds   | 292,464                           | 2,590    | 3.55                             | 252,744                           | 2,119    | 3.37                          |
| Total interest-bearing<br>liabilities                  | 1,305,761                         | 7,176    | 2.20                             | 1,043,825                         | 6,550    | 2.52                          |
| Non-interest bearing<br>deposit accounts               | 99,388                            |          |                                  | 104,531                           |          |                               |
| Accrued expenses and<br>other liabilities              | 18,300                            |          |                                  | 12,879                            |          |                               |
| Total liabilities                                      | 1,423,449                         |          |                                  | 1,161,235                         |          |                               |
| Stockholders' equity                                   | 391,029                           |          |                                  | 374,782                           |          |                               |
| Total liabilities and<br>stockholders' equity          | \$ 1,814,478                      |          |                                  | \$ 1,536,017                      |          |                               |

|   |            |        |            |
|---|------------|--------|------------|
| Net interest income   | \$ 13,837  |        | \$ 11,547  |
| Net interest rate spread (2)                                    |            | 2.70   | 2.49       |
| Net interest-earning assets (3)                                 | \$ 414,502 |        | \$ 409,968 |
| Net interest margin (4)   |            | 3.23   | 3.19       |
| Average interest-earning assets to interest-bearing liabilities |            | 131.74 | 139.28     |

(1) Average yields and rates for the quarter ended June 30, 2009 and 2008, are annualized.

(2) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning

assets.

**Table of Contents****Comparison of Operating Results for the Six Months Ended June 30, 2009, and 2008**

**Net income.** Net income for the six months ended June 30, 2009, decreased \$4.3 million, or 47.0%, as compared to the prior year period. The decrease in net income was due primarily to a \$2.5 million, nontaxable, death benefit realized on bank owned life insurance in the six months ended June 30, 2008. Net income for the current six months also was negatively affected by an increase in our provision for loan losses of \$2.9 million, and an increase in non-interest expenses of \$4.9 million. These decreases were partially offset by an increase in net interest income of \$4.5 million, primarily due to an increase in interest-earning assets in the first six months of 2009, as compared to the comparable prior year period.

**Interest income.** Interest income increased \$6.1 million, or 17.2%, to \$41.5 million for the six months ended June 30, 2009, from \$35.4 million for the six months ended June 30, 2008. The increase in interest income was primarily the result of an increase in average interest-earning assets of \$287.0 million, or 20.3%. The increase in average interest-earning assets was primarily attributable to an increase in average loans of \$169.8 million, or 37.7%, an increase in investment securities of \$6.3 million, or 14.6%, and an increase in average mortgage-backed securities of \$129.4 million, or 16.2%. These increases were partially offset by decreases in the average balances of Federal Home Loan Bank of New York stock of \$3.6 million, and \$15.0 million in interest-earning deposits in other financial institutions. The effect of the increase in average interest-earning assets was partially offset by a decrease in the yield earned from 5.03% for the six months ended June 30, 2008, to 4.92% for the six months ended June 30, 2009. The rate earned on the Company's loan portfolio, interest-earning deposits in other financial institutions, and corporate bonds and money market mutual funds, decreased due to the general decline in market interest rates for these asset types. These decreases were partially offset by a 32 basis point increase in the rate earned on mortgage-backed securities, from 4.47% for the six months ended June 30, 2008, to 4.79% for the six months ended June 30, 2009 due to the purchase of higher yielding private label securities.

**Interest Expense.** Interest expense increased \$1.6 million or 12.2%, to \$14.9 million for the six months ended June 30, 2009, from \$13.3 million for the six months ended June 30, 2008. The increase was attributable to an increase in interest expense on deposits of \$327,000, or 3.5%, and an increase in interest expense on borrowings of \$1.3 million, or 31.9%. The increase in interest expense on deposits was attributable to average interest-bearing deposits increasing \$214.6 million, or 27.6%, to \$993.1 million for the six months ended June 30, 2009, as compared to \$778.5 million for the six months ended June 30, 2008. The increase in average interest-bearing deposits was partially offset by a decrease in cost of 44 basis points, or 18.5%, to 1.94%, reflecting lower market interest rates. The increase in interest expense on borrowings was attributable to average balance of borrowings increasing \$67.4 million, or 29.2%, to \$298.5 million for the six months ended June 30, 2009, from \$231.0 million for the six months ended June 30, 2008, and an increased cost of borrowings of nine basis points to 3.62%

**Net Interest Income.** Net interest income increased \$4.5 million, or 20.1%, to \$26.6 million for the six months ended June 30, 2009, from \$22.1 million for the six months ended June 30, 2008. The increase in net interest income was primarily the result of an increase in average interest-earning assets of \$287.0 million, or 20.3%. Net interest margin was 3.15% for each of the six months ended June 30, 2009 and 2008.

