

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

or

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

For transition period from            to

Commission File Number 1-33732

**NORTHFIELD BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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

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

of incorporation)

Identification No.)

**1410 St. Georges Avenue,**

**Avenel, New Jersey**  
(Address of principal executive offices)

**07001**  
(Zip Code)

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

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. 40,206,678 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of August 3, 2012.

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**NORTHFIELD BANCORP, INC.**

Form 10-Q Quarterly Report

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

June 30, 2012, and December 31, 2011

(In thousands, except share amounts)

|   | <b>June 30, 2012</b><br><b>(Unaudited)</b> | <b>December 31,</b><br><b>2011</b> |
|---|--|------------------------------------|
| <b>ASSETS:</b>  |  |                                    |
| Cash and due from banks   | \$ 11,680                                  | \$ 15,539                          |
| Interest-bearing deposits in other financial institutions   | 22,701                                     | 49,730                             |
| Total cash and cash equivalents   | 34,381                                     | 65,269                             |
| Trading securities  | 4,490                                      | 4,146                              |
| Securities available-for-sale, at estimated fair value (encumbered \$309,597 in 2012 and \$309,816 in 2011)                                       | 1,221,219                                  | 1,098,725                          |
| Securities held-to-maturity, at amortized cost (estimated fair value of \$2,961 in 2012 and \$3,771 in 2011)<br>(encumbered \$0 in 2012 and 2011) | 2,832                                      | 3,617                              |
| Loans held-for-sale   | 355  | 3,900                              |
| Purchased credit-impaired (PCI) loans held-for-investment   | 82,111                                     | 88,522                             |
| Originated loans held-for-investment, net   | 990,837                                    | 985,945                            |
| Loans held-for-investment, net  | 1,072,948                                  | 1,074,467                          |
| Allowance for loan losses   | (27,042)                                   | (26,836)                           |
| Net loans held-for-investment   | 1,045,906                                  | 1,047,631                          |
| Accrued interest receivable   | 7,790                                      | 8,610                              |
| Bank owned life insurance   | 79,207                                     | 77,778                             |
| Federal Home Loan Bank of New York stock, at cost   | 14,208                                     | 12,677                             |
| Premises and equipment, net   | 23,146                                     | 19,988                             |
| Goodwill  | 16,159                                     | 16,159                             |
| Other real estate owned   | 2,139                                      | 3,359                              |
| Other assets  | 12,090                                     | 15,059                             |
| <b>Total assets</b>   | <b>2,463,922</b>                           | <b>2,376,918</b>                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>   |  |                                    |
| <b>LIABILITIES:</b>   |  |                                    |
| Deposits  | 1,543,181                                  | 1,493,526                          |
| Securities sold under agreements to repurchase  | 276,000                                    | 276,000                            |
| Other borrowings  | 237,571                                    | 205,934                            |
| Advance payments by borrowers for taxes and insurance   | 3,177                                      | 2,201                              |
| Accrued expenses and other liabilities  | 15,101                                     | 16,607                             |
| <b>Total liabilities</b>  | <b>2,075,030</b>                           | <b>1,994,268</b>                   |
| <b>STOCKHOLDERS EQUITY:</b>   |  |                                    |
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued or outstanding   |  |                                    |

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Common stock, \$0.01 par value: 90,000,000 shares authorized, 45,632,611 shares issued at June 30, 2012, and December 31, 2011, respectively, 40,206,678 and 40,518,591 outstanding at June 30, 2012 and December 31, 2011, respectively

|   |                     |                     |
|---|---------------------|---------------------|
|   | 456                 | 456                 |
| Additional paid-in-capital  | 211,122             | 209,302             |
| Unallocated common stock held by employee stock ownership plan  | (14,279)            | (14,570)            |
| Retained earnings   | 242,956             | 235,776             |
| Accumulated other comprehensive income  | 18,765              | 17,470              |
| Treasury stock at cost; 5,425,933 and 5,114,020 shares at June 30, 2012 and December 31, 2011, respectively | (70,128)            | (65,784)            |
| <b>Total stockholders equity</b>  | <b>388,892</b>      | <b>382,650</b>      |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 2,463,922</b> | <b>\$ 2,376,918</b> |

See accompanying notes to consolidated financial statements.

