

Northfield Bancorp, Inc.  
Form 10-Q  
May 10, 2013

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 March 31, 2013

or

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

For transition period from                      to

Commission File Number 1-35791

NORTHFIELD BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation)

80-0882592  
(I.R.S. Employer Identification No.)

581 Main Street, Woodbridge, New Jersey 07095  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (732) 499-7200

Not Applicable

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

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

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

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

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

Large accelerated filer  Accelerated  
filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting  
company

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

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

58,205,172 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of May 3, 2013.

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NORTHFIELD BANCORP, INC.

Form 10-Q Quarterly Report

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## PART I

## ITEM 1 FINANCIAL STATEMENTS

## NORTHFIELD BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS

March 31, 2013, and December 31, 2012

(In thousands, except share amounts)

|   | March 31, 2013<br>(Unaudited) | December 31,<br>2012 |
|---|-------------------------------|----------------------|
| <b>ASSETS:</b>  |                               |                      |
| Cash and due from banks   | \$ 22,631                     | \$ 25,354            |
| Interest-bearing deposits in other financial institutions   | 43,288                        | 103,407              |
| Total cash and cash equivalents   | 65,919                        | 128,761              |
| Trading securities  | 5,161                         | 4,677                |
| Securities available-for-sale, at estimated fair value<br>(encumbered \$257,544 in 2013 and \$254,190 in 2012)          | 1,336,772                     | 1,275,631            |
| Securities held-to-maturity, at amortized cost (estimated fair value of \$2,309 in<br>2012)<br>(encumbered \$0 in 2012) | -                             | 2,220                |
| Loans held-for-sale   | -                             | 5,447                |
| Purchased credit-impaired (PCI) loans held-for-investment   | 71,406                        | 75,349               |
| Loans acquired  | 97,038                        | 101,433              |
| Originated loans held-for-investment, net   | 1,085,526                     | 1,066,200            |
| Loans held-for-investment, net  | 1,253,970                     | 1,242,982            |
| Allowance for loan losses   | (26,316)                      | (26,424)             |
| Net loans held-for-investment   | 1,227,654                     | 1,216,558            |
| Accrued interest receivable   | 8,308                         | 8,154                |
| Bank owned life insurance   | 93,614                        | 93,042               |
| Federal Home Loan Bank of New York stock, at cost   | 11,679                        | 12,550               |
| Premises and equipment, net   | 30,386                        | 29,785               |
| Goodwill  | 16,159                        | 16,159               |
| Other real estate owned   | 870                           | 870                  |
| Other assets  | 47,108                        | 19,347               |
| Total assets  | \$ 2,843,630                  | \$ 2,813,201         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>  |                               |                      |
| <b>LIABILITIES:</b>   |                               |                      |
| Deposits  | \$ 1,624,554                  | \$ 1,956,860         |
| Securities sold under agreements to repurchase  | 226,000                       | 226,000              |
| Other borrowings  | 173,504                       | 193,122              |

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|  |              |              |
|--|--------------|--------------|
| Advance payments by borrowers for taxes and insurance  | 5,944        | 3,488        |
| Accrued expenses and other liabilities   | 69,600       | 18,858       |
| Total liabilities  | 2,099,602    | 2,398,328    |
| <b>STOCKHOLDERS' EQUITY:</b>   |              |              |
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued or outstanding  | -            | -            |
| Common stock, \$0.01 par value: 150,000,000 shares authorized, 58,202,819 and 46,904,286 shares issued at March 31, 2013, and December 31, 2012, respectively, 58,202,819 and 41,486,819 outstanding at March 31, 2013 and December 31, 2012, respectively | 582          | 469          |
| Additional paid-in-capital   | 505,658      | 230,253      |
| Unallocated common stock held by employee stock ownership plan   | (27,957)     | (13,965)     |
| Retained earnings  | 251,404      | 249,892      |
| Accumulated other comprehensive income   | 14,341       | 18,231       |
| Treasury stock at cost; 0 and 5,417,467 shares at March 31, 2013 and December 31, 2012, respectively   | -            | (70,007)     |
| Total stockholders' equity   | 744,028      | 414,873      |
| Total liabilities and stockholders' equity   | \$ 2,843,630 | \$ 2,813,201 |

See accompanying notes to consolidated financial statements.

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NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, 2013, and 2012

(Unaudited)

(In thousands, except share data)

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2013                         | 2012      |
| Interest income:  |                              |           |
| Loans   | \$ 16,487                    | \$ 15,150 |
| Mortgage-backed securities                                      | 6,392                        | 6,776     |
| Other securities  | 441                          | 653       |
| Federal Home Loan Bank of New York dividends                    | 156                          | 142       |
| Deposits in other financial institutions                        | 40                           | 18        |
| Total interest income   | 23,516                       | 22,739    |
| Interest expense:   |                              |           |
| Deposits  | 2,138                        | 2,524     |
| Borrowings  | 2,613                        | 3,290     |
| Total interest expense  | 4,751                        | 5,814     |
| Net interest income   | 18,765                       | 16,925    |
| Provision for loan losses                                       | 277                          | 615       |
| Net interest income after provision for loan losses             | 18,488                       | 16,310    |
| Non-interest income:  |                              |           |
| Fees and service charges for customer services                  | 711                          | 802       |
| Income on bank owned life insurance                             | 765                          | 719       |
| Gain on securities transactions, net                            | 1,813                        | 2,137     |
| Other-than-temporary impairment losses on securities            | (72)                         | -         |
| Portion recognized in other comprehensive income (before taxes) | -                            | -         |
| Net impairment losses on securities recognized in earnings      | (72)                         | -         |
| Other   | 39                           | 317       |
| Total non-interest income                                       | 3,256                        | 3,975     |
| Non-interest expense:   |                              |           |
| Compensation and employee benefits                              | 6,912                        | 6,287     |
| Occupancy   | 2,402                        | 1,965     |
| Furniture and equipment   | 429                          | 333       |
| Data processing   | 1,596                        | 1,083     |
| Professional fees   | 746                          | 858       |
| FDIC insurance  | 387                          | 426       |
| Other   | 1,894                        | 1,690     |
| Total non-interest expense                                      | 14,366                       | 12,642    |

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|   |         |         |         |       |
|---|---------|---------|---------|-------|
| Income before income tax expense  | 7,378   |         | 7,643   |       |
| Income tax expense  | 2,586   |         | 2,695   |       |
| Net income  | \$      | 4,792   | \$      | 4,948 |
| Net income per common share - basic and diluted   | \$      | 0.09    | \$      | 0.09  |
| Other comprehensive (loss) income:  |         |         |         |       |
| Unrealized (losses) gains on securities:  |         |         |         |       |
| Net unrealized holding (losses) gains on securities   | \$      | (4,914) | \$      | 1,792 |
| Less: reclassification adjustment for gains included in net income (included in gain on securities transactions, net) | (1,570) |         | (1,741) |       |
| Net unrealized (losses) gains   | (6,484) |         | 51      |       |
| Reclassification adjustment for OTTI impairment included in net income (included OTTI losses on securities)           | 72      |         | -       |       |
| Other comprehensive (loss) income , before tax  | (6,412) |         | 51      |       |
| Income tax (benefit) expense related to net unrealized holding (losses) gains on securities                           | (1,923) |         | 718     |       |
| Income tax expense related to reclassification adjustment for gains included in net income                            | (628)   |         | (696)   |       |
| Income tax benefit related to reclassification adjustment for OTTI impairment included in net income                  | 29      |         | -       |       |
| Other comprehensive (loss) income, net of tax   | (3,890) |         | 30      |       |
| Comprehensive income  | \$      | 902     | \$      | 4,978 |

See accompanying notes to consolidated financial statements.



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NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Three months ended March 31, 2013, and 2012

(Unaudited)

(In thousands, except share data)

|  | Common Stock<br>Shares | Par<br>Value | Additional<br>Paid-in<br>Capital | Unallocated<br>Common Stock<br>Held by the<br>Employee Stock<br>Ownership Plan | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss),<br>Net of tax |
|--|------------------------|--------------|----------------------------------|--|----------------------|---|
| Balance at<br>December 31,<br>2011                         | 45,632,611             | \$           | 456                              | \$ 209,302   | \$ (14,570)          | \$ 235,776  |
| Comprehensive<br>income:                                   |                        |              |                                  |  |                      |   |
| Net income   |                        |              |                                  |  | 4,948                |   |
| Other<br>comprehensive<br>income, net of<br>tax            |                        |              |                                  |  |                      | 30  |
| ESOP shares<br>allocated or<br>committed to<br>be released |                        |              | 63                               | 146  |                      |   |
| Stock<br>compensation<br>expense                           |                        |              | 756                              |  |                      |   |
| Cash dividends<br>declared (\$0.09<br>per common<br>share) |                        |              |                                  |  | (1,718)              |   |
| Treasury stock<br>(average cost of<br>\$9.84 per<br>share) |                        |              |                                  |  |                      |   |

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|  |              |       |     |          |          |    |          |         |         |    |   |
|--|--------------|-------|-----|----------|----------|----|----------|---------|---------|----|---|
| Balance at<br>March 31, 2012                               | 245,632,611  | \$    | 456 | \$       | 210,121  | \$ | (14,424) | \$      | 239,006 | \$ | 1 |
| Balance at<br>December 31,<br>2012                         | 46,904,286   | \$    | 469 | \$       | 230,253  | \$ | (13,965) | \$      | 249,892 | \$ | 1 |
| Comprehensive<br>income:                                   |              |       |     |          |          |    |          |         |         |    |   |
| Net income   |              |       |     |          |          |    | 4,792    |         |         |    |   |
| Other<br>comprehensive<br>income, net of<br>tax            |              |       |     |          |          |    |          |         | (3,890) |    |   |
| ESOP shares<br>allocated or<br>committed to<br>be released |              |       |     | 96       | 232      |    |          |         |         |    |   |
| Stock<br>compensation<br>expense                           |              |       |     | 786      |          |    |          |         |         |    |   |
| Additional tax<br>benefit on<br>equity awards              |              |       |     | 296      |          |    |          |         |         |    |   |
| Corporate<br>reorganization:                               |              |       |     |          |          |    |          |         |         |    |   |
| Merger of<br>Northfield<br>Bancorp, MHC                    | (24,641,684) | (246) |     | 370      |          |    |          |         |         |    |   |
| Exchange of<br>common stock                                | (16,845,135) | (169) |     | 169      |          |    |          |         |         |    |   |
| Treasury stock<br>retired                                  | (5,417,467)  | (54)  |     | (69,953) |          |    |          |         |         |    |   |
| Proceeds of<br>stock offering,<br>net of costs             | 58,199,819   | 582   |     | 329,396  |          |    |          |         |         |    |   |
| Purchase of<br>common stock<br>by ESOP                     |              |       |     | 14,224   | (14,224) |    |          |         |         |    |   |
| Exercise of<br>stock options                               | 3,000        |       |     | 21       |          |    |          |         |         |    |   |
| Cash dividends<br>declared (\$0.06<br>per common<br>share) |              |       |     |          |          |    |          | (3,280) |         |    |   |
| Balance at<br>March 31, 2013                               | 58,202,819   | \$    | 582 | \$       | 505,658  | \$ | (27,957) | \$      | 251,404 | \$ | 1 |

See accompanying notes to consolidated financial statements.

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## NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 2013, and 2012

(Unaudited) (In thousands)

|  | 2013      | 2012      |
|--|-----------|-----------|
| Cash flows from operating activities:  |           |           |
| Net income   | \$ 4,792  | \$ 4,948  |
| Adjustments to reconcile net income to net cash provided by operating activities:                          |           |           |
| Provision for loan losses  | 277       | 615       |
| ESOP and stock compensation expense  | 1,114     | 965       |
| Depreciation   | 855       | 632       |
| Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees | 889       | 286       |
| Amortization intangible assets   | 112       | 82        |
| Income on bank owned life insurance  | (765)     | (719)     |
| Net gain on sale of loans held-for-sale  | (13)      | (117)     |
| Proceeds from sale of loans held-for-sale  | 6,992     | 7,324     |
| Origination of loans held-for-sale   | (1,532)   | (3,911)   |
| Gain on securities transactions, net   | (1,813)   | (2,137)   |
| Net purchases of trading securities  | (241)     | (35)      |
| (Increase) decrease in accrued interest receivable   | (154)     | 801       |
| (Increase) decrease in other assets  | (1,671)   | 3,623     |
| Increase in accrued expenses and other liabilities   | 4,189     | 2,790     |
| Net cash provided by operating activities  | 13,031    | 15,147    |
| Cash flows from investing activities:  |           |           |
| Net (increase) decrease in loans receivable  | (12,018)  | 30,667    |
| Redemptions of Federal Home Loan Bank of New York stock, net   | 871       | 225       |
| Purchases of securities available-for-sale   | (192,112) | (278,784) |
| Principal payments and maturities on securities available-for-sale   | 123,644   | 115,669   |
| Principal payments and maturities on securities held-to-maturity   | 2,219     | 294       |
| Proceeds from sale of securities available-for-sale  | 25,115    | 98,744    |
| Death benefits received from bank owned life insurance   | 193       | -         |
| Proceeds from sale of other real estate owned  | -         | 991       |
| Purchases and improvements of premises and equipment   | (1,456)   | (2,822)   |
| Net cash used in investing activities  | (53,544)  | (35,016)  |
| Cash flows from financing activities:  |           |           |
| Net (decrease) increase in deposits  | (42,752)  | 6,966     |
| Dividends paid   | (3,280)   | (1,718)   |
| Net proceeds from sale of common stock   | 54,648    | -         |
| Merger of Northfield Bancorp, MHC  | 124       | -         |
| Purchase of common stock for ESOP  | (14,224)  | -         |
| Exercise of stock options  | 21        | -         |

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|   |           |           |
|---|-----------|-----------|
| Purchase of treasury stock  | -         | (1,716)   |
| Additional tax benefit on equity awards   | 296       | -         |
| Increase in advance payments by borrowers for taxes and insurance                         | 2,456     | 1,720     |
| Repayments under capital lease obligations  | (68)      | (59)      |
| Proceeds from securities sold under agreements to repurchase and other borrowings         | -         | 64,244    |
| Repayments related to securities sold under agreements to repurchase and other borrowings | (19,550)  | (69,000)  |
| Net cash (used in) provided by financing activities                                       | (22,329)  | 437       |
| Net decrease in cash and cash equivalents   | (62,842)  | (19,432)  |
| Cash and cash equivalents at beginning of period  | 128,761   | 65,269    |
| Cash and cash equivalents at end of period  | \$ 65,919 | \$ 45,837 |
| Supplemental cash flow information:   |           |           |
| Cash paid during the period for:  |           |           |
| Interest  | \$ 4,780  | \$ 5,989  |
| Income taxes  | 4,096     | 104       |
| Non-cash transactions:  |           |           |
| Loans charged-off, net  | 385       | 351       |
| Increase in due to broker from the purchases of securities available-for-sale             | 22,944    | 19,762    |
| Increase in due from broker from the sale of securities available-for-sale                | 46,553    | -         |
| Deposits utilized to purchase common stock  | 289,554   | -         |

See accompanying notes to consolidated financial statements.