**Provision for Loan Losses.** The provision for loan losses for the six months ended June 30, 2009, was \$4.7 million, as compared to \$1.8 million for the prior year period. The increase related to an increase in reserves on impaired loans, loan growth, and increases in general loss factors in response to continued deterioration in general real estate collateral values and weakness in the overall economy. We recorded net charge-offs of \$1.5 million and \$11,000 for the six months ended June 30, 2009 and 2008, respectively.

**Non-interest Income.** Non-interest income decreased \$2.1 million, or 45.9%, to \$2.5 million for the six months ended June 30, 2009, from \$4.6 million for the six months ended June 30, 2008. The decrease in net income was due primarily to a \$2.5 million, nontaxable, death benefit realized on bank owned life insurance in the six months ended June 30, 2008.



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**Non-interest Expense.** Total non-interest expense increased \$4.9 million, or 41.2%, to \$16.8 million for the six months ended June 30, 2009, as compared to \$11.9 million for the six months ended June 30, 2008. The increase was caused, in part, by higher employee compensation and benefits of \$2.0 million, due primarily to costs associated with equity awards granted on January, 30, 2009, higher health care costs, and merit and market salary adjustments effective January 1, 2009. Non-interest expense also was higher due to increased FDIC insurance costs of \$1.4 million, due to higher insurance rates, increased deposit balances subject to these rates, and a special assessment levied on all FDIC-insured institutions, which for us was \$770,000. Occupancy, and furniture and equipment costs also increased \$650,000, and were associated with the Company's new operations center, leases on two new branch locations, and depreciation related to premises renovations, as well as increased maintenance and repairs. Data and item processing costs also were higher by \$162,000 primarily due to costs associated with the Company's conversion to a new data processing system.

**Income Tax Expense.** The Company recorded income tax expense of \$2.6 million and \$3.8 million for the six months ended June 30, 2009, and 2008, respectively. The effective tax rate for the six months ended June 30, 2009, was 35.3%, as compared to 29.4% for the six months ended June 30, 2008. The increase in the effective tax rate was the result of higher level of taxable income in 2009, as compared to 2008. The six months ended June 30, 2008, included \$3.4 million of income from bank owned life insurance as compared to \$871,000 for the six months ended June 30, 2009. Income on bank owned life insurance in 2008 included a \$2.5 million, nontaxable, death benefit.

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**NORTHFIELD BANCORP, INC.**  
**ANALYSIS OF NET INTEREST INCOME**  
(Dollars in thousands)

|   | For the Six Months Ended June 30, |           |                                  |                                   |           |                                  |
|---|-----------------------------------|-----------|----------------------------------|-----------------------------------|-----------|----------------------------------|
|   | 2009                              |           |                                  | 2008                              |           |                                  |
|   | Average<br>Outstanding<br>Balance | Interest  | Average<br>Yield/<br>Rate<br>(1) | Average<br>Outstanding<br>Balance | Interest  | Average<br>Yield/<br>Rate<br>(1) |
| <b>Interest-earning assets:</b>                     |                                   |           |                                  |                                   |           |                                  |
| Loans   | \$ 620,655                        | \$ 17,824 | 5.79%                            | \$ 450,850                        | \$ 14,386 | 6.42%                            |
| Mortgage-backed securities                          | 928,689                           | 22,038    | 4.79                             | 799,242                           | 17,771    | 4.47                             |
| Other securities                                    | 49,733                            | 804       | 3.26                             | 43,396                            | 936       | 4.34                             |
| Federal Home Loan Bank of New York stock            | 7,982                             | 187       | 4.72                             | 11,561                            | 335       | 5.83                             |
| Interest-earning deposits in financial institutions | 94,817                            | 642       | 1.37                             | 109,790                           | 1,984     | 3.63                             |
| Total interest-earning assets                       | 1,701,876                         | 41,495    | 4.92                             | 1,414,839                         | 35,412    | 5.03                             |
| Non-interest-earning assets                         | 90,538                            |           |                                  | 83,519                            |           |                                  |
| Total assets  | \$ 1,792,414                      |           |                                  | \$ 1,498,358                      |           |                                  |
| <b>Interest-bearing liabilities:</b>                |                                   |           |                                  |                                   |           |                                  |
| Savings, NOW, and money market accounts             | \$ 538,278                        | 3,104     | 1.16                             | \$ 396,449                        | 2,146     | 1.09                             |
| Certificates of deposit                             | 454,806                           | 6,439     | 2.86                             | 382,007                           | 7,070     | 3.72                             |
| Total interest-bearing deposits                     | 993,084                           | 9,543     | 1.94                             | 778,456                           | 9,216     | 2.38                             |
| Borrowed funds                                      | 298,455                           | 5,354     | 3.62                             | 231,033                           | 4,058     | 3.53                             |
| Total interest-bearing liabilities                  | 1,291,539                         | 14,897    | 2.33                             | 1,009,489                         | 13,274    | 2.64                             |
| Non-interest bearing deposit accounts               | 96,801                            |           |                                  | 99,446                            |           |                                  |
| Accrued expenses and other liabilities              | 15,076                            |           |                                  | 15,348                            |           |                                  |
| Total liabilities                                   | 1,403,416                         |           |                                  | 1,124,283                         |           |                                  |
| Stockholders equity                                 | 388,998                           |           |                                  | 374,075                           |           |                                  |
|   | \$ 1,792,414                      |           |                                  | \$ 1,498,358                      |           |                                  |