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

Three and six months ended June 30, 2012, and 2011

(Unaudited)

(In thousands, except share data)

|   | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|---|-----------------------------|---------------|---------------------------|---------------|
|   | 2012                        | 2011          | 2012                      | 2011          |
| <b>Interest income:</b>   |                             |               |                           |               |
| Loans   | \$ 14,875                   | \$ 12,778     | \$ 30,025                 | \$ 25,252     |
| Mortgage-backed securities                                      | 6,843                       | 8,675         | 13,619                    | 17,092        |
| Other securities  | 890                         | 787           | 1,543                     | 1,757         |
| Federal Home Loan Bank of New York dividends                    | 142                         | 121           | 284                       | 230           |
| Deposits in other financial institutions                        | 10                          | 77            | 28                        | 105           |
| <b>Total interest income</b>                                    | <b>22,760</b>               | <b>22,438</b> | <b>45,499</b>             | <b>44,436</b> |
| <b>Interest expense:</b>  |                             |               |                           |               |
| Deposits  | 2,461                       | 3,270         | 4,985                     | 6,287         |
| Borrowings  | 3,286                       | 3,339         | 6,576                     | 6,549         |
| <b>Total interest expense</b>                                   | <b>5,747</b>                | <b>6,609</b>  | <b>11,561</b>             | <b>12,836</b> |
| Net interest income   | 17,013                      | 15,829        | 33,938                    | 31,600        |
| Provision for loan losses                                       | 544                         | 1,750         | 1,159                     | 3,117         |
| Net interest income after provision for loan losses             | 16,469                      | 14,079        | 32,779                    | 28,483        |
| <b>Non-interest income:</b>                                     |                             |               |                           |               |
| Fees and service charges for customer services                  | 763                         | 743           | 1,565                     | 1,437         |
| Income on bank owned life insurance                             | 710                         | 746           | 1,429                     | 1,487         |
| (Loss) gain on securities transactions, net                     | (77)                        | 839           | 2,060                     | 2,644         |
| Other-than-temporary impairment losses on securities            |                             | (991)         |                           | (1,152)       |
| Portion recognized in other comprehensive income (before taxes) |                             | 743           |                           | 743           |
| Net impairment losses on securities recognized in earnings      |                             | (248)         |                           | (409)         |
| Other   | 34                          | 110           | 351                       | 140           |
| <b>Total non-interest income</b>                                | <b>1,430</b>                | <b>2,190</b>  | <b>5,405</b>              | <b>5,299</b>  |
| <b>Non-interest expense:</b>                                    |                             |               |                           |               |
| Employee compensation and benefits                              | 5,644                       | 5,048         | 11,931                    | 10,210        |
| Director compensation   | 412                         | 372           | 803                       | 771           |
| Occupancy   | 2,064                       | 1,327         | 4,029                     | 2,819         |
| Furniture and equipment   | 356                         | 292           | 689                       | 579           |
| Data processing   | 920                         | 662           | 2,003                     | 1,334         |
| Professional fees   | 383                         | 400           | 809                       | 860           |
| FDIC insurance  | 938                         | 628           | 1,796                     | 1,068         |
| Other   | 1,084                       | 855           | 2,383                     | 1,896         |

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|   |                 |                 |                  |                  |
|---|-----------------|-----------------|------------------|------------------|
| <b>Total non-interest expense</b>                                 | <b>11,801</b>   | <b>9,584</b>    | <b>24,443</b>    | <b>19,537</b>    |
| Income before income tax expense                                  | 6,098           | 6,685           | 13,741           | 14,245           |
| <b>Income tax expense</b>   | <b>2,150</b>    | <b>2,338</b>    | <b>4,845</b>     | <b>4,928</b>     |
| <b>Net income</b>   | <b>\$ 3,948</b> | <b>\$ 4,347</b> | <b>\$ 8,896</b>  | <b>\$ 9,317</b>  |
| <b>Net income per common share basic and diluted</b>              | <b>\$ 0.10</b>  | <b>\$ 0.11</b>  | <b>\$ 0.23</b>   | <b>\$ 0.23</b>   |
| <b>Other comprehensive income, before tax:</b>                    |                 |                 |                  |                  |
| Unrealized gains on securities:                                   |                 |                 |                  |                  |
| Net unrealized holding gains on securities                        | 2,107           | 9,328           | 2,158            | 7,835            |
| Other comprehensive income, before tax                            | 2,107           | 9,328           | 2,158            | 7,835            |
| Income tax expense related to items of other comprehensive income | 842             | 3,732           | 863              | 3,134            |
| <b>Other comprehensive income, net of tax</b>                     | <b>1,265</b>    | <b>5,596</b>    | <b>1,295</b>     | <b>4,701</b>     |
| <b>Comprehensive income</b>                                       | <b>\$ 5,213</b> | <b>\$ 9,943</b> | <b>\$ 10,191</b> | <b>\$ 14,018</b> |

See accompanying notes to consolidated financial statements.