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NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

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

In the opinion of management, all adjustments (consisting solely of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three months ended March 31, 2013, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2013. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for the preparation of interim financial statements. The consolidated financial statements presented should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012, of Northfield Bancorp, Inc. as filed with the SEC.

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

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

Note 2 – Securities

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

|   | March 31, 2013    |                              |                               |                            |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
|   | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair<br>value |
| Mortgage-backed securities:                           |                   |                              |                               |                            |
| Pass-through certificates:                            |                   |                              |                               |                            |
| Government sponsored enterprises (GSE)                | \$ 438,544        | \$ 18,454                    | \$ 448                        | \$ 456,550                 |
| Real estate mortgage investment conduits<br>(REMICs): |                   |                              |                               |                            |
| GSE   | 685,784           | 6,331                        | 731                           | 691,384                    |
| Non-GSE   | 6,678             | 225                          | 30                            | 6,873                      |
|   | 1,131,006         | 25,010                       | 1,209                         | 1,154,807                  |
| Other securities:                                     |                   |                              |                               |                            |
| GSE bonds   | 55,542            | 1                            | -                             | 55,543                     |
| Equity investments-mutual funds                       | 14,410            | -                            | -                             | 14,410                     |
| Corporate bonds                                       | 111,444           | 614                          | 46                            | 112,012                    |
|   | 181,396           | 615                          | 46                            | 181,965                    |
| Total securities available-for-sale                   | \$ 1,312,402      | \$ 25,625                    | \$ 1,255                      | \$ 1,336,772               |

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

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at March 31, 2013 (in thousands):

| Available-for-sale                    | Amortized cost | Estimated fair value |
|---------------------------------------|----------------|----------------------|
| Due in one year or less               | \$ 22,749      | \$ 22,913            |
| Due after one year through five years | 144,237        | 144,643              |
|                                       | \$ 166,986     | \$ 167,555           |

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

For the three months ended March 31, 2013, the Company had gross proceeds of \$25.1 million on sales of securities available-for-sale with gross realized gains of approximately \$1.6 million and gross realized losses of \$55,000. For the three months ended March 31, 2012, the Company had gross proceeds of \$98.7 million on sales of securities available-for-sale with gross realized gains of approximately \$1.7 million and no gross realized losses. The Company recognized \$243,000 in gains on its trading securities portfolio during the three months ended March 31, 2013. The



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Company recognized \$396,000 in gains on its trading securities portfolio during the three months ended March 31, 2012. The Company recognized \$72,000 of other-than-temporary impairment charges during the three months ended March 31, 2013 and did not recognize any other-than-temporary impairment charges during the three months ended March 31, 2012.

Activity related to the credit component recognized in earnings on debt securities for which a portion of other-than-temporary impairment was recognized in accumulated other comprehensive income for the three months ended March 31, 2013 and 2012, is as follows (in thousands):

|   | Three months ended<br>March 31, |        |  |
|---|---------------------------------|--------|--|
|   | 2013                            | 2012   |  |
| Balance, beginning of period  | \$ -                            | \$ 578 |  |
| Additions to the credit component on debt securities in which other-than-temporary impairment was not previously recognized | -                               | -      |  |
| Cumulative pre-tax credit losses, end of period   | \$ -                            | \$ 578 |  |

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Gross unrealized losses on mortgage-backed securities, equity investments, and corporate bonds available-for-sale, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2013, and December 31, 2012, were as follows (in thousands):

|                             | March 31, 2013                              |                         | 12 months or more    |                         | Total                |                         |
|-----------------------------|---|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                             | Less than 12 months<br>Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value |
| Mortgage-backed securities: |   |                         |                      |                         |                      |                         |
| Pass-through certificates:  |   |                         |                      |                         |                      |                         |
| GSE                         | \$ 448                                      | \$ 73,576               | \$ -                 | \$ -                    | \$ 448               | \$ 73,576               |
| REMICs:                     |   |                         |                      |                         |                      |                         |
| GSE                         | 681   | 79,488                  | 50                   | 35,186                  | 731                  | 114,674                 |
| Non-GSE                     | -   | -                       | 30                   | 552                     | 30                   | 552                     |
| Other securities:           |   |                         |                      |                         |                      |                         |
| Corporate bonds             | 46  | 52,724                  | -                    | -                       | 46                   | 52,724                  |
| Total                       | \$ 1,175                                    | \$ 205,788              | \$ 80                | \$ 35,738               | \$ 1,255             | \$ 241,526              |

|                             | December 31, 2012                           |                         | 12 months or more    |                         | Total                |                         |
|-----------------------------|---|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                             | Less than 12 months<br>Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value |
| Mortgage-backed securities: |   |                         |                      |                         |                      |                         |
| Pass-through certificates:  |   |                         |                      |                         |                      |                         |
| GSE                         | \$ 99                                       | \$ 14,156               | \$ -                 | \$ -                    | \$ 99                | \$ 14,156               |
| REMICs:                     |   |                         |                      |                         |                      |                         |
| GSE                         | 58  | 100,310                 | 4                    | 7,633                   | 62                   | 107,943                 |
| Non-GSE                     | -   | -                       | 33                   | 604                     | 33                   | 604                     |
| Total                       | \$ 157                                      | \$ 114,466              | \$ 37                | \$ 8,237                | \$ 194               | \$ 122,703              |

The Company held six REMIC's mortgage-backed securities issued or guaranteed by GSEs and one REMIC mortgage-backed security not issued or guaranteed by GSEs that were in a continuous unrealized loss position of greater than twelve months at March 31, 2013. There were 62 pass-through mortgage-backed securities issued or guaranteed by GSEs, seven REMIC mortgage-backed securities issued or guaranteed by GSEs and nine corporate bonds that were in an unrealized loss position of less than twelve months, and rated investment grade at March 31, 2013. The declines in value relate to the general interest rate environment and are considered temporary. The

securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

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

Note 3 – Loans

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

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Real estate loans:                              |                   |                      |
| Multifamily                                     | \$ 629,214        | \$ 610,129           |
| Commercial mortgage                             | 314,265           | 315,450              |
| One-to-four family residential mortgage         | 66,816            | 64,733               |
| Home equity and lines of credit                 | 33,950            | 33,573               |
| Construction and land                           | 23,296            | 23,243               |
| Total real estate loans                         | 1,067,541         | 1,047,128            |
| Commercial and industrial loans                 | 14,718            | 14,786               |
| Other loans                                     | 1,291             | 1,830                |
| Total commercial and industrial and other loans | 16,009            | 16,616               |
| Deferred loan cost, net                         | 1,976             | 2,456                |
| Originated loans held-for-investment, net       | 1,085,526         | 1,066,200            |
| PCI Loans                                       | 71,406            | 75,349               |
| Loans acquired:                                 |                   |                      |
| Multifamily                                     | 5,235             | 5,763                |
| Commercial mortgage                             | 16,133            | 17,053               |
| One-to-four family residential mortgage         | 75,670            | 78,617               |
| Total loans acquired                            | 97,038            | 101,433              |
| Loans held for investment, net                  | 1,253,970         | 1,242,982            |
| Allowance for loan losses                       | (26,316)          | (26,424)             |
| Net loans held-for-investment                   | \$ 1,227,654      | \$ 1,216,558         |



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Loans held-for-sale amounted to \$0 and \$5.4 million at March 31, 2013 and December 31, 2012, respectively.

PCI loans, primarily acquired as part of a Federal Deposit Insurance Corporation-assisted transaction, totaled \$71.4 million at March 31, 2013 as compared to \$75.3 million at December 31, 2012. The Company accounts for PCI loans utilizing generally accepting accounting principles applicable to loans acquired with deteriorated credit quality. PCI loans consist of approximately 37% commercial real estate and 49% commercial and industrial loans, with the remaining balance in residential and home equity loans. The following details the accretable yield for the periods indicated:

|                                    | For the Three Months Ended March 31,<br>2013 | For the Three Months Ended March 31,<br>2012 |
|------------------------------------|--|--|
| Balance at the beginning of period | \$ 43,431                                    | \$ 42,493                                    |
| Accretion into interest income     | (1,523)                                      | (1,620)                                      |
| Balance at end of period           | \$ 41,908                                    | \$ 40,873                                    |

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

|                           | At or for the three months ended<br>March 31, |           |
|---------------------------|---|-----------|
|                           | 2013  | 2012      |
| Beginning balance         | \$ 26,424                                     | \$ 26,836 |
| Provision for loan losses | 277   | 615       |
| Charge-offs, net          | (385)   | (351)     |
| Ending balance            | \$ 26,316                                     | \$ 27,100 |

The following tables set forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2013 and the year ended December 31, 2012. The following tables also detail the amount of originated and acquired loans held-for-investment, net of deferred loan fees and costs, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, as of March 31, 2013 and December 31, 2012 (in thousands). There was no related allowance for acquired loans as of March 31, 2013 and December 31, 2012.



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|  | March 31, 2013 |                         |                          |    |             |    |                                    |                          |  |
|--|----------------|-------------------------|--------------------------|----|-------------|----|------------------------------------|--------------------------|--|
|  | Real Estate    |                         |                          |    |             |    |                                    |                          |  |
|  | Commercial     | One -to- Four<br>Family | Construction and<br>Land |    | Multifamily |    | Home Equity and<br>Lines of Credit | Commercial<br>Industrial |  |
| Allowance<br>for loan<br>losses:                                     |                |                         |                          |    |             |    |                                    |                          |  |
| Beginning  |                |                         |                          |    |             |    |                                    |                          |  |
| Balance  | \$ 13,343      | \$ 623                  | \$ 994                   | \$ | \$ 7,086    | \$ | \$ 623                             | \$                       |  |
| Charge-offs (278)  |                | -                       | -                        |    | -           |    | (96)                               | -                        |  |
| Recoveries 7   |                | -                       | -                        |    | 5           |    | -                                  | -                        |  |
| Provisions (474)   |                | 45                      | 16                       |    | 64          |    | 308                                | 199                      |  |
| Ending<br>Balance  | \$ 12,598      | \$ 668                  | \$ 1,010                 | \$ | \$ 7,155    | \$ | \$ 835                             | \$                       |  |
| Ending<br>balance:<br>individually<br>evaluated<br>for<br>impairment | \$ 1,476       | \$ 21                   | \$ -                     | \$ | \$ 307      | \$ | \$ 234                             | \$                       |  |
| Ending<br>balance:<br>collectively<br>evaluated<br>for<br>impairment | \$ 11,122      | \$ 647                  | \$ 1,010                 | \$ | \$ 6,848    | \$ | \$ 601                             | \$                       |  |
| Originated<br>loans, net:<br>Ending<br>Balance                       | \$ 314,459     | \$ 67,337               | \$ 23,312                | \$ | \$ 630,475  | \$ | \$ 33,909                          | \$                       |  |
| Ending<br>balance:<br>individually<br>evaluated<br>for<br>impairment | \$ 38,065      | \$ 2,519                | \$ 2,085                 | \$ | \$ 2,132    | \$ | \$ 1,843                           | \$                       |  |
| Ending<br>balance:   | \$ 276,394     | \$ 64,818               | \$ 21,227                | \$ | \$ 628,343  | \$ | \$ 32,066                          | \$                       |  |

collectively  
evaluated  
for  
impairment

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



Ending  
balance:  
collectively  
evaluated  
for

|               |         |    |        |    |        |    |         |    |        |    |
|---------------|---------|----|--------|----|--------|----|---------|----|--------|----|
| impairment \$ | 274,035 | \$ | 63,293 | \$ | 23,255 | \$ | 609,429 | \$ | 31,936 | \$ |
|---------------|---------|----|--------|----|--------|----|---------|----|--------|----|

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

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

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

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

Loans rated 1 through 5 are considered pass ratings. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable based on current circumstances. Assets classified

as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets which do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are designated special mention.

The following tables detail the recorded investment of originated loans held-for-investment, net of deferred fees and costs, by loan type and credit quality indicator at March 31, 2013, and December 31, 2012 (in thousands).