Total liabilities and  
stockholders equity

|   |            |        |            |
|---|------------|--------|------------|
| Net interest income   | \$ 26,598  |        | \$ 22,138  |
| Net interest rate spread (2)  |            | 2.59   | 2.39       |
| Net interest-earning assets<br>(3)                                    | \$ 410,337 |        | \$ 405,350 |
| Net interest margin (4)   |            | 3.15   | 3.15       |
| Average interest-earning<br>assets to interest-bearing<br>liabilities |            | 131.77 | 140.15     |

(1) Average yields and rates for the six months ended June 30, 2009 and 2008, are annualized.

(2) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by

average total  
interest-earning  
assets.

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**Table of Contents****Liquidity and Capital Resources**

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

Our primary sources of funds are deposits, principal and interest payments on loans and securities, borrowed funds, the proceeds from maturing securities and short-term investments, and to a lesser extent the proceeds from the sales of loans and securities and wholesale borrowings. The scheduled amortizations of loans and securities, as well as proceeds from borrowed funds, are predictable sources of funds. Other funding sources, however, such as deposit inflows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition. Northfield Bank is a member of the Federal Home Loan Bank of New York (FHLB), which provides an additional source of short-term and long-term funding. Northfield Bank also has borrowing capabilities with the Federal Reserve on a short-term basis. The Bank's borrowed funds excluding capitalized lease obligations were \$343.3 million at June 30, 2009, at a weighted average interest rate of 2.99%. A total of \$137.0 million of these borrowings will mature in less than one year. Borrowed funds excluding capitalized leases were \$329.8 million at December 31, 2008. The Company has two lines of credit with the FHLB. Each line has a limit of \$100.0 million. At June 30, 2009, the Company has \$200.0 million available for use. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

**Capital Resources.** At June 30, 2009 and December 31, 2008, Northfield Bank exceeded all regulatory capital requirements to which it is subject.

|  | <b>Actual<br/>Ratio</b> | <b>Minimum<br/>Required<br/>for<br/>Capital<br/>Adequacy<br/>Purposes</b> | <b>Minimum<br/>Required to Be<br/>Well<br/>Capitalized<br/>under Prompt<br/>Corrective<br/>Action<br/>Provisions</b> |
|--|-------------------------|---|--|
| As of June 30, 2009:                       |                         |   |  |
| Tangible capital to tangible assets        | 15.53%                  | 1.50%   | NA%  |
| Tier 1 capital (core) (to adjusted assets) | 15.53                   | 4.00  | 5.00   |
| Total capital (to risk-weighted assets)    | 31.41                   | 8.00  | 10.00  |
| As of December 31, 2008:                   |                         |   |  |
| Tangible capital to tangible assets        | 15.98%                  | 1.50%   | NA%  |
| Tier 1 capital (core) (to adjusted assets) | 15.98                   | 4.00  | 5.00   |
| Total capital (to risk-weighted assets)    | 34.81                   | 8.00  | 10.00  |