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## NORTHFIELD BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Six months ended June 30, 2012, and 2011

(Unaudited)

(Dollars in thousands, except share data)

|  | Common Stock<br>Shares | Common Stock<br>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,<br>Net of tax | Treasury<br>Stock | Total<br>Stockholders<br>Equity |
|--|------------------------|------------------------------|----------------------------------|--|----------------------|--|-------------------|---------------------------------|
| <b>Balance at December 31, 2010</b>                | 45,632,611             | \$ 456                       | \$ 205,863                       | \$ (15,188)  | \$ 222,655           | \$ 10,910  | \$ (27,979)       | \$ 396,717                      |
| Comprehensive income:                              |                        |                              |                                  |  |                      |  |                   |                                 |
| Net income   |                        |                              |                                  |  | 9,317                |  |                   | 9,317                           |
| Other comprehensive income                         |                        |                              |                                  |  |                      | 4,701  |                   | 4,701                           |
| ESOP shares allocated or committed to be released  |                        |                              | 102                              | 292  |                      |  |                   | 394                             |
| Stock compensation expense                         |                        |                              | 1,535                            |  |                      |  |                   | 1,535                           |
| Additional tax benefit on equity awards            |                        |                              | 186                              |  |                      |  |                   | 186                             |
| Exercise of stock options                          |                        |                              |                                  |  | (1)                  |  | 6                 | 5                               |
| Cash dividends declared (\$0.11 per common share)  |                        |                              |                                  |  | (1,846)              |  |                   | (1,846)                         |
| Treasury stock (average cost of \$13.58 per share) |                        |                              |                                  |  |                      |  | (12,838)          | (12,838)                        |
| <b>Balance at June 30, 2011</b>                    | 45,632,611             | \$ 456                       | \$ 207,686                       | \$ (14,896)  | \$ 230,125           | \$ 15,611  | \$ (40,811)       | \$ 398,171                      |
| <b>Balance at December 31, 2011</b>                | 45,632,611             | \$ 456                       | \$ 209,302                       | \$ (14,570)  | \$ 235,776           | \$ 17,470  | \$ (65,784)       | \$ 382,650                      |
| Comprehensive income:                              |                        |                              |                                  |  |                      |  |                   |                                 |
| Net income   |                        |                              |                                  |  | 8,896                |  |                   | 8,896                           |
| Other comprehensive income                         |                        |                              |                                  |  |                      | 1,295  |                   | 1,295                           |
| ESOP shares allocated or committed to be released  |                        |                              | 118                              | 291  |                      |  |                   | 409                             |
| Stock compensation expense                         |                        |                              | 1,498                            |  |                      |  |                   | 1,498                           |
| Additional tax benefit on equity awards            |                        |                              | 204                              |  |                      |  |                   | 204                             |
| Cash dividends declared (\$0.12 per common share)  |                        |                              |                                  |  | (1,716)              |  |                   | (1,716)                         |
| Treasury stock (average cost of \$13.81 per share) |                        |                              |                                  |  |                      |  | (4,344)           | (4,344)                         |
| <b>Balance at June 30, 2012</b>                    | 45,632,611             | \$ 456                       | \$ 211,122                       | \$ (14,279)  | \$ 242,956           | \$ 18,765  | \$ (70,128)       | \$ 388,892                      |

See accompanying notes to consolidated financial statements.