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At March 31, 2013

Real Estate

|   | Multifamily |            | Commercial |            | One- to Four-Family |            |
|---|-------------|------------|------------|------------|---------------------|------------|
|   | < 35% LTV   | => 35% LTV | < 35% LTV  | => 35% LTV | < 60% LTV           | => 60% LTV |
| Internal Risk Rating                            |             |            |            |            |                     |            |
| Pass  | \$ 22,223   | \$ 591,522 | \$ 32,265  | \$ 213,392 | \$ 31,465           | \$ 30,     |
| Special Mention                                 | 326         | 10,389     | 170        | 29,684     | 1,412               | 381        |
| Substandard                                     | 505         | 5,510      | 1,689      | 37,259     | 1,060               | 3,019      |
| Originated loans<br>held-for-investment,<br>net | \$ 23,054   | \$ 607,421 | \$ 34,124  | \$ 280,335 | \$ 33,937           | \$ 33,     |

At December 31, 2012

Real Estate

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



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Included in originated and acquired loans receivable (including held-for-sale) are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment of these nonaccrual loans was \$26.5 million and \$34.9 million at March 31, 2013 and December 31, 2012, respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.

These non-accrual amounts included loans deemed to be impaired of \$22.4 million and \$26.0 million at March 31, 2013 and December 31, 2012, respectively. Loans on non-accrual status with principal balances less than \$500,000, and therefore not meeting the Company's definition of an impaired loan, amounted to \$4.1 million at both March 31, 2013 and December 31, 2012. Non-accrual amounts included in loans held-for-sale were \$5.4 million at December 31, 2012. There were no non-accrual loans held-for-sale at March 31, 2013. Loans past due 90 days or more and still accruing interest were \$1.5 million and \$621,000 at March 31, 2013 and December 31, 2012, respectively, and consisted of loans that are considered well secured and in the process of collection.

The following tables set forth the detail, and delinquency status, of non-performing loans (non-accrual loans and loans past due 90 or more and still accruing), net of deferred fees and costs, at March 31, 2013 and December 31, 2012 (in thousands). The following table excludes PCI loans at March 31, 2013 and December 31, 2012, which have been segregated into pools in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 310-30. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. At March 31, 2013, expected future cash flows of each PCI loan pool were consistent with those estimated in our most recent recast of the cash flows.

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|  | At March 31, 2013     |                        |                                |          |   |                                  |
|--|-----------------------|------------------------|--------------------------------|----------|---|----------------------------------|
|  | Non-Accruing Loans    |                        |                                |          |   |                                  |
|  | 0-29 Days<br>Past Due | 30-89 Days<br>Past Due | 90 Days or<br>More Past<br>Due | Total    | 90 Days or<br>More Past Due<br>and Accruing | Total<br>Non-Performing<br>Loans |
| Loans<br>held-for-investment:            |                       |                        |                                |          |   |                                  |
| Real estate loans:                       |                       |                        |                                |          |   |                                  |
| Commercial                               |                       |                        |                                |          |   |                                  |
| LTV < 35%                                |                       |                        |                                |          |   |                                  |
| Substandard                              | \$ 1,689              | \$ -                   | \$ -                           | \$ 1,689 | \$ -  | \$ 1,689                         |
| Total                                    | 1,689                 | -                      | -                              | 1,689    | -   | 1,689                            |
| LTV => 35%                               |                       |                        |                                |          |   |                                  |
| Substandard                              | 8,241                 | 6,095                  | 2,629                          | 16,965   | -   | 16,965                           |
| Total                                    | 8,241                 | 6,095                  | 2,629                          | 16,965   | -   | 16,965                           |
| Total commercial                         | 9,930                 | 6,095                  | 2,629                          | 18,654   | -   | 18,654                           |
| One-to-four family<br>residential        |                       |                        |                                |          |   |                                  |
| LTV < 60%                                |                       |                        |                                |          |   |                                  |
| Special Mention                          | -                     | 18                     | 229                            | 247      | 37  | 284                              |
| Substandard                              | -                     | 427                    | -                              | 427      | 189   | 616                              |
| Total                                    | -                     | 445                    | 229                            | 674      | 226   | 900                              |
| LTV => 60%                               |                       |                        |                                |          |   |                                  |
| Substandard                              | 233                   | 199                    | 1,438                          | 1,870    | 901   | 2,771                            |
| Total                                    | 233                   | 199                    | 1,438                          | 1,870    | 901   | 2,771                            |
| Total one-to-four<br>family residential  | 233                   | 644                    | 1,667                          | 2,544    | 1,127                                       | 3,671                            |
| Construction and land                    |                       |                        |                                |          |   |                                  |
| Substandard                              | 2,085                 | -                      | -                              | 2,085    | -   | 2,085                            |
| Total construction and<br>land           | 2,085                 | -                      | -                              | 2,085    | -   | 2,085                            |
| Multifamily                              |                       |                        |                                |          |   |                                  |
| LTV => 35%                               |                       |                        |                                |          |   |                                  |
| Substandard                              | -                     | -                      | 279                            | 279      | -   | 279                              |
| Total multifamily                        | -                     | -                      | 279                            | 279      | -   | 279                              |
| Home equity and lines<br>of credit       |                       |                        |                                |          |   |                                  |
| Substandard                              | 106                   | -                      | 1,491                          | 1,597    | -   | 1,597                            |
| Total home equity and<br>lines of credit | 106                   | -                      | 1,491                          | 1,597    | -   | 1,597                            |

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|                                       |           |          |          |           |          |  |           |
|---------------------------------------|-----------|----------|----------|-----------|----------|--|-----------|
| Commercial and industrial loans       |           |          |          |           |          |  |           |
| Pass                                  | -         | -        | -        | -         | 14       |  | 14        |
| Substandard                           | 449       | 182      | 104      | 735       | -        |  | 735       |
| Total commercial and industrial loans | 449       | 182      | 104      | 735       | 14       |  | 749       |
| Other loans                           |           |          |          |           |          |  |           |
| Pass                                  | -         | -        | -        | -         | 59       |  | 59        |
| Total other loans                     | -         | -        | -        | -         | 59       |  | 59        |
| Total non-performing loans            |           |          |          |           |          |  |           |
| held-for-investment                   | \$ 12,803 | \$ 6,921 | \$ 6,170 | \$ 25,894 | \$ 1,200 |  | \$ 27,094 |
| Loans acquired:                       |           |          |          |           |          |  |           |
| One-to-four family residential        |           |          |          |           |          |  |           |
| LTV < 60%                             |           |          |          |           |          |  |           |
| Substandard                           | -         | -        | 295      | 295       | -        |  | 295       |
| Total                                 | -         | -        | 295      | 295       | -        |  | 295       |
| LTV => 60%                            |           |          |          |           |          |  |           |
| Substandard                           | -         | -        | 291      | 291       | 269      |  | 560       |
| Total                                 | -         | -        | 291      | 291       | 269      |  | 560       |
| Total one-to-four family residential  | -         | -        | 586      | 586       | 269      |  | 855       |
| Total non-performing loans acquired   | -         | -        | 586      | 586       | 269      |  | 855       |
| Total non-performing loans            | \$ 12,803 | \$ 6,921 | \$ 6,756 | \$ 26,480 | \$ 1,469 |  | \$ 27,949 |



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

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|  |           |          |           |           |        |           |  |
|--|-----------|----------|-----------|-----------|--------|-----------|--|
| Commercial and industrial loans          |           |          |           |           |        |           |  |
| Substandard                              | 532       | -        | 724       | 1,256     | -      | 1,256     |  |
| Total commercial and industrial loans    | 532       | -        | 724       | 1,256     | -      | 1,256     |  |
| Other loans                              |           |          |           |           |        |           |  |
| Pass                                     | -         | -        | -         | -         | 2      | 2         |  |
| Total other loans                        | -         | -        | -         | -         | 2      | 2         |  |
| Total non-performing loans               |           |          |           |           |        |           |  |
| held-for-investment                      | \$ 18,588 | \$ 1,091 | \$ 9,821  | \$ 29,500 | \$ 621 | \$ 30,121 |  |
| Loans held-for-sale:                     |           |          |           |           |        |           |  |
| Commercial                               |           |          |           |           |        |           |  |
| LTV => 35%                               |           |          |           |           |        |           |  |
| Substandard                              | -         | -        | 773       | 773       | -      | 773       |  |
| Total commercial                         | -         | -        | 773       | 773       | -      | 773       |  |
| One-to-four family residential           |           |          |           |           |        |           |  |
| LTV => 60%                               |           |          |           |           |        |           |  |
| Substandard                              | 122       | -        | 3,662     | 3,784     | -      | 3,784     |  |
| Total one-to-four family residential     | 122       | -        | 3,662     | 3,784     | -      | 3,784     |  |
| Multifamily                              |           |          |           |           |        |           |  |
| LTV => 35%                               |           |          |           |           |        |           |  |
| Substandard                              | -         | -        | 890       | 890       | -      | 890       |  |
| Total multifamily                        | -         | -        | 890       | 890       | -      | 890       |  |
| Total non-performing loans held-for-sale | 122       | -        | 5,325     | 5,447     | -      | 5,447     |  |
| Total non-performing loans               | \$ 18,710 | \$ 1,091 | \$ 15,146 | \$ 34,947 | \$ 621 | \$ 35,568 |  |

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The following tables set forth the detail and delinquency status of originated and acquired loans held-for-investment, net of deferred fees and costs, by performing and non-performing loans at March 31, 2013 and December 31, 2012 (in thousands).

|   | March 31, 2013                                       |                        |           | Non-Performing<br>Loans | Total Loans<br>Receivable, net |
|---|--|------------------------|-----------|-------------------------|--------------------------------|
|   | Performing (Accruing) Loans<br>0-29 Days Past<br>Due | 30-89 Days<br>Past Due | Total     |                         |                                |
| Loans<br>held-for-investment:           |  |                        |           |                         |                                |
| Real estate loans:                      |  |                        |           |                         |                                |
| Commercial                              |  |                        |           |                         |                                |
| LTV < 35%                               |  |                        |           |                         |                                |
| Pass                                    | \$ 31,409  | \$ 856                 | \$ 32,265 | \$ -                    | \$ 32,265                      |
| Special Mention                         | 170  | -                      | 170       | -                       | 170                            |
| Substandard                             | -  | -                      | -         | 1,689                   | 1,689                          |
| Total                                   | 31,579   | 856                    | 32,435    | 1,689                   | 34,124                         |
| LTV > 35%                               |  |                        |           |                         |                                |
| Pass                                    | 212,830  | 562                    | 213,392   | -                       | 213,392                        |
| Special Mention                         | 22,855   | 6,829                  | 29,684    | -                       | 29,684                         |
| Substandard                             | 20,294   | -                      | 20,294    | 16,965                  | 37,259                         |
| Total                                   | 255,979  | 7,391                  | 263,370   | 16,965                  | 280,335                        |
| Total commercial                        | 287,558  | 8,247                  | 295,805   | 18,654                  | 314,459                        |
| One-to-four family<br>residential       |  |                        |           |                         |                                |
| LTV < 60%                               |  |                        |           |                         |                                |
| Pass                                    | 28,507   | 2,958                  | 31,465    | -                       | 31,465                         |
| Special Mention                         | 660  | 468                    | 1,128     | 284                     | 1,412                          |
| Substandard                             | 444  | -                      | 444       | 616                     | 1,060                          |
| Total                                   | 29,611   | 3,426                  | 33,037    | 900                     | 33,937                         |
| LTV > 60%                               |  |                        |           |                         |                                |
| Pass                                    | 28,171   | 1,829                  | 30,000    | -                       | 30,000                         |
| Special Mention                         | 381  | -                      | 381       | -                       | 381                            |
| Substandard                             | -  | 248                    | 248       | 2,771                   | 3,019                          |
| Total                                   | 28,552   | 2,077                  | 30,629    | 2,771                   | 33,400                         |
| Total one-to-four family<br>residential | 58,163   | 5,503                  | 63,666    | 3,671                   | 67,337                         |
| Construction and land                   |  |                        |           |                         |                                |
| Pass                                    | 12,581   | -                      | 12,581    | -                       | 12,581                         |
| Special Mention                         | 4,523  | 611                    | 5,134     | -                       | 5,134                          |
| Substandard                             | 3,512  | -                      | 3,512     | 2,085                   | 5,597                          |
| Total construction and<br>land          | 20,616   | 611                    | 21,227    | 2,085                   | 23,312                         |

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|                                       |              |           |              |           |              |
|---------------------------------------|--------------|-----------|--------------|-----------|--------------|
| Multifamily                           |              |           |              |           |              |
| LTV < 35%                             |              |           |              |           |              |
| Pass                                  | 22,095       | 128       | 22,223       | -         | 22,223       |
| Special Mention                       | 109          | 217       | 326          | -         | 326          |
| Substandard                           | 505          | -         | 505          | -         | 505          |
| Total                                 | 22,709       | 345       | 23,054       | -         | 23,054       |
| LTV > 35%                             |              |           |              |           |              |
| Pass                                  | 590,499      | 1,023     | 591,522      | -         | 591,522      |
| Special Mention                       | 9,827        | 562       | 10,389       | -         | 10,389       |
| Substandard                           | 4,894        | 337       | 5,231        | 279       | 5,510        |
| Total                                 | 605,220      | 1,922     | 607,142      | 279       | 607,421      |
| Total multifamily                     | 627,929      | 2,267     | 630,196      | 279       | 630,475      |
| Home equity and lines of credit       |              |           |              |           |              |
| Pass                                  | 31,414       | 247       | 31,661       | -         | 31,661       |
| Special Mention                       | 651          | -         | 651          | -         | 651          |
| Substandard                           | -            | -         | -            | 1,597     | 1,597        |
| Total home equity and lines of credit | 32,065       | 247       | 32,312       | 1,597     | 33,909       |
| Commercial and industrial loans       |              |           |              |           |              |
| Pass                                  | 10,758       | 554       | 11,312       | 14        | 11,326       |
| Special Mention                       | 813          | 13        | 826          | -         | 826          |
| Substandard                           | 956          | 900       | 1,856        | 735       | 2,591        |
| Total commercial and industrial loans | 12,527       | 1,467     | 13,994       | 749       | 14,743       |
| Other loans                           |              |           |              |           |              |
| Pass                                  | 1,198        | 34        | 1,232        | 59        | 1,291        |
| Total other loans                     | 1,198        | 34        | 1,232        | 59        | 1,291        |
| Total loans held-for-investment       | \$ 1,040,056 | \$ 18,376 | \$ 1,058,432 | \$ 27,094 | \$ 1,085,526 |