**Table of Contents****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 June 30, 2009:

| <b>Contractual Obligation</b>                   | <b>Total</b> | <b>Less than<br/>One Year</b> | <b>One to less<br/>than Three<br/>Years<br/>(in<br/>thousands)</b> | <b>Three to<br/>less than<br/>Five Years</b> | <b>Five<br/>Years<br/>and<br/>greater</b> |
|---|--------------|-------------------------------|--|--|---|
| Debt obligations (excluding capitalized leases) | \$353,300    | 137,000                       | 75,000   | 138,800                                      | 2,500                                     |
| Commitments to originate loans                  | \$ 53,345    | 53,345                        |  |  |   |
| Commitments to fund unused lines of credit      | \$ 23,629    | 23,629                        |  |  |   |

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. Commitments generally have a fixed expiration or other termination clauses which may or may not require a 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.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Management's Discussion and Analysis of Financial Condition and Operating Results in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The 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, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, our board of directors has established an Asset Liability Committee (ALCO) and a Management Asset/Liability Committee (MALCO). The MALCO is comprised of our Treasurer, who chairs this Committee, our Chief Executive Officer, our Chief Financial Officer, our Chief Lending Officer, and our Executive Vice President of Operations. The MALCO committee reports to the ALCO committee, which is comprised of four outside directors. These committees are responsible for evaluating the interest rate risk inherent in our assets and liabilities, for recommending to 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 have sought 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 rates of interest, 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 of a range of assumed changes in market interest 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 or decrease of 100, 200, or 300 basis points. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. For example an increase in interest rates from 3% to 4% would mean, 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, or 300 basis points.

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The tables below set forth, as of June 30, 2009, our calculation of the estimated changes in our NPV and 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.

| Change in<br>Interest Rates<br><br>(basis points) | NPV                                     |  |                  | Estimated<br>Change In<br>NPV | Estimated<br>NPV/Present<br>Value of<br>Assets<br>Ratio | Net Interest<br>Income<br>Percent<br>Change |
|---|---|--|------------------|-------------------------------|---|---|
|   | Estimated<br>Present Value<br>of Assets | Estimated<br>Present Value<br>of Liabilities | Estimated<br>NPV |                               |   |   |
| +300  | \$1,747,427                             | \$1,386,159                                  | \$361,268        | \$(73,722)                    | 20.67%  | (7.85)%                                     |
| +200  | 1,791,061                               | 1,407,025                                    | 384,036          | (50,954)                      | 21.44%  | (5.10)%                                     |
| +100  | 1,837,241                               | 1,428,593                                    | 408,648          | (26,342)                      | 22.24%  | (2.36)%                                     |
| 0   | 1,885,888                               | 1,450,898                                    | 434,990          |                               | 23.07%  |   |
| -100  | 1,927,321                               | 1,472,454                                    | 454,867          | 19,877                        | 23.60%  | 2.88%                                       |

The table above indicates that at June 30, 2009, in the event of a 300 basis point increase in interest rates, we would experience a 240 basis point decrease in NPV ratio (20.67% less 23.07%) , and a 7.85% decrease in net interest income. In the event of a 100 basis point decrease in interest rates, we would experience a 53 basis point increase in NPV ratio (23.60% less 23.07%) and a 2.88% increase in net interest income. Our internal policies provide that, in the event of a 300 basis point increase in interest rates, our NPV as a percentage of total market assets should decrease by no more than 400 basis points and our projected net interest income should decrease by no more than 20%. Additionally, our internal policy states that our NPV is targeted to be at least 8.5% of estimated present value of assets. As of June 30, 2009, we were within the Board approved policy.

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 June 30, 2009. 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 June 30, 2009, 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.

Table of Contents**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**

In addition to the other information contained in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2008, as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factor set forth below also is a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

**Any Future FDIC Insurance Premiums Will Adversely Impact Our Earnings.**

On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The special assessment is payable on September 30, 2009. We recorded an expense of \$770,000 during the quarter ended June 30, 2009, to reflect the special assessment. The final rule permits the FDIC's Board of Directors to levy up to two additional special assessments of up to five basis points each during 2009 if the FDIC estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the FDIC's Board of Directors believes would adversely affect public confidence or to a level that will be close to or below zero. The FDIC has publicly announced that it is probable that it will levy an additional special assessment of up to five basis points later in 2009, the amount and timing of which are currently uncertain. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period.

**We Hold Certain Intangible Assets that Could Be Classified as Impaired in The Future. If These Assets Are Considered To Be Either Partially or Fully Impaired in the Future, Our Earnings and the Book Values of These Assets Would Decrease**

Pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*, we are required to test our goodwill and core deposit intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. It is possible that future impairment testing could result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our shares of common stock or our regulatory capital levels.