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

Six months ended June 30, 2012, and 2011

(Unaudited) (In thousands)

|   | 2012      | 2011      |
|---|-----------|-----------|
| Cash flows from operating activities:   |           |           |
| Net income  | \$ 8,896  | \$ 9,317  |
| Adjustments to reconcile net income to net cash provided by operating activities:                       |           |           |
| Provision for loan losses   | 1,159     | 3,117     |
| ESOP and stock compensation expense   | 1,907     | 1,929     |
| Depreciation  | 1,336     | 1,008     |
| Amortization of premiums, and deferred loan costs, net of accretion of discounts and deferred loan fees | 504       | 295       |
| Amortization of intangible assets   | 163       | 59        |
| Income on bank owned life insurance   | (1,429)   | (1,487)   |
| Gain on sale of premises and equipment and other real estate owned                                      |           | (84)      |
| Net gain on sale of loans held-for-sale   | (123)     | (15)      |
| Proceeds from sale of loans held-for-sale   | 10,161    | 5,484     |
| Origination of loans held-for-sale  | (6,493)   | (4,424)   |
| Gain on securities transactions, net  | (2,060)   | (2,644)   |
| Net impairment losses on securities recognized in earnings  |           | 409       |
| Net purchases of trading securities   | (91)      | (205)     |
| Decrease in accrued interest receivable   | 820       | 305       |
| Decrease (increase) in other assets   | 1,747     | (2,084)   |
| Decrease in accrued expenses and other liabilities  | (1,506)   | (491)     |
| Net cash provided by operating activities   | 14,991    | 10,489    |
| Cash flows from investing activities:   |           |           |
| Net decrease (increase) in loans receivable   | 384       | (76,940)  |
| (Purchases) redemptions of Federal Home Loan Bank of New York stock, net                                | (1,531)   | 1,153     |
| Purchases of securities available-for-sale  | (466,713) | (342,901) |
| Principal payments and maturities on securities available-for-sale                                      | 217,587   | 198,444   |
| Principal payments and maturities on securities held-to-maturity  | 784       | 641       |
| Proceeds from sale of securities available-for-sale   | 130,276   | 114,446   |
| Proceeds from sale of other real estate owned   | 1,416     | 487       |
| Purchases and improvements of premises and equipment  | (4,494)   | (2,460)   |
| Net cash used in investing activities   | (122,291) | (107,130) |
| Cash flows from financing activities:   |           |           |
| Net increase in deposits  | 49,655    | 75,728    |
| Dividends paid  | (1,716)   | (1,846)   |
| Exercise of stock options   |           | 5         |
| Purchase of treasury stock  | (4,344)   | (12,838)  |
| Additional tax benefit on equity awards   | 204       | 186       |
| Increase in advance payments by borrowers for taxes and insurance                                       | 976       | 1,176     |
| Repayments under capital lease obligations  | (122)     | (102)     |
| Proceeds from securities sold under agreements to repurchase and other borrowings                       | 175,759   | 412,981   |
| Repayments related to securities sold under agreements to repurchase and other borrowings               | (144,000) | (359,594) |

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|  |           |           |
|--|-----------|-----------|
| Net cash provided by financing activities                                | 76,412    | 115,696   |
| Net (decrease) increase in cash and cash equivalents                     | (30,888)  | 19,055    |
| Cash and cash equivalents at beginning of period                         | 65,269    | 43,852    |
| <br>   |           |           |
| Cash and cash equivalents at end of period                               | \$ 34,381 | \$ 62,907 |
| <br>   |           |           |
| Supplemental cash flow information:                                      |           |           |
| Cash paid during the period for:   |           |           |
| Interest   | \$ 11,741 | \$ 12,586 |
| Income taxes   | 4,229     | 6,129     |
| Non-cash transactions:   |           |           |
| Loans charged-off, net   | 953       | 1,416     |
| Other real estate owned write-downs                                      | 101       | 26        |
| Transfers of loans to other real estate owned                            | 306       | 376       |
| Decrease in due to broker for purchases of securities available-for-sale |           | (70,747)  |

See accompanying notes to consolidated financial statements.

**Table of Contents****NORTHFIELD BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****Note 1 Basis of Presentation**

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

In the opinion of management, all adjustments (consisting solely of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three and six months ended June 30, 2012, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2012. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

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

**Note 2 Securities**

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

|   | June 30, 2012     |                              |                               |                            |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
|   | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair<br>value |
| <b>Mortgage-backed securities:</b>                        |                   |                              |                               |                            |
| <b>Pass-through certificates:</b>                         |                   |                              |                               |                            |
| Government sponsored enterprises (GSE)                    | \$ 491,069        | \$ 25,079                    | \$ 105                        | \$ 516,043                 |
| Non-GSE   | 8,025             |                              | 640                           | 7,385                      |
| <b>Real estate mortgage investment conduits (REMICs):</b> |                   |                              |                               |                            |
| GSE   | 550,179           | 5,510                        | 78                            | 555,611                    |
| Non-GSE   | 24,545            | 1,469                        | 40                            | 25,974                     |
|   | 1,073,818         | 32,058                       | 863                           | 1,105,013                  |
| <b>Other securities:</b>                                  |                   |                              |                               |                            |
| Equity investments-mutual funds                           | 13,467            | 36                           |                               | 13,503                     |
| Corporate bonds   | 102,189           | 581                          | 67                            | 102,703                    |