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## Loans acquired:

## One-to-four family residential

## LTV &lt; 60%

|                                      |        |     |        |     |        |
|--------------------------------------|--------|-----|--------|-----|--------|
| Pass                                 | 27,303 | 779 | 28,082 | -   | 28,082 |
| Special Mention                      | 487    | -   | 487    | -   | 487    |
| Substandard                          | 252    | -   | 252    | 295 | 547    |
| Total one-to-four family residential | 28,042 | 779 | 28,821 | 295 | 29,116 |

## LTV =&gt; 60%

|                                      |        |       |        |     |        |
|--------------------------------------|--------|-------|--------|-----|--------|
| Pass                                 | 43,479 | 435   | 43,914 | -   | 43,914 |
| Special Mention                      | 246    | -     | 246    | -   | 246    |
| Substandard                          | 1,310  | 524   | 1,834  | 560 | 2,394  |
| Total                                | 45,035 | 959   | 45,994 | 560 | 46,554 |
| Total one-to-four family residential | 73,077 | 1,738 | 74,815 | 855 | 75,670 |

## Commercial

## LTV &lt; 35%

|                 |          |      |          |      |          |
|-----------------|----------|------|----------|------|----------|
| Pass            | \$ 3,449 | \$ - | \$ 3,449 | \$ - | \$ 3,449 |
| Special Mention | 191      | -    | 191      | -    | 191      |
| Total           | 3,640    | -    | 3,640    | -    | 3,640    |

## LTV &gt; 35%

|                  |        |   |        |   |        |
|------------------|--------|---|--------|---|--------|
| Pass             | 11,068 | - | 11,068 | - | 11,068 |
| Substandard      | 950    | - | 950    | - | 950    |
| Total            | 12,018 | - | 12,018 | - | 12,018 |
| Total commercial | 15,658 | - | 15,658 | - | 15,658 |

## Multifamily

## LTV &lt; 35%

|             |        |      |        |      |        |
|-------------|--------|------|--------|------|--------|
| Pass        | \$ 617 | \$ - | \$ 617 | \$ - | \$ 617 |
| Substandard | 490    | -    | 490    | -    | 490    |
| Total       | 1,107  | -    | 1,107  | -    | 1,107  |

## LTV =&gt; 35%

|                   |       |     |       |   |       |
|-------------------|-------|-----|-------|---|-------|
| Pass              | 3,510 | -   | 3,510 | - | 3,510 |
| Special Mention   | 618   | -   | 618   | - | 618   |
| Substandard       | -     | 475 | 475   | - | 475   |
| Total             | 4,128 | 475 | 4,603 | - | 4,603 |
| Total multifamily | 5,235 | 475 | 5,710 | - | 5,710 |

|                      |        |       |        |     |        |
|----------------------|--------|-------|--------|-----|--------|
| Total loans acquired | 93,970 | 2,213 | 96,183 | 855 | 97,038 |
|----------------------|--------|-------|--------|-----|--------|

|  |              |           |              |           |              |
|--|--------------|-----------|--------------|-----------|--------------|
|  | \$ 1,134,026 | \$ 20,589 | \$ 1,154,615 | \$ 27,949 | \$ 1,182,564 |
|--|--------------|-----------|--------------|-----------|--------------|



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|                                      | December 31, 2012           |                     |           |                      |                             |
|--------------------------------------|-----------------------------|---------------------|-----------|----------------------|-----------------------------|
|                                      | Performing (Accruing) Loans |                     |           |                      |                             |
|                                      | 0-29 Days Past Due          | 30-89 Days Past Due | Total     | Non-Performing Loans | Total Loans Receivable, net |
| Loans held-for-investment:           |                             |                     |           |                      |                             |
| Real estate loans:                   |                             |                     |           |                      |                             |
| Commercial                           |                             |                     |           |                      |                             |
| LTV < 35%                            |                             |                     |           |                      |                             |
| Pass                                 | \$ 29,424                   | \$ 860              | \$ 30,284 | \$ -                 | \$ 30,284                   |
| Special Mention                      | 185                         | -                   | 185       | -                    | 185                         |
| Substandard                          | -                           | -                   | -         | 1,699                | 1,699                       |
| Total                                | 29,609                      | 860                 | 30,469    | 1,699                | 32,168                      |
| LTV > 35%                            |                             |                     |           |                      |                             |
| Pass                                 | 208,908                     | 2,771               | 211,679   | -                    | 211,679                     |
| Special Mention                      | 22,416                      | 1,105               | 23,521    | -                    | 23,521                      |
| Substandard                          | 27,932                      | -                   | 27,932    | 20,303               | 48,235                      |
| Total                                | 259,256                     | 3,876               | 263,132   | 20,303               | 283,435                     |
| Total commercial                     | 288,865                     | 4,736               | 293,601   | 22,002               | 315,603                     |
| One-to-four family residential       |                             |                     |           |                      |                             |
| LTV < 60%                            |                             |                     |           |                      |                             |
| Pass                                 | 29,154                      | 2,966               | 32,120    | -                    | 32,120                      |
| Special Mention                      | 1,055                       | -                   | 1,055     | 367                  | 1,422                       |
| Substandard                          | 448                         | 189                 | 637       | 429                  | 1,066                       |
| Total                                | 30,657                      | 3,155               | 33,812    | 796                  | 34,608                      |
| LTV > 60%                            |                             |                     |           |                      |                             |
| Pass                                 | 26,963                      | 1,128               | 28,091    | -                    | 28,091                      |
| Special Mention                      | 384                         | -                   | 384       | -                    | 384                         |
| Substandard                          | 249                         | -                   | 249       | 2,022                | 2,271                       |
| Total                                | 27,596                      | 1,128               | 28,724    | 2,022                | 30,746                      |
| Total one-to-four family residential | 58,253                      | 4,283               | 62,536    | 2,818                | 65,354                      |
| Construction and land                |                             |                     |           |                      |                             |
| Pass                                 | 12,377                      | 159                 | 12,536    | -                    | 12,536                      |
| Special Mention                      | 5,137                       | -                   | 5,137     | -                    | 5,137                       |
| Substandard                          | 3,512                       | -                   | 3,512     | 2,070                | 5,582                       |
| Total construction and land          | 21,026                      | 159                 | 21,185    | 2,070                | 23,255                      |
| Multifamily                          |                             |                     |           |                      |                             |
| LTV < 35%                            |                             |                     |           |                      |                             |
| Pass                                 | 19,438                      | -                   | 19,438    | -                    | 19,438                      |

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|                                       |              |           |              |           |              |
|---------------------------------------|--------------|-----------|--------------|-----------|--------------|
| Special Mention                       | -            | 115       | 115          | -         | 115          |
| Substandard                           | 510          | -         | 510          | -         | 510          |
| Total                                 | 19,948       | 115       | 20,063       | -         | 20,063       |
| LTV > 35%                             |              |           |              |           |              |
| Pass                                  | 574,686      | 748       | 575,434      | -         | 575,434      |
| Special Mention                       | 9,134        | 1,310     | 10,444       | -         | 10,444       |
| Substandard                           | 4,909        | 340       | 5,249        | 279       | 5,528        |
| Total                                 | 588,729      | 2,398     | 591,127      | 279       | 591,406      |
| Total multifamily                     | 608,677      | 2,513     | 611,190      | 279       | 611,469      |
| Home equity and lines of credit       |              |           |              |           |              |
| Pass                                  | 31,482       | 44        | 31,526       | -         | 31,526       |
| Special Mention                       | 659          | -         | 659          | -         | 659          |
| Substandard                           | -            | -         | -            | 1,694     | 1,694        |
| Total home equity and lines of credit | 32,141       | 44        | 32,185       | 1,694     | 33,879       |
| Commercial and industrial loans       |              |           |              |           |              |
| Pass                                  | 10,356       | 636       | 10,992       | -         | 10,992       |
| Special Mention                       | 753          | -         | 753          | -         | 753          |
| Substandard                           | 978          | 831       | 1,809        | 1,256     | 3,065        |
| Total commercial and industrial loans | 12,087       | 1,467     | 13,554       | 1,256     | 14,810       |
| Other loans                           |              |           |              |           |              |
| Pass                                  | 1,743        | 59        | 1,802        | 2         | 1,804        |
| Substandard                           | 26           | -         | 26           | -         | 26           |
| Total other loans                     | 1,769        | 59        | 1,828        | 2         | 1,830        |
|                                       | \$ 1,022,818 | \$ 13,261 | \$ 1,036,079 | \$ 30,121 | \$ 1,066,200 |



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The following tables summarize impaired loans as of March 31, 2013 and December 31, 2012 (in thousands):

|                                    | At March 31, 2013   |                          |                   |
|------------------------------------|---------------------|--------------------------|-------------------|
|                                    | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With No Allowance Recorded:        |                     |                          |                   |
| Real estate loans:                 |                     |                          |                   |
| Commercial                         |                     |                          |                   |
| LTV < 35%                          |                     |                          |                   |
| Substandard                        | \$ 1,689            | \$ 1,689                 | \$ -              |
| LTV => 35%                         |                     |                          |                   |
| Pass                               | 2,758               | 2,758                    |                   |
| Special Mention                    | 714                 | 851                      | -                 |
| Substandard                        | 19,985              | 21,674                   | -                 |
| Construction and land              |                     |                          |                   |
| Substandard                        | 2,085               | 3,046                    | -                 |
| One-to-four family residential     |                     |                          |                   |
| LTV < 60%                          |                     |                          |                   |
| Substandard                        | 49                  | 49                       | -                 |
| LTV => 60%                         |                     |                          |                   |
| Substandard                        | 1,540               | 4,141                    | -                 |
| Multifamily                        |                     |                          |                   |
| LTV < 35%                          |                     |                          |                   |
| Substandard                        | 505                 | 505                      | -                 |
| LTV > 35%                          |                     |                          |                   |
| Substandard                        | 107                 | 578                      | -                 |
| Commercial and industrial loans    |                     |                          |                   |
| Special Mention                    | 215                 | 224                      | -                 |
| Substandard                        | 996                 | 996                      | -                 |
| With a Related Allowance Recorded: |                     |                          |                   |
| Real estate loans:                 |                     |                          |                   |
| Commercial                         |                     |                          |                   |
| LTV => 35%                         |                     |                          |                   |
| Special Mention                    | 2,344               | 2,727                    | (193)             |
| Substandard                        | 10,575              | 10,619                   | (1,283)           |
| One-to-four family residential     |                     |                          |                   |
| LTV > 60%                          |                     |                          |                   |
| Pass                               | 340                 | 340                      | (15)              |
| LTV < 60%                          |                     |                          |                   |
| Pass                               | 73                  | 73                       | (4)               |
| Special Mention                    | 517                 | 517                      | (2)               |
| Multifamily                        |                     |                          |                   |
| LTV => 35%                         |                     |                          |                   |
| Substandard                        | 1,520               | 1,520                    | (307)             |
| Home equity and lines of credit    |                     |                          |                   |
| Special Mention                    | 352                 | 352                      | (15)              |

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|  |           |           |            |
|--|-----------|-----------|------------|
| Substandard<br>Commercial and industrial loans | 1,491     | 1,589     | (219)      |
| Substandard                                    | 449       | 488       | (1,734)    |
| Total:   |           |           |            |
| Real estate loans                              |           |           |            |
| Commercial                                     | 38,065    | 40,318    | (1,476)    |
| One-to-four family residential                 | 2,519     | 5,120     | (21)       |
| Construction and land                          | 2,085     | 3,046     | -          |
| Multifamily                                    | 2,132     | 2,603     | (307)      |
| Home equity and lines of credit                | 1,843     | 1,941     | (234)      |
| Commercial and industrial loans                | 1,660     | 1,708     | (1,734)    |
|  | \$ 48,304 | \$ 54,736 | \$ (3,772) |