**A Legislative Proposal Has Been Introduced That Would Eliminate our Primary Federal Regulator, Require the Bank to Convert to a National Bank or State Bank, and Require Northfield Bancorp, MHC and the Company to Become Bank Holding Companies.**

The U.S. Treasury Department recently released a legislative proposal that would implement significant changes to the current bank regulatory structure. The proposal would create a new federal banking regulator, the National Bank Supervisor, and merge our current primary federal regulator, the Office of Thrift Supervision, as well as the Office of the Comptroller of the Currency (the primary federal regulator for national banks) into this new federal bank regulator. The proposal would also eliminate federal savings banks and require all federal savings banks, such as the Bank, to elect, within six months of the effective date of the legislation, to convert to either a national bank, state bank or state savings bank. A federal savings bank that does not make the election would, by operation of law, be converted into a national bank within one year of the effect date of the legislation.



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If the Bank is required to convert to a national bank, Northfield Bancorp, MHC and the Company would become bank holding companies subject to supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve ) as opposed to the Office of Thrift Supervision. The Federal Reserve has historically looked to Office of Thrift Supervision regulations in its regulation of mutual holding companies and processing of mutual holding company applications; however, it is not obligated to follow such regulations. One important Office of Thrift Supervision regulation that the Federal Reserve does not follow relates to the ability of mutual holding companies to waive the receipt of dividends declared on the common stock of their stock holding company or savings bank subsidiaries. While Office of Thrift Supervision regulations permit mutual holding companies to waive the receipt of dividends, subject to filing a notice with the Office of Thrift Supervision and receiving its non-objection, the Federal Reserve's current policy is to prohibit mutual holding companies from waiving the receipt of dividends so long as the subsidiary savings bank is well capitalized. Moreover, Office of Thrift Supervision regulations provide that it will not take into account the amount of waived dividends in determining an appropriate exchange ratio for minority shares in the event of the conversion of a mutual holding company to stock form. If the Office of Thrift Supervision is eliminated, the Federal Reserve becomes the exclusive regulator of mutual holding companies, and the Federal Reserve retains its current policy regarding dividend waivers by mutual holding companies, Northfield Bancorp, MHC would not be permitted to waive the receipt of dividends declared by the Company. This could have an adverse impact on the Company's financial condition and, consequently, could have an adverse impact on the value of our common stock.

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

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

The following table shows the Company's repurchase of its common stock for each calendar month in the three months ended June 30, 2009.

| Period | Total Number<br>of<br>Shares<br>Repurchased | Average Price<br>Paid<br>Per Share | Total Number of<br>Shares<br>Purchased as Part of<br>Publicly<br>Announced Plan |
|--------|---|------------------------------------|---|
| April  | 78,600                                      | 11.02                              | 78,600  |
| May    | 177,100                                     | 10.77                              | 177,100   |
| June   | 139,100                                     | 11.02                              | 139,100   |
|        | 394,800                                     | \$ 10.91                           | 394,800   |

- (1) On February 13, 2009, the Board of Directors of the Company authorized a stock repurchase program pursuant to which the

Company intends to repurchase up to 2,240,153 shares, representing approximately 5% of its outstanding shares. This program has no expiration date and has 1,467,803 yet to be purchased at June 30, 2009.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The 2009 Annual Meeting of Stockholders was held on May 27, 2009 (the Annual Meeting ). The matters considered and voted on by the Company s stockholders at the Annual Meeting and the vote of stockholders were as follows:

Matter 1. The election of three directors, each for a three-year term.

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| NAME   | FOR        | WITHHELD |
|--|------------|----------|
| Susan Lamberti   | 40,308,781 | 387,093  |
| Albert J. Regen  | 40,377,148 | 318,726  |
| Patrick E. Scura, Jr.  | 40,346,092 | 349,782  |
| Matter 2. The approval of the Northfield Bancorp, Inc. Management Cash Incentive Plan. |            |          |

| FOR   | AGAINST   | ABSTAIN | BROKER<br>NON-VOTES |
|---|-----------|---------|---------------------|
| 39,481,771  | 1,065,525 | 148,578 | NONE                |
| Matter 3. The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the year ending December 31, 2009. |           |         |                     |

| FOR        | AGAINST | ABSTAIN | BROKER<br>NON-VOTES |
|------------|---------|---------|---------------------|
| 40,458,130 | 168,207 | 69,537  | NONE                |

**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: August 10, 2009

/s/ John W. Alexander  
John W. Alexander  
Chairman, President and Chief Executive Officer

/s/ Steven M. Klein  
Steven M. Klein  
Executive Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

| Exhibit<br>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, Executive Vice President 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, Executive Vice President 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. |