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|                                     |              |           |        |              |
|-------------------------------------|--------------|-----------|--------|--------------|
|                                     | 115,656      | 617       | 67     | 116,206      |
| Total securities available-for-sale | \$ 1,189,474 | \$ 32,675 | \$ 930 | \$ 1,221,219 |

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

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

| <b>Available-for-sale</b>             | <b>Amortized<br/>cost</b> | <b>Estimated<br/>fair<br/>value</b> |
|---------------------------------------|---------------------------|-------------------------------------|
| Due in one year or less               | \$ 45,748                 | \$ 45,973                           |
| Due after one year through five years | 56,441                    | 56,730                              |
|                                       | <b>\$ 102,189</b>         | <b>\$ 102,703</b>                   |

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

For the three and six months ended June 30, 2012, the Company had gross proceeds of \$31.5 million and \$130.3 million, respectively, on sales of securities available-for-sale with gross realized gains of approximately \$66,000 and \$1.8 million, respectively, and no gross realized losses. For the three and six months ended June 30, 2011, the Company had gross proceeds of \$25.9 million and \$114.4 million, respectively, on sales of securities available-for-sale with gross realized gains of approximately \$866,000 and \$2.5 million, respectively, and no gross realized losses. The Company recognized \$(106,000) in losses and \$253,000 in gains on its trading securities portfolio during the three and six months ended June 30, 2012, respectively. The Company recognized \$(47,000) in losses and \$139,000 in gains on its trading securities portfolio during the three and six months ended June 30, 2011, respectively. The Company recognized no other-than-temporary impairment charges during the three and six months ended June 30, 2012. The Company recognized other-than-temporary impairment charges of \$248,000 and \$409,000 against earnings during the three and six months ended June 30, 2011, respectively, related to one equity investment in a mutual fund and two private label mortgage-backed securities.

Activity related to the credit component recognized in earnings on debt securities for which a portion of other-than-temporary impairment was recognized in accumulated other comprehensive income for the three and six months ended June 30, 2012 and 2011, is as follows (in thousands):

| Three months ended<br>June 30, | Six months ended<br>June 30, |
|--------------------------------|------------------------------|
|--------------------------------|------------------------------|

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|   | 2012   | 2011   | 2012   | 2011   |
|---|--------|--------|--------|--------|
| Balance, beginning of period  | \$ 578 | \$ 330 | \$ 578 | \$ 330 |
| Additions to the credit component on debt securities in which other-than-temporary impairment was not previously recognized |        | 248    |        | 248    |
| Cumulative pre-tax credit losses, end of period   | \$ 578 | \$ 578 | \$ 578 | \$ 578 |

Gross unrealized losses on mortgage-backed securities, equity investments, and corporate bonds available-for-sale, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2012, and December 31, 2011, were as follows (in thousands):

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|  | Less than 12 months |                      | June 30, 2012<br>12 months or more |                      | Total             |                      |
|--|---------------------|----------------------|------------------------------------|----------------------|-------------------|----------------------|
|  | Unrealized losses   | Estimated fair value | Unrealized losses                  | Estimated fair value | Unrealized losses | Estimated fair value |
| Mortgage-backed securities:                        |                     |                      |                                    |                      |                   |                      |
| Pass-through certificates:                         |                     |                      |                                    |                      |                   |                      |
| GSE  | \$ 105              | \$ 14,717            | \$                                 | \$                   | \$ 105            | \$ 14,717            |
| Non-GSE  |                     |                      | 640                                | 7,385                | 640               | 7,385                |
| Real estate mortgage investment conduits (REMICs): |                     |                      |                                    |                      |                   |                      |
| GSE  | 78                  | 100,705              |                                    |                      | 78                | 100,705              |
| Non-GSE  |                     |                      | 40                                 | 735                  | 40                | 735                  |
| Corporate bonds                                    | 7                   | 1,858                | 60                                 | 11,534               | 67                | 13,392               |
| <b>Total</b>                                       | <b>\$ 190</b>       | <b>\$ 117,280</b>    | <b>\$ 740</b>                      | <b>\$ 19,654</b>     | <b>\$ 930</b>     | <b>\$ 136,934</b>    |