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|                                    | At December 31, 2012 |                          |                   |
|------------------------------------|----------------------|--------------------------|-------------------|
|                                    | Recorded Investment  | Unpaid Principal Balance | Related Allowance |
| With No Allowance Recorded:        |                      |                          |                   |
| Real estate loans:                 |                      |                          |                   |
| Commercial                         |                      |                          |                   |
| LTV < 35%                          |                      |                          |                   |
| Substandard                        | \$ 1,699             | \$ 1,699                 | \$ -              |
| LTV => 35%                         |                      |                          |                   |
| Pass                               | 2,774                | 2,774                    |                   |
| Special Mention                    | 1,037                | 1,045                    | -                 |
| Substandard                        | 24,691               | 25,897                   | -                 |
| Construction and land              |                      |                          |                   |
| Substandard                        | 2,373                | 3,031                    | -                 |
| One-to-four family residential     |                      |                          |                   |
| LTV < 60%                          |                      |                          |                   |
| Substandard                        | 49                   | 49                       | -                 |
| LTV => 60%                         |                      |                          |                   |
| Substandard                        | 2,841                | 4,141                    | -                 |
| Multifamily                        |                      |                          |                   |
| LTV < 35%                          |                      |                          |                   |
| Substandard                        | 510                  | 510                      | -                 |
| Commercial and industrial loans    |                      |                          |                   |
| Special Mention                    | 38                   | 38                       | -                 |
| Substandard                        | 1,527                | 1,527                    | -                 |
| With a Related Allowance Recorded: |                      |                          |                   |
| Real estate loans:                 |                      |                          |                   |
| Commercial                         |                      |                          |                   |
| LTV => 35%                         |                      |                          |                   |
| Special Mention                    | 637                  | 664                      | (57)              |
| Substandard                        | 11,645               | 12,045                   | (1,560)           |
| One-to-four family residential     |                      |                          |                   |
| LTV < 60%                          |                      |                          |                   |
| Special Mention                    | 520                  | 520                      | (5)               |
| Multifamily                        |                      |                          |                   |
| LTV => 35%                         |                      |                          |                   |
| Substandard                        | 1,640                | 2,111                    | (317)             |
| Home equity and lines of credit    |                      |                          |                   |
| Special Mention                    | 356                  | 356                      | (18)              |
| Substandard                        | 1,587                | 1,589                    | (105)             |
| Commercial and industrial loans    |                      |                          |                   |
| Substandard                        | 491                  | 491                      | (1,553)           |
| Total:                             |                      |                          |                   |
| Real estate loans                  |                      |                          |                   |
| Commercial                         | 42,483               | 44,124                   | (1,617)           |
| One-to-four family residential     | 3,410                | 4,710                    | (5)               |

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|                                 |           |           |            |
|---------------------------------|-----------|-----------|------------|
| Construction and land           | 2,373     | 3,031     | -          |
| Multifamily                     | 2,150     | 2,621     | (317)      |
| Home equity and lines of credit | 1,943     | 1,945     | (123)      |
| Commercial and industrial loans | 2,056     | 2,056     | (1,553)    |
|                                 | \$ 54,415 | \$ 58,487 | \$ (3,615) |

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Included in the table above at March 31, 2013 are loans with carrying balances of \$14.1 million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Included in the table above at December 31, 2012 are loans with carrying balances of \$24.9 million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Loans not written down by charge-offs or specific reserves at March 31, 2013, and December 31, 2012, are considered to have sufficient collateral values, less costs to sell, to support the carrying balances of the loans.

The average recorded balance of originated impaired loans for the three months ended March 31, 2013 and 2012 was \$51.4 million and \$63.0 million, respectively. The Company recorded \$592,000 of interest income on impaired loans for the three months ended March 31, 2013 as compared to \$677,000 of interest income on impaired loans for the three months ended March 31, 2012.

The following tables summarize loans that were modified in troubled debt restructurings during the three months ended March 31, 2013 and year ended December 31, 2012.

|                                    | Period Ended March 31, 2013            |  |   |  |
|------------------------------------|--|--|---|--|
|                                    | Number of Relationships (in thousands) | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |  |
| Troubled Debt Restructurings       |  |  |   |  |
| One-to-four Family                 |  |  |   |  |
| Special Mention                    | 2                                      | \$ 412   | \$ 412  |  |
| Total Troubled Debt Restructurings | 2                                      | \$ 412   | \$ 412  |  |

Both of the relationships in the table above were restructured to receive reduced interest rates.

|                                 | Year Ended December 31, 2012           |  |   |  |
|---------------------------------|--|--|---|--|
|                                 | Number of Relationships (in thousands) | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |  |
| Troubled Debt Restructurings    |  |  |   |  |
| Commercial real estate loans    |  |  |   |  |
| Substandard                     | 1                                      | \$ 6,251   | \$ 6,251  |  |
| One -to- four Family            |  |  |   |  |
| Substandard                     | 2                                      | 489  | 489   |  |
| Home equity and lines of credit |  |  |   |  |

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|                                    |   |     |       |          |
|------------------------------------|---|-----|-------|----------|
| Special Mention                    | 2 | 356 | 356   |          |
| Total Troubled Debt Restructurings | 5 | \$  | 7,096 | \$ 7,096 |

All five of the relationships in the table above were restructured to receive reduced interest rates.

At March 31, 2013 and December 31, 2012, we had troubled debt restructurings of \$42.2 million and \$45.0 million, respectively.

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

No loan that was restructured during the last twelve months has subsequently defaulted as of March 31, 2013.

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## Note 4 – Deposits

Deposits account balances are summarized as follows (in thousands):

|  | March 31,<br>2013 | December 31,<br>2012 |
|--|-------------------|----------------------|
| Non-interest-bearing demand                            | \$ 207,422        | \$ 209,639           |
| Interest-bearing negotiable orders of withdrawal (NOW) | 118,576           | 117,762              |
| Savings-passbook, statement, tiered, and money market  | 866,813           | 1,137,067            |
| Certificates of deposit                                | 431,743           | 492,392              |
| Total deposits   | \$ 1,624,554      | \$ 1,956,860         |

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

|   | Three months ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2013                            | 2012     |
| Negotiable order of withdrawal, savings-passbook, statement, tiered, and money market | \$ 887                          | \$ 1,096 |
| Certificates of deposit   | 1,251                           | 1,428    |
| Total interest expense on deposit accounts  | \$ 2,138                        | \$ 2,524 |

## Note 5 – Equity Incentive Plan

The following table is a summary of the Company's stock options outstanding as of March 31, 2013 and changes therein during the three months then ended:

| Number of Stock<br>Options | Weighted Average Grant<br>Date Fair Value | Weighted Average<br>Exercise Price | Weighted Average<br>Contractual Life (years) |
|----------------------------|---|------------------------------------|--|
|----------------------------|---|------------------------------------|--|

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|                     |           |      |      |    |      |
|---------------------|-----------|------|------|----|------|
| Outstanding -       |           |      |      |    |      |
| December 31, 2012   | 2,805,912 | \$   | 2.30 | \$ | 7.09 |
| Granted             | -         | -    | -    | -  | -    |
| Forfeited           | -         | -    | -    | -  | -    |
| Exercised           | (3,000)   | 2.30 | 7.09 | -  | -    |
| Outstanding - March |           |      |      |    |      |
| 31, 2013            | 2,802,912 | \$   | 2.30 | \$ | 7.09 |
| 5.84                |           |      |      |    |      |
| Exercisable - March |           |      |      |    |      |
| 31, 2013            | 2,290,846 | \$   | 2.30 | \$ | 7.09 |
| 5.84                |           |      |      |    |      |

Expected future stock option expense related to the non-vested options outstanding as of March 31, 2013 is \$1.1 million over an average period of 0.8 years.

The following is a summary of the status of the Company's restricted share awards as of March 31, 2013 and changes therein during the three months then ended.

|                                 | Number of Shares Awarded | Weighted Average Grant Date Fair Value |
|---------------------------------|--------------------------|--|
| Non-vested at December 31, 2012 | 454,904                  | \$ 7.11                                |
| Granted                         | -                        | -                                      |
| Vested                          | (226,829)                | 7.10                                   |
| Forfeited                       | -                        | -                                      |
| Non-vested at March 31, 2013    | 228,075                  | \$ 7.11                                |



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Expected future stock award expense related to the non-vested restricted share awards as of March 31, 2013 is \$1.4 million over an average period of 0.8 years.

During the three months ended March 31, 2013, the Company recorded \$786,000 of stock-based compensation related to the above plans, respectively. During the three months ended March 31, 2012, the Company recorded \$756,000 of stock-based compensation related to the above plans.

Note 6 – Fair Value Measurements

The following tables present the assets reported on the consolidated balance sheet at their estimated fair value as of March 31, 2013, and December 31, 2012, by level within the fair value hierarchy as required by the Fair Value Measurements and Disclosures Topic of the FASB ASC. Financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlations or other means.
- Level 3 Inputs – Significant unobservable inputs that reflect the Company’s own assumptions that market participants would use in pricing the assets or liabilities.

Fair Value Measurements at Reporting Date Using:

|                                   |    | Quoted Prices in Active<br>Markets for Identical<br>Assets (Level 1) | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|-----------------------------------|----|--|---|---|
| March 31, 2013<br>(in thousands)  |    |  |   |   |
| Measured on a<br>recurring basis: |    |  |   |   |
| Assets:                           |    |  |   |   |
| Investment securities:            |    |  |   |   |
| Available-for-sale:               |    |  |   |   |
| Mortgage-backed<br>securities     |    |  |   |   |
| GSE                               | \$ | 1,147,934  | \$  | 1,147,934                                       |
|                                   |    |  | \$  | -   |

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|                    |              |           |  |              |      |
|--------------------|--------------|-----------|--|--------------|------|
| Non-GSE            | 6,873        | -         |  | 6,873        | -    |
| GSE bonds          | 55,543       | -         |  | 55,543       | -    |
| Corporate bonds    | 112,012      | -         |  | 112,012      | -    |
| Equities           | 14,410       | 14,410    |  | -            | -    |
| Total              |              |           |  |              |      |
| available-for-sale | 1,336,772    | 14,410    |  | 1,322,362    | -    |
| Trading securities | 5,161        | 5,161     |  | -            | -    |
| Total              | \$ 1,341,933 | \$ 19,571 |  | \$ 1,322,362 | \$ - |

Measured on a non-recurring basis:

Assets:

Impaired loans:

Real estate loans:

|   |           |      |  |      |           |
|---|-----------|------|--|------|-----------|
| Commercial real estate                    | \$ 25,723 | \$ - |  | \$ - | \$ 25,723 |
| One- to- four family residential mortgage | 2,236     | -    |  | -    | 2,236     |
| Construction and land                     | 2,085     | -    |  | -    | 2,085     |
| Multifamily                               | 1,627     | -    |  | -    | 1,627     |
| Home equity and lines of credit           | 1,843     | -    |  | -    | 1,843     |
| Total impaired real estate loans          | 33,514    | -    |  | -    | 33,514    |
| Commercial and industrial loans           | 731       | -    |  | -    | 731       |
| Other real estate owned                   | 870       | -    |  | -    | 870       |
| Total                                     | \$ 35,115 | \$ - |  | \$ - | \$ 35,115 |

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|  | Fair Value Measurements at Reporting Date Using: |  |   |   |
|--|--|--|---|---|
|  | December 31, 2012<br>(in thousands)              | Quoted Prices in Active<br>Markets for Identical<br>Assets (Level 1) | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| Measured on a<br>recurring basis:            |  |  |   |   |
| Assets:                                      |  |  |   |   |
| Investment securities:                       |  |  |   |   |
| Available-for-sale:                          |  |  |   |   |
| Mortgage-backed<br>securities                |  |  |   |   |
| GSE  | \$ 1,180,455                                     | \$ -   | \$ 1,180,455  | \$ -  |
| Non-GSE                                      | 7,776  | -  | 7,776   | -   |
| Corporate bonds                              | 74,402   | -  | 74,402  | -   |
| Equities                                     | 12,998   | 12,998   | -   | -   |
| Total<br>available-for-sale                  | 1,275,631  | 12,998   | 1,262,633   | -   |
| Trading securities                           | 4,677  | 4,677  | -   | -   |
| Total  | \$ 1,280,308                                     | \$ 17,675  | \$ 1,262,633  | \$ -  |
| Measured on a<br>non-recurring basis:        |  |  |   |   |
| Assets:                                      |  |  |   |   |
| Impaired loans:                              |  |  |   |   |
| Real estate loans:                           |  |  |   |   |
| Commercial real<br>estate                    | \$ 29,109  | \$ -   | \$ -  | \$ 29,109                                       |
| One- to- four family<br>residential mortgage | 1,827  | -  | -   | 1,827   |
| Construction and<br>land                     | 2,070  | -  | -   | 2,070   |
| Multifamily                                  | 1,530  | -  | -   | 1,530   |
| Home equity and<br>lines of credit           | 1,943  | -  | -   | 1,943   |
| Total impaired real<br>estate loans          | 36,479   | -  | -   | 36,479  |
| Commercial and<br>industrial loans           | 452  | -  | -   | 452   |
| Other real estate<br>owned                   | 870  | -  | -   | 870   |

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|       |    |        |    |   |    |   |    |        |
|-------|----|--------|----|---|----|---|----|--------|
| Total | \$ | 37,801 | \$ | - | \$ | - | \$ | 37,801 |
|-------|----|--------|----|---|----|---|----|--------|

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The following table presents qualitative information for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2013:

|                            | Fair Value<br>(in thousands) | Valuation<br>Methodology | Unobservable Inputs  | Range of<br>Inputs |
|----------------------------|------------------------------|--------------------------|--|--------------------|
| Impaired loans             | \$ 34,245                    | Appraisals               | Discount for costs to sell   | 7.0%               |
|                            |                              |                          | Discount for quick sale  | 10.0% -            |
|                            |                              |                          | Discount for dated appraisal utilizing changes<br>in real estate indexes | 25.0%              |
|                            |                              |                          | Discounted cash<br>flows   | Varies             |
|                            |                              |                          | Interest rates   | Varies             |
| Other real estate<br>owned | \$ 870                       | Appraisals               | Discount for costs to sell   | 7.0%               |
|                            |                              |                          | Discount for dated appraisal utilizing changes<br>in real estate indexes | Varies             |

**Available for Sale Securities:** The estimated fair values for mortgage-backed, GSE and corporate securities are obtained from an independent nationally recognized third-party pricing service. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. Broker/dealer quotes are utilized as well when such quotes are available and deemed representative of the market. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Company (Observable Inputs), and are therefore classified as Level 2 within the fair value hierarchy. The estimated fair values of equity securities, classified as Level 1, are derived from quoted market prices in active markets. Equity securities consist of mutual funds. There were no transfers of securities between Level 1 and Level 2 during the three months ended March 31, 2013.

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

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

Impaired Loans: At March 31, 2013 and December 31, 2012, the Company had originated impaired loans held-for-investment and held-for-sale with outstanding principal balances of \$40.6 million and \$43.7 million, respectively, which were recorded at their estimated fair value of \$34.2 million and \$36.9 million, respectively. The Company recorded net impairment charges of \$156,000 and \$78,000 for the three months ended March 31, 2013 and 2012, respectively, and charge-offs of \$385,000 and \$351,000 for the three months ended March 31, 2013 and 2012, respectively, utilizing Level 3 inputs. For purposes of estimating fair value of impaired loans, management utilizes independent appraisals, if the loan is collateral dependent, adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date, or the present value of expected future cash flows for non-collateral dependent loans and troubled debt restructurings.

Other Real Estate Owned: At March 31, 2013, and December 31, 2012, the Company had assets acquired through foreclosure, or deed in lieu of foreclosure, of \$870,000 at both dates. These assets were recorded at estimated fair value, less estimated selling costs when acquired, establishing a new cost basis. Estimated fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a write-down is recorded through non-interest expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions.

There were no subsequent valuation adjustments to other real estate owned (REO) for the three months ended March 31, 2013. Operating costs after acquisition are expensed.

#### Fair Value of Financial Instruments

The FASB ASC Topic for Financial Instruments requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or

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non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not already discussed above:

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

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

(b) Securities (Held to Maturity)

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

(c) Federal Home Loan Bank of New York Stock

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

(d) Loans (Held-for-Investment)

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

(e) Loans (Held-for-Sale)

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

(f) Deposits

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

deposits of similar remaining maturities.

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

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

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

(h) Borrowings

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



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## (i) Advance Payments by Borrowers

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

The estimated fair values of the Company's significant financial instruments at March 31, 2013, and December 31, 2012, are presented in the following tables (in thousands):

|   | March 31, 2013 |                      |              |           |              |
|---|----------------|----------------------|--------------|-----------|--------------|
|   | Carrying Value | Estimated Fair Value |              |           | Total        |
|   |                | Level 1              | Level 2      | Level 3   |              |
| Financial assets:                                 |                |                      |              |           |              |
| Cash and cash equivalents                         | \$ 65,919      | \$ 65,919            | \$ -         | \$ -      | \$ 65,919    |
| Trading securities                                | 5,161          | 5,161                | -            | -         | 5,161        |
| Securities available-for-sale                     | 1,336,772      | 14,410               | 1,322,362    | -         | 1,336,772    |
| Federal Home Loan Bank of New York stock, at cost | 11,679         | -                    | 11,679       | -         | 11,679       |
| Net loans held-for-investment                     | 1,227,654      | -                    | -            | 1,293,950 | 1,293,950    |
| Financial liabilities:                            |                |                      |              |           |              |
| Deposits  | \$ 1,624,554   | \$ -                 | \$ 1,629,232 | \$ -      | \$ 1,629,232 |
| Repurchase agreements and other borrowings        | 399,504        | -                    | 412,912      | -         | 412,912      |
| Advance payments by borrowers                     | 5,944          | -                    | 5,944        | -         | 5,944        |

|   | December 31, 2012 |                      |           |           |            |
|---|-------------------|----------------------|-----------|-----------|------------|
|   | Carrying Value    | Estimated Fair Value |           |           | Total      |
|   |                   | Level 1              | Level 2   | Level 3   |            |
| Financial assets:                                 |                   |                      |           |           |            |
| Cash and cash equivalents                         | \$ 128,761        | \$ 128,761           | \$ -      | \$ -      | \$ 128,761 |
| Trading securities                                | 4,677             | 4,677                | -         | -         | 4,677      |
| Securities available-for-sale                     | 1,275,631         | 12,998               | 1,262,633 | -         | 1,275,631  |
| Securities held-to-maturity                       | 2,220             | -                    | 2,309     | -         | 2,309      |
| Federal Home Loan Bank of New York stock, at cost | 12,550            | -                    | 12,550    | -         | 12,550     |
| Loans held-for-sale                               | 5,447             | -                    | -         | 5,447     | 5,447      |
| Net loans held-for-investment                     | 1,216,558         | -                    | -         | 1,289,599 | 1,289,599  |

Financial liabilities:

|  |              |      |              |      |              |
|--|--------------|------|--------------|------|--------------|
| Deposits                                   | \$ 1,956,860 | \$ - | \$ 1,962,053 | \$ - | \$ 1,962,053 |
| Repurchase agreements and other borrowings | 419,122      | -    | 432,719      | -    | 432,719      |
| Advance payments by borrowers              | 3,488        | -    | 3,488        | -    | 3,488        |

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 7 – Earnings Per Share

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

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

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

|   | For the three months ended<br>March 31, |            |
|---|---|------------|
|   | 2013                                    | 2012       |
| Net income available to common stockholders                         | \$ 4,792                                | \$ 4,948   |
| Weighted average shares outstanding-basic                           | 54,908,035                              | 54,218,701 |
| Effect of non-vested restricted stock and stock options outstanding | 878,503                                 | 694,903    |
| Weighted average shares outstanding-diluted                         | 55,786,538                              | 54,913,604 |
| Earnings per share-basic  | \$ 0.09                                 | \$ 0.09    |
| Earnings per share-diluted  | \$ 0.09                                 | \$ 0.09    |

## Note 8 – Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This ASU adds new disclosure requirements for items reclassified out of accumulated other comprehensive income to be in a single location in the financial statements. The Company's disclosures of the components of accumulated other comprehensive income are disclosed in its Statements of Comprehensive Income. For the three months ended March 31, 2013, we reclassified \$1.6 million of securities gains included in net income out of accumulated other comprehensive income. The new guidance became effective for all interim and annual periods beginning January 1, 2013 and is to be applied prospectively. The adoption of these pronouncements resulted in a change to the presentation of the Company's financial statements but did not have an impact on the Company's financial condition or results of operations.

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

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report contains certain "forward-looking statements," which can be identified by the use of such words as "estimate", "project," "believe," "intend," "anticipate," "plan", "seek", "expect" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions, and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage operations in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- changes in the level of government support for housing finance;
- significant increases in our loan losses; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Except as required by law, we disclaim any intention or obligation to

update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise.

### Critical Accounting Policies

Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2012, 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, estimated cash flows of our PCI loans, and judgments regarding the valuation of intangible assets and securities as well as the valuation allowance against deferred tax assets are the most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations, involve a higher degree of complexity, and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could result in material differences in the results of operations or financial condition. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the

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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, 2012.

### 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, 2012.

Net income amounted to \$4.8 million for the three months ended March 31, 2013 as compared to \$4.9 million for the three months ended March 31, 2012. Basic and diluted earnings per share were \$0.09 for each of the three months ended March 31, 2013, and March 31, 2012. For the three months ended March 31, 2013, our return on average assets was 0.69% as compared to 0.84% for the three months ended March 31, 2012. For the three months ended March 31, 2013, our return on average stockholders’ equity was 2.94% as compared to 5.18% for the three months ended March 31, 2012. Stockholders’ equity during the three months ended March 31, 2013 was increased by \$330.1 million for net proceeds related to the stock conversion completed on January 24, 2013.

Assets increased by 1.1% to \$2.84 billion at March 31, 2013, from \$2.81 billion at December 31, 2012. The increase in total assets reflected an increase in securities available-for-sale of \$61.1 million, or 4.8%, an increase in net loans held-for-investment of \$11.1 million, and an increase in other assets of \$27.8 million, partially offset by a decrease in cash and cash equivalents of \$62.8 million. Deposits decreased \$332.3 million to \$1.62 billion at March 31, 2013, from \$1.96 billion at December 31, 2012. The decrease, excluding the deposits related to the second-step conversion of \$289.6 million, was \$42.8 million, or 2.6%, and related to decreases of \$51.4 million in certificate of deposit and \$10.0 million in money market accounts, partially offset by increases of \$8.3 million in transaction accounts and \$10.3 million in savings accounts. Borrowed funds decreased \$19.6 million to \$399.5 million at March 31, 2013, from \$419.1 million at December 31, 2012.

### Comparison of Financial Condition at March 31, 2013, and December 31, 2012

Total assets increased \$30.4 million, or 1.1%, to \$2.84 billion at March 31, 2013, from \$2.81 billion at December 31, 2012. The increase was primarily attributable to increases in securities available-for-sale of \$61.1 million, net loans held-for-investment of \$11.1 million and other assets of \$27.8 million, partially offset by a decrease in cash and cash equivalents of \$62.8 million.

Cash and cash equivalents decreased \$62.8 million, or 48.8%, to \$65.9 million at March 31, 2013, from \$128.8 million at December 31, 2012. The decrease is a result of the Company deploying the proceeds from the stock conversion received in December of 2012 into higher yielding assets.

The Company's securities available-for-sale portfolio totaled \$1.34 billion at March 31, 2013, compared to \$1.28 billion at December 31, 2012. At March 31, 2013, \$1.15 billion of the portfolio consisted of residential mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. The Company also held residential mortgage-backed securities not guaranteed by these three entities, referred to as "private label securities." The private label securities had an amortized cost of \$6.7 million and an estimated fair value of \$6.9 million at March 31, 2013. In addition to the above mortgage-backed securities, the Company held \$112.0 million in corporate bonds which were all rated investment grade at March 31, 2013, \$55.5 million of bonds issued by the Federal Home Loan Bank system and \$14.4 million of equity investments in mutual funds, which focus on investments that qualify under the Community Reinvestment Act and money market mutual funds.

Originated loans held-for-investment, net, totaled \$1.09 billion at March 31, 2013, as compared to \$1.07 billion at December 31, 2012. The increase was primarily due to an increase in multifamily real estate loans, which increased \$19.1 million, or 3.1%, to \$629.2 million at March 31, 2013, from \$610.1 million at December 31, 2012. Currently, management is primarily focused on originating multifamily loans, with less emphasis on other loan types. The following table details our multifamily originations for the three months ended March 31, 2013 (dollars in thousands):

| Originations | Weighted<br>Average Interest<br>Rate | Weighted Average<br>Loan-to-Value Ratio | (F)ixed or<br>(V)ariable | Months to Next Rate<br>Change or Maturity for<br>Fixed Rate Loans | Amortization<br>Term |
|--------------|--------------------------------------|---|--------------------------|---|----------------------|
| \$ 24,829    | 3.76%                                | 65%                                     | V                        | 120   | 25 to 30 Years       |
| 8,288        | 3.55%                                | 67%                                     | V                        | 84  | 30 Years             |
| 10,421       | 3.65%                                | 56%                                     | V                        | 60  | 20 to 30 Years       |
| 8,117        | 4.02%                                | 46%                                     | F                        | 180   | 15 Years             |
| 1,770        | 4.39%                                | 44%                                     | F                        | 120   | 10 Years             |
| \$ 53,425    | 3.77%                                | 60%                                     |                          |   |                      |



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Purchased credit-impaired (PCI) loans, primarily acquired as part of a transaction with the Federal Deposit Insurance Corporation, totaled \$71.4 million at March 31, 2013, as compared to \$75.3 million at December 31, 2012.

Bank owned life insurance increased \$572,000, or 0.6%, to \$93.6 million at March 31, 2013 from \$93.0 million at December 31, 2012. The increase resulted from income earned on bank owned life insurance for the three months ended March 31, 2013 partially offset by death benefits received.

Federal Home Loan Bank of New York stock, at cost, decreased \$871,000, or 6.9%, to \$11.7 million at March 31, 2013, from \$12.6 million at December 31, 2012. This decrease was attributable to a decrease in borrowings outstanding with the Federal Home Loan Bank of New York over the same time period.

Premises and equipment, net, increased \$601,000, or 2.0%, to \$30.4 million at March 31, 2013, from \$29.8 million at December 31, 2012. This increase was primarily attributable the renovation of existing branches partially offset by depreciation.

Other real estate owned remained the same at \$870,000 at both March 31, 2013 and December 31, 2012.

Other assets increased \$27.8 million, or 143.5%, to \$47.1 million at March 31, 2013, from \$19.4 million at December 31, 2012. The increase in other assets was primarily attributable to an increase in amounts due from securities brokers for securities sales that settled after March 31, 2013.

Deposits decreased \$332.3 million, or 17.0%, to \$1.62 billion at March 31, 2013, from \$1.96 billion at December 31, 2012. The decrease in deposits for the quarter ended March 31, 2013, excluding the deposits related to the second-step conversion of \$289.6 million, was \$42.8 million, or 2.56%, related to decreases of \$51.4 million in certificates of deposit and \$10.0 million in money market accounts, partially offset by increases of \$8.3 million in transaction accounts and \$10.3 million in savings accounts.

Borrowings decreased by \$19.6 million, or 4.7%, to \$399.5 million at March 31, 2013, from \$419.1 million at December 31, 2012. Management utilizes borrowings to mitigate interest rate risk, for short-term liquidity and to a lesser extent as part of leverage strategies. The following is a table of term borrowing maturities (excluding capitalized leases and short-term borrowings) and the weighted average rate by year (dollars in thousands):

| Year | Amount | Weighted Avg. Rate |
|------|--------|--------------------|
|------|--------|--------------------|

|      |            |       |
|------|------------|-------|
| 2013 | \$ 53,000  | 3.91% |
| 2014 | 66,500     | 2.90% |
| 2015 | 114,500    | 2.63% |
| 2016 | 108,910    | 2.18% |
| 2017 | 50,003     | 1.41% |
| 2018 | 2,000      | 3.39% |
|      | \$ 394,913 | 2.57% |

Accrued expenses and other liabilities increased \$50.7 million, to \$69.6 million at March 31, 2013, from \$18.9 million at December 31, 2012. The increase was primarily attributable to an increase in amounts due to securities brokers for securities purchases settling after March 31, 2013.