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

Included in the above available-for-sale security amounts at June 30, 2012 were two pass-through non-GSE mortgage-backed securities issued by private companies (private label) in continuous unrealized loss positions of greater than twelve months that were rated less than investment grade at June 30, 2012. The first security had an estimated fair value of \$5.2 million (amortized cost of \$5.6 million), was rated Caa2, and had the following underlying collateral characteristics: 83% originated in 2004 and 17% originated in 2005. The second security had an estimated fair value of \$2.2 million (amortized cost of \$2.4 million), was rated C, and was supported by collateral which was originated in 2006. The ratings of these securities detailed above represents the lowest rating these securities received from the rating agencies of Moody's, Standard & Poor's, and Fitch. The Company continues to receive principal and interest payments in accordance with the contractual terms of these securities. Management has evaluated, among other things, delinquency status, location of collateral, estimated prepayment speeds, and the estimated default rates and loss severity in liquidating the underlying collateral for these securities. As a result of management's evaluation of these securities, the Company did not recognize any other-than-temporary impairment during the six months ended June 30, 2012. Management does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities, before their anticipated recovery, which may be maturity.

The Company also held one REMIC non-GSE mortgage-backed security and two corporate bonds that were in a continuous unrealized loss position of greater than twelve months at June 30, 2012. There was one pass-through mortgage-backed security issued or guaranteed by GSEs, twelve REMIC mortgage-backed securities issued or guaranteed by GSEs and one corporate bond that were in an unrealized loss position of less than twelve months and rated investment grade at June 30, 2012. The declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

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

economic environment.



**Table of Contents****Note 3 Loans**

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

|  | June 30,<br>2012    | December 31,<br>2011 |
|--|---------------------|----------------------|
| Real estate loans:   |                     |                      |
| Multifamily  | \$ 538,251          | \$ 458,370           |
| Commercial mortgage  | 311,256             | 327,074              |
| One- to- four family residential mortgage                                  | 69,781              | 72,592               |
| Home equity and lines of credit  | 28,928              | 29,666               |
| Construction and land  | 25,497              | 23,460               |
| <b>Total real estate loans</b>   | <b>973,713</b>      | <b>911,162</b>       |
| Commercial and industrial loans  | 13,369              | 12,710               |
| Insurance premium loans  | 454                 | 59,096               |
| Other loans  | 1,616               | 1,496                |
| <b>Total commercial and industrial, insurance premium, and other loans</b> | <b>15,439</b>       | <b>73,302</b>        |
| Deferred loan cost, net  | 1,685               | 1,481                |
| Originated loans held-for-investment, net                                  | 990,837             | 985,945              |
| PCI Loans  | 82,111              | 88,522               |
| <b>Loans held for investment, net</b>                                      | <b>1,072,948</b>    | <b>1,074,467</b>     |
| Allowance for loan losses  | (27,042)            | (26,836)             |
| <b>Net loans held-for-investment</b>                                       | <b>\$ 1,045,906</b> | <b>\$ 1,047,631</b>  |

Loans held-for-sale amounted to \$355,000 and \$3.9 million at June 30, 2012 and December 31, 2011, respectively. Loans held-for-sale are comprised of \$275,000 of one-to-four family residential mortgage loans and \$80,000 of commercial and industrial loans.

PCI loans, acquired as part of a Federal Deposit Insurance Corporation-assisted transaction, totaled \$82.1 million at June 30, 2012 as compared to \$88.5 million at December 31, 2011. The Company accounts for PCI loans utilizing generally accepting accounting principles applicable to loans acquired with deteriorated credit quality. PCI loans consist of approximately 34% commercial real estate and 55% commercial and industrial loans, with the remaining balance in residential and home equity loans. The following details the accretible yield for the three and six months ended June 30, 2012:

|                                    | For the Three Months<br>Ended June 30,<br>2012 | For the Six Months<br>Ended June 30, 2012 |
|------------------------------------|--|---|
| Balance at the beginning of period | \$ 40,873                                      | \$ 42,493                                 |
| Accretion into interest income     | (1,562)  | (3,182)                                   |
| <b>Balance at end of period</b>    | <b>\$ 39,311</b>                               | <b>\$ 39,311</b>                          |

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

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The Company, through its principal subsidiary, the Bank, serviced \$35.3 million and \$41.3 million of loans at June 30, 2012 and December 31, 2011, respectively, for Freddie Mac. These one- to four-family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans, the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed by the Company which, with other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At June 30, 2012, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans. Servicing of loans for others does not have a material effect on our financial position or results of operations.