Total stockholders' equity increased by \$329.1 million to \$744.0 million at March 31, 2013, from \$414.9 million at December 31, 2012. This increase was primarily attributable to net income of \$4.8 million for the quarter ended March 31, 2013, a \$330.1 million increase related to the stock conversion net proceeds, and a \$1.4 million increase related to ESOP and equity award activity. These increases were partially offset by a \$3.9 million decrease in accumulated other comprehensive income and dividend payments of approximately \$3.3 million.

#### Comparison of Operating Results for the Three Months Ended March 31, 2013 and 2012

Net income. Net income was \$4.8 million and \$4.9 million for the quarters ended March 31, 2013, and 2012, respectively. Significant variances from the comparable prior year period are as follows: a \$1.8 million increase in net interest income, a \$338,000

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decrease in the provision for loan losses, a \$719,000 decrease in non-interest income, a \$1.7 million increase in non-interest expense, and a \$109,000 decrease in income tax expense.

Interest income. Interest income increased \$777,000, or 3.4%, to \$23.5 million for the three months ended March 31, 2013, from \$22.7 million for the three months ended March 31, 2012. Interest income on loans increased by \$1.3 million, primarily attributable to an increase in the average balances of \$177.2 million, partially offset by a decrease of 34 basis points in the yield earned. The Company accreted interest income of \$1.5 million for the quarter ended March 31, 2013, as compared to \$1.6 million for the quarter ended March 31, 2012, related to its PCI loans. Interest income on loans for the quarter ended March 31, 2013, reflected prepayment loan income of \$490,000 compared to \$188,000 for the quarter ended March 31, 2012. Interest income on mortgage backed securities decreased by \$384,000, primarily attributable to a decrease of 56 basis points in the yield earned, partially offset by an increase in the average balance of \$190.9 million.

Interest expense. Interest expense decreased \$1.1 million, or 18.3%, to \$4.8 million for the three months ended March 31, 2013, from \$5.8 million for the three months ended March 31, 2012. The decrease was comprised of a decrease of \$386,000 in interest expense on deposits and a decrease in interest expense on borrowings of \$677,000. The decrease in interest expense on deposits was attributed to a decrease in the cost of interest bearing deposits of 19 basis points to 0.57% from 0.76%, partially offset by an increase in average balance of interest bearing deposit accounts of \$174.3 million, or 13.0%, to \$1.51 billion for the three months ended March 31, 2013, from \$1.34 billion for the three months ended March 31, 2012. The decrease in interest expense on borrowings was attributed to a decrease in the cost of 12 basis points to 2.62% for the three months ended March 31, 2013, from 2.74% for the three months ended March 31, 2012, and a decrease in average balances of borrowings of \$77.6 million, or 16.1%, to \$404.6 million for the three months ended March 31, 2013, from \$482.2 million for the three months ended March 31, 2012.

Net Interest Income. Net interest income for the quarter ended March 31, 2013, increased \$1.8 million, or 10.9%, as the \$280.3 million increase in our net interest-earning assets more than offset the 13 basis point decrease in our net interest margin to 2.91%. The increase in average interest-earning assets was due primarily to increases in average loans outstanding of \$177.2 million, mortgage-backed securities of \$190.9 million and deposits in other financial institutions of \$27.6 million, partially offset by a decrease in other securities of \$17.9 million. Rates paid on interest-bearing liabilities decreased 28 basis points to 1.00% for the current quarter as compared to 1.28% for the prior year comparable period. This was offset by a 44 basis point decrease in yields earned on interest earning assets to 3.65% for the quarter ended March 31, 2013, compared to 4.09% for the comparable quarter in 2012.

Provision for Loan Losses. The provision for loan losses decreased \$338,000, or 55.0%, to \$277,000 for the quarter ended March 31, 2013, from \$615,000 for the quarter ended March 31, 2012. The decrease in the provision for loan losses was due primarily to a decrease in our originated loan portfolio, excluding the sale of premium finance loans. Loans grew \$19.3 million for the quarter ended March 31, 2013, as compared to \$26.8 million during the quarter ended March 31, 2012, as well as a decrease in non-performing loans during the quarter ended March 31, 2013, as compared to the comparable prior year quarter. During the quarter ended March 31, 2013, the Company recorded net charge-offs of \$385,000 compared to net charge-offs of \$351,000 for the quarter ended March 31, 2012.

Non-interest Income. Non-interest income decreased \$719,000, or 18.1%, to \$3.3 million for the quarter ended March 31, 2013, from \$4.0 million for the quarter ended March 31, 2012. This decrease was primarily a result of a \$324,000 decrease in gain on securities transactions, net, and a \$278,000 decrease in other income. Securities gains in the first quarter of 2013 included \$243,000 related to the Company's trading portfolio, while the first quarter of 2012 included securities gains of \$396,000 related to the Company's trading portfolio. The trading portfolio is utilized to fund the Company's deferred compensation obligation to certain employees and directors of the plan. The participants of this plan, at their election, defer a portion of their compensation. Gains and losses on trading securities have no effect on net income since participants benefit from, and bear the full risk of changes in the trading securities market values. Therefore, the Company records an equal and offsetting amount in compensation expense, reflecting the change in the Company's obligations under the plan. Other non-interest income decreased by \$278,000 to \$39,000 for the quarter ended March 31, 2013, from \$317,000 for the quarter ended March 31, 2012. The quarter ended March 31, 2012 included a gain related to the sale of the premium finance loan portfolio.

Non-interest Expense. Non-interest expense increased \$1.7 million, or 13.6%, for the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012. This is due primarily to a \$625,000 increase in compensation and employee benefits which is related to increased staff due to branch openings, the Flatbush Federal Bancorp, Inc. merger (the Merger), and to a lesser extent salary adjustments effective January 1, 2013, partially offset by a decrease of \$153,000 in expense related to the Company's deferred compensation plan which, as described above, had no effect on net income. Additionally, there is a \$437,000 increase in occupancy expense primarily related to new branches, the Merger, and the renovation of existing branches, a \$513,000 increase in data processing fees as a result of data conversion charges related to the Merger, and a \$204,000 increase in other expenses partially offset by an \$112,000 decrease in professional fees.

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Income Tax Expense. The Company recorded income tax expense of \$2.6 million for the quarter ended March 31, 2013 compared to \$2.7 million for the quarter ended March 31, 2012. The effective tax rate for the quarter ended March 31, 2013 was 35.1%, compared to 35.3% for the quarter ended March 31, 2012.

## NORTHFIELD BANCORP, INC.

## ANALYSIS OF NET INTEREST INCOME

(Dollars in thousands)

|  | For the Three Months Ended March 31,<br>2013 |           |                               |              | 2012                              |          |                               |
|--|--|-----------|-------------------------------|--------------|-----------------------------------|----------|-------------------------------|
|  | Average<br>Outstanding<br>Balance            | Interest  | Average<br>Yield/<br>Rate (1) |              | Average<br>Outstanding<br>Balance | Interest | Average<br>Yield/<br>Rate (1) |
| Interest-earning assets:                                     |  |           |                               |              |                                   |          |                               |
| Loans (5)  | \$ 1,239,140                                 | \$ 16,487 | 5.40 %                        | \$ 1,061,927 | \$ 15,150                         | 5.74 %   |                               |
| Mortgage-backed securities                                   | 1,176,998                                    | 6,392     | 2.20                          | 986,110      | 6,776                             | 2.76     |                               |
| Other securities   | 110,261                                      | 441       | 1.62                          | 128,171      | 653                               | 2.05     |                               |
| Federal Home Loan Bank of<br>New York stock                  | 11,895                                       | 156       | 5.32                          | 12,703       | 142                               | 4.50     |                               |
| Interest-earning deposits in<br>other financial institutions | 75,668                                       | 40        | 0.21                          | 48,035       | 18                                | 0.15     |                               |
| Total interest-earning<br>assets                             | 2,613,962                                    | 23,516    | 3.65                          | 2,236,946    | 22,739                            | 4.09     |                               |
| Non-interest-earning assets                                  | 194,041                                      |           |                               | 144,237      |                                   |          |                               |
| Total assets   | \$ 2,808,003                                 |           |                               | \$ 2,381,183 |                                   |          |                               |
| Interest-bearing liabilities:                                |  |           |                               |              |                                   |          |                               |
| Savings, NOW, and money<br>market accounts                   | \$ 1,055,590                                 | \$ 887    | 0.34                          | \$ 862,812   | \$ 1,096                          | 0.51     |                               |
| Certificates of deposit                                      | 457,821                                      | 1,251     | 1.11                          | 476,282      | 1,428                             | 1.21     |                               |
| Total interest-bearing<br>deposits                           | 1,513,411                                    | 2,138     | 0.57                          | 1,339,094    | 2,524                             | 0.76     |                               |
| Borrowed funds   | 404,638                                      | 2,613     | 2.62                          | 482,238      | 3,290                             | 2.74     |                               |
| Total<br>interest-bearing liabilities                        | 1,918,049                                    | 4,751     | 1.00                          | 1,821,332    | 5,814                             | 1.28     |                               |
| Non-interest bearing deposit<br>accounts                     | 204,854                                      |           |                               | 160,233      |                                   |          |                               |

|   |              |           |          |              |           |          |
|---|--------------|-----------|----------|--------------|-----------|----------|
| Accrued expenses and other liabilities                          | 24,543       |           |          | 15,145       |           |          |
| Total liabilities   | 2,147,446    |           |          | 1,996,710    |           |          |
| Stockholders' equity  | 660,557      |           |          | 384,473      |           |          |
| Total liabilities and stockholders' equity                      | \$ 2,808,003 |           |          | \$ 2,381,183 |           |          |
| Net interest income   |              | \$ 18,765 |          |              | \$ 16,925 |          |
| Net interest rate spread (2)                                    |              |           | 2.65 %   |              |           | 2.81 %   |
| Net interest-earning assets (3)                                 | \$ 695,913   |           |          | \$ 415,614   |           |          |
| Net interest margin (4)   |              |           | 2.91 %   |              |           | 3.04 %   |
| Average interest-earning assets to interest-bearing liabilities |              |           | 136.28 % |              |           | 122.82 % |

- (1) Average yields and rates for the three months ended March 31, 2013 and 2012 are annualized.
- (2) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.
- (5) Loans include non-accrual loans.

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## Asset Quality

## Purchased Credit Impaired Loans

PCI loans were recorded at estimated fair value using expected future cash flows deemed to be collectible on the date acquired. Based on its detailed review of PCI loans and experience in loan workouts, management believes it has a reasonable expectation about the amount and timing of future cash flows and accordingly has classified PCI loans (\$71.4 million at March 31, 2013 and \$75.3 million at December 31, 2012) as accruing, even though they may be contractually past due. At March 31, 2013, based on recorded contractual principal, 8.9% of PCI loans were past due 30 to 89 days, and 12.5% were past due 90 days or more. At December 31, 2012, based on recorded contractual principal, 5.4% of PCI loans were past due 30 to 89 days, and 11.4% were past due 90 days or more. The amount and timing of expected cash flows as of March 31, 2013, did not change significantly from our latest cash flow recast.

## Originated and Acquired loans

The discussion that follows includes originated and acquired loans, both held-for-investment and held-for-sale.

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

|   | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | March 31,<br>2012 |
|---|-------------------|----------------------|-----------------------|------------------|-------------------|
| Non-accruing loans:                                     |                   |                      |                       |                  |                   |
| Held-for-investment                                     | \$ 10,191         | \$ 10,348            | \$ 12,231             | \$ 12,680        | \$ 15,805         |
| Held-for-sale   | -                 | 5,325                | -                     | 80               | 80                |
| Non-accruing loans subject to restructuring agreements: |                   |                      |                       |                  |                   |
| Held-for-investment                                     | 16,289            | 19,152               | 20,990                | 21,609           | 22,483            |
| Held-for-sale   | -                 | 122                  | -                     | -                | -                 |
| Total non-accruing loans                                | 26,480            | 34,947               | 33,221                | 34,369           | 38,368            |
| Loans 90 days or more past due and still accruing:      |                   |                      |                       |                  |                   |
| Held-for-investment                                     | 1,469             | 621                  | 37                    | 424              | 1,786             |
|   | 1,469             | 621                  | 37                    | 424              | 1,786             |

|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Total loans 90 days or more past due and still accruing      |           |           |           |           |           |
| Total non-performing loans                                   | 27,949    | 35,568    | 33,258    | 34,793    | 40,154    |
| Other real estate owned                                      | 870       | 870       | 633       | 2,139     | 2,444     |
| Total non-performing assets                                  | \$ 28,819 | \$ 36,438 | \$ 33,891 | \$ 36,932 | \$ 42,598 |
| Loans subject to restructuring agreements and still accruing | \$ 25,891 | \$ 25,697 | \$ 24,099 | \$ 25,502 | \$ 25,047 |
| Accruing loans 30 to 89 days delinquent                      | \$ 20,589 | \$ 14,780 | \$ 9,998  | \$ 12,121 | \$ 22,075 |

#### Total Non-accruing Loans

Total non-accruing loans decreased \$8.5 million to \$26.5 million at March 31, 2013, from \$35.0 million at December 31, 2012. This decrease for the quarter was primarily attributable to \$5.4 million of loans held-for-sale being sold, \$697,000 of pay-offs and principal pay-downs, \$96,000 of charge-offs, and the sale of \$2.9 million of loans held-for-investment. The above decreases in non-accruing loans during the quarter ended March 31, 2013, were partially offset by \$690,000 of loans being placed on non-accrual status and advances on non-accruing loans of \$15,000.

#### Delinquency Status of Total Non-accruing Loans

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



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The following tables detail the delinquency status of non-accruing loans (held-for-investment and held-for-sale) at March 31, 2013, and December 31, 2012 (dollars in thousands). All delinquent loans in the following two tables are classified as held-for-investment, with the exception of \$5.4 million of loans held-for-sale at December 31, 2012.

|                                  | March 31, 2013 |          |            | Total     |
|----------------------------------|----------------|----------|------------|-----------|
|                                  | Days Past Due  |          |            |           |
| Real estate loans:               | 0 to 29        | 30 to 89 | 90 or more |           |
| Commercial                       | \$ 9,930       | \$ 6,095 | \$ 2,629   | \$ 18,654 |
| One -to- four family residential | 233            | 644      | 2,253      | 3,130     |
| Construction and land            | 2,085          | -        | -          | 2,085     |
| Multifamily                      | -              | -        | 279        | 279       |
| Home equity and lines of credit  | 106            | -        | 1,491      | 1,597     |
| Commercial and industrial loans  | 449            | 182      | 104        | 735       |
| Total non-accruing loans         | \$ 12,803      | \$ 6,921 | \$ 6,756   | \$ 26,480 |

|                                 | December 31, 2012 |          |            | Total     |
|---------------------------------|-------------------|----------|------------|-----------|
|                                 | Days Past Due     |          |            |           |
| Real estate loans:              | 0 to 29           | 30 to 89 | 90 or more |           |
| Commercial                      | \$ 15,646         | \$ 442   | \$ 6,337   | \$ 22,425 |
| One- to four-family residential | 356               | 649      | 5,328      | 6,333     |
| Construction and land           | 2,070             | -        | -          | 2,070     |
| Multifamily                     | -                 | -        | 1,169      | 1,169     |
| Home equity and lines of credit | 107               | -        | 1,587      | 1,694     |
| Commercial and industrial loans | 532               | -        | 724        | 1,256     |
| Total non-accruing loans        | \$ 18,711         | \$ 1,091 | \$ 15,145  | \$ 34,947 |

## Loans Subject to Restructuring Agreements

Included in non-accruing loans are loans subject to restructuring agreements totaling \$16.3 million and \$19.3 million at March 31, 2013, and December 31, 2012, respectively. At March 31, 2013, \$6.1 million, or 37.5% of the \$16.3 million were not performing in accordance with their restructured terms, as compared to \$3.3 million, or 17.0%, at December 31, 2012. One relationship accounts for \$4.8 million, or 78.3%, of the \$6.1 million of loans not performing in accordance with their restructured terms at March 31, 2013. The relationship is made of up of several loans totaling \$8.1 million. The business and collateral are located in New Jersey. The real estate collateral consists of a first mortgage on a manufacturing facility and subordinated mortgages on other real estate. The manufacturing facility was appraised for \$8.0 million in November 2012. Because of the nature of the collateral, the appraiser relied on the cost and sales approaches to value. The other collateral includes a subordinated mortgage on the primary residence of one of the principals that was appraised for \$1.7 million in November 2012 and is subordinate to a first mortgage of less than \$400,000. The loans are personally guaranteed by the principals.

The Company also holds loans subject to restructuring agreements that are on accrual status, which totaled \$25.9 million and \$25.7 million at March 31, 2013 and December 31, 2012, respectively. At March 31, 2013, \$19.8 million,

or 76.5% of the \$25.9 million were performing in accordance with their restructured terms, as compared to \$25.7 million, or 100%, at December 31, 2012. The entire \$6.1 million balance of accruing loans not performing in accordance with their restructured terms at March 31, 2013 is related to one relationship which is included in the proceeding tables related to troubled debt restructured loans and 30 to 89 day delinquent loans under the heading of commercial real estate loans. The business and collateral are located in New Jersey. The real estate collateral consists of a first mortgage on a hotel and catering hall which was appraised for \$9.5 million in March 2013.

The following table details the amounts and categories of the loans subject to restructuring agreements by loan type as of March 31, 2013 and December 31, 2012 (dollars in thousands).

|  | At March 31, 2013 |           | At December 31, 2012 |           |
|--|-------------------|-----------|----------------------|-----------|
|  | Non-Accruing      | Accruing  | Non-Accruing         | Accruing  |
| Troubled debt restructurings:                        |                   |           |                      |           |
| Real estate loans:                                   |                   |           |                      |           |
| Commercial   | \$ 13,066         | \$ 21,321 | \$ 16,046            | \$ 21,785 |
| One- to four-family residential                      | 489               | 978       | 612                  | 569       |
| Construction and land                                | 2,085             | -         | 2,070                | -         |
| Multifamily  | -                 | 2,132     | -                    | 2,041     |
| Home equity and lines of credit                      | 96                | 352       | 96                   | 356       |
| Commercial and industrial loans                      | 553               | 1,108     | 451                  | 946       |
| Total  | \$ 16,289         | \$ 25,891 | \$ 19,275            | \$ 25,697 |
| Not performing in accordance with restructured terms | 37.54%            | 23.53%    | 17.04%               | 0.00%     |

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

Loans 90 days or more past due and still accruing increased \$848,000 to \$1.5 million at March 31, 2013, from \$621,000 at December 31, 2012, and primarily consist of residential loans. Loans 90 days or more past due and still accruing at March 31, 2013, are considered well-secured and in the process of collection.

Other real estate owned was \$870,000 at both March 31, 2013 and December 31, 2012, respectively.

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

Loans 30 to 89 days delinquent and on accrual status at March 31, 2013 totaled \$20.6 million, an increase of \$5.8 million from the December 31, 2012, balance of \$14.8 million. The following tables set forth delinquencies for accruing loans by type and by amount at March 31, 2013, and December 31, 2012 (dollars in thousands).

|                                 | March 31, 2013 | December 31, 2012 |
|---------------------------------|----------------|-------------------|
| Real estate loans:              |                |                   |
| Commercial                      | \$ 8,247       | \$ 4,736          |
| One- to four-family residential | 7,241          | 5,584             |
| Construction and land           | 611            | 159               |
| Multifamily                     | 2,742          | 2,731             |
| Home equity and lines of credit | 247            | 44                |
| Commercial and industrial loans | 1,467          | 1,467             |
| Other loans                     | 34             | 59                |
| Total delinquent accruing loans | \$ 20,589      | \$ 14,780         |

## Liquidity and Capital Resources

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

Our primary sources of funds are deposits, principal and interest payments on loans and securities, borrowed funds, the proceeds from maturing securities and short-term investments, and to a lesser extent the proceeds from the sales of loans and securities and wholesale borrowings. The scheduled amortization of loans and securities, as well as

proceeds from borrowed funds, are predictable sources of funds. Other funding sources, however, such as deposit inflows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition. Northfield Bank is a member of the Federal Home Loan Bank of New York, which provides an additional source of short-term and long-term funding. Northfield Bank also has borrowing capabilities with the Federal Reserve on a short-term basis. The Bank's borrowed funds, excluding capitalized lease obligations and floating rate advances, were \$394.9 million at March 31, 2013, at a weighted average interest rate of 2.57%. A total of \$83.5 million of these borrowings will mature in less than one year. Borrowed funds, excluding capitalized lease obligations and floating rate advances, were \$414.3 million at December 31, 2012. The Company has the ability to obtain additional funding from the FHLB and Federal Reserve Bank discount window of approximately \$879.7 million, utilizing unencumbered securities of \$769.2 million and multifamily loans of \$200.4 million at March 31, 2013. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

Capital Resources. At March 31, 2013, and December 31, 2012, Northfield Bank exceeded all regulatory capital requirements to which it is subject.

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|   | Actual | Ratio | Minimum Required for<br>Capital Adequacy Purposes | Minimum Required to Be Well Capitalized<br>under Prompt Corrective Action Provisions |
|---|--------|-------|---|--|
| As of March 31, 2013:                           |        |       |   |  |
| Tangible capital to<br>tangible assets          | 18.30% |       | 1.50%   | NA   |
| Tier 1 capital (core) – (to<br>adjusted assets) | 18.30  |       | 4.00  | 5.00%  |
| Total capital (to<br>risk-weighted assets)      | 30.21  |       | 8.00  | 10.00  |
| As of December 31,<br>2012:                     |        |       |   |  |
| Tangible capital to<br>tangible assets          | 12.65% |       | 1.50%   | NA   |
| Tier 1 capital (core) – (to<br>adjusted assets) | 12.65  |       | 4.00  | 5.00%  |
| Total capital (to<br>risk-weighted assets)      | 22.30  |       | 8.00  | 10.00  |

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

## Off-Balance Sheet Arrangements and Contractual Obligations

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

The following table shows the contractual obligations of the Company by expected payment period as of March 31, 2013:

| Contractual Obligation                                | Total<br>(in thousands) | Less than One<br>Year | One to less than<br>Three Years | Three to less than<br>Five Years | Five Years and<br>greater |
|---|-------------------------|-----------------------|---------------------------------|----------------------------------|---------------------------|
| Debt obligations<br>(excluding capitalized<br>leases) | \$ 394,913              | \$ 83,500             | \$ 201,500                      | \$ 109,913                       | \$ -                      |
| Commitments to originate<br>loans                     | \$ 35,963               | \$ 35,963             | \$ -                            | \$ -                             | \$ -                      |
| Commitments to fund<br>unused lines of credit         | \$ 75,056               | \$ 75,056             | \$ -                            | \$ -                             | \$ -                      |

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

For further information regarding our off-balance sheet arrangements and contractual obligations, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

The management risk committee aims to manage interest risk by structuring the balance sheet to maximize net interest income while maintaining an acceptable level of risk exposure to changes in market interest rates. Liquidity, interest rate risk, and profitability are all considered to reach such a goal. Various asset/liability strategies are used to manage and control the interest rate sensitivity of our assets and liabilities. These strategies include pricing of loans and deposit products, adjusting the terms of loans and borrowings, and managing the deployment of our securities and short-term assets to manage mismatches in interest rate re-pricing.

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

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

The table below sets forth, as of March 31, 2013, our calculation of the estimated changes in our NPV, NPV ratio, and percent change in net interest income that would result from the designated instantaneous and sustained changes in interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied on as indicative of actual results (dollars in thousands).

| Change in Interest Rates (basis points) | NPV                               |  |               |                         | Estimated NPV/Present Value of Assets Ratio | Net Interest Income Percent Change |   |
|---|-----------------------------------|--|---------------|-------------------------|---|------------------------------------|---|
|   | Estimated Present Value of Assets | Estimated Present Value of Liabilities | Estimated NPV | Estimated Change In NPV |   |                                    |   |
| +400                                    | \$ 2,582,156                      | \$ 1,949,940                           | \$ 632,216    | \$ (193,515)            | 24.48%                                      | (6.17)                             | % |
| +300                                    | 2,654,556                         | 1,980,966                              | 673,590       | (152,141)               | 25.37                                       | (3.98)                             |   |
| +200                                    | 2,742,042                         | 2,012,983                              | 729,059       | (96,672)                | 26.59                                       | (1.86)                             |   |
| +100                                    | 2,827,596                         | 2,046,035                              | 781,561       | (44,170)                | 27.64                                       | (0.26)                             |   |
| 0                                       | 2,905,903                         | 2,080,172                              | 825,731       | -                       | 28.42                                       | 0.00                               |   |
| (100)                                   | 2,949,889                         | 2,108,178                              | 841,711       | 15,980                  | 28.53                                       | (2.43)                             |   |
| (200)                                   | 2,988,816                         | 2,117,099                              | 871,717       | 45,986                  | 29.17                                       | (5.24)                             |   |

The table above indicates that at March 31, 2013, in the event of a 400 basis point increase in interest rates, we would experience a 394 basis point decrease in NPV ratio (28.42% versus 24.48%), and a 6.17% decrease in net interest income. In the event of a 200 basis point decrease in interest rates, we would experience a 75 basis point increase in NPV ratio (28.42% versus



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29.17%) and a 5.24% decrease in net interest income. Our policies provide that, in the event of a 400 basis point increase or less in interest rates, our net present value ratio should decrease by no more than 500 basis points and our projected net interest income should decrease by no more than 44%. Additionally, our policy states that our net portfolio value should be at least 8% of total assets before and after such shock. At March 31, 2013, we were in compliance with all board approved policies with respect to interest rate risk management.

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

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ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2013. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended March 31, 2013, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

During the three months ended March 31, 2013, there have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC.

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

- (a) Unregistered Sale of Equity Securities. There were no sales of unregistered securities during the period covered by this report.
- (b) Use of Proceeds. Not applicable
- (c) Repurchases of Our Equity Securities. None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

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SIGNATURES

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

NORTHFIELD BANCORP, INC.

(Registrant)

Date: May 10, 2013

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

/s/ William R. Jacobs  
William R. Jacobs  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



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INDEX TO EXHIBITS

Exhibit

Number Description

- 31.1 Certification of John W. Alexander, Chairman, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)\*
- 31.2 Certification of William R. Jacobs, Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)\*
- 32 Certification of John W. Alexander, Chairman and Chief Executive Officer, and William R. Jacobs, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 101 The following materials from the Company's Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements\*\*

\* Filed herewith.

\*\* Furnished, not filed