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

|                           | At or for the<br>six months ended<br>June 30, |           |
|---------------------------|---|-----------|
|                           | 2012  | 2011      |
| Beginning balance         | \$ 26,836                                     | \$ 21,819 |
| Provision for loan losses | 1,159   | 3,117     |
| Charge-offs, net          | (953)   | (1,416)   |
| Ending balance            | \$ 27,042                                     | \$ 23,520 |

The following tables set forth activity in our allowance for loan losses, by loan type, for the six months ended June 30, 2012 and the year ended December 31, 2011. The following tables also detail the amount of originated loans held-for-investment, net of deferred loan fees and costs, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, as of June 30, 2012 and December 31, 2011 (in thousands).

|  | At June 30, 2012 |            |                            |                             |                    |                                 |        |           |          |             |       |
|--|------------------|------------|----------------------------|-----------------------------|--------------------|---------------------------------|--------|-----------|----------|-------------|-------|
|  | Real Estate      |            |                            | Home Equity                 |                    |                                 |        | Insurance | Other    | Unallocated | Total |
|  | Multifamily      | Commercial | One -to-<br>Four<br>Family | Construction<br>and<br>Land | Lines of<br>Credit | Commercial<br>and<br>Industrial |        |           |          |             |       |
| <b>Allowance for loan losses:</b>                        |                  |            |                            |                             |                    |                                 |        |           |          |             |       |
| Beginning Balance  | \$ 6,772         | \$ 14,120  | \$ 967                     | \$ 1,189                    | \$ 418             | \$ 2,035                        | \$ 186 | \$ 40     | \$ 1,109 | \$ 26,836   |       |
| Charge-offs  |                  | (655)      |                            | (43)                        | (3)                | (90)                            | (198)  | (3)       |          | (992)       |       |
| Recoveries   |                  | 15         |                            |                             |                    | 24                              |        |           |          | 39          |       |
| Provisions   | 360              | 539        | (330)                      | (119)                       | 146                | 227                             | 52     | 9         | 275      | 1,159       |       |
| Ending Balance   | \$ 7,132         | \$ 14,019  | \$ 637                     | \$ 1,027                    | \$ 561             | \$ 2,196                        | \$ 40  | \$ 46     | \$ 1,384 | \$ 27,042   |       |
| Ending balance: individually<br>evaluated for impairment | \$ 343           | \$ 2,709   | \$ 12                      | \$                          | \$ 132             | \$ 1,468                        | \$     | \$        | \$       | \$ 4,664    |       |
| Ending balance: collectively<br>evaluated for impairment | \$ 6,789         | \$ 11,310  | \$ 625                     | \$ 1,027                    | \$ 429             | \$ 728                          | \$ 40  | \$ 46     | \$ 1,384 | \$ 22,378   |       |
| <b>Originated loans, net:</b>                            |                  |            |                            |                             |                    |                                 |        |           |          |             |       |
| Ending Balance   | \$ 539,452       | \$ 311,386 | \$ 69,858                  | \$ 25,514                   | \$ 29,168          | \$ 13,389                       | \$ 454 | \$ 1,616  | \$       | \$ 990,837  |       |
| Ending balance: individually<br>evaluated for impairment | \$ 2,927         | \$ 44,844  | \$ 785                     | \$                          | \$ 1,954           | \$ 5,617                        | \$     | \$        | \$       | \$ 56,127   |       |
| Ending balance: collectively<br>evaluated for impairment | \$ 536,525       | \$ 266,542 | \$ 69,073                  | \$ 25,514                   | \$ 27,214          | \$ 7,772                        | \$ 454 | \$ 1,616  | \$       | \$ 934,710  |       |

At December 31, 2011

|  | At December 31, 2011 |            |                            |                             |                    |                                 |  |           |       |             |       |
|--|----------------------|------------|----------------------------|-----------------------------|--------------------|---------------------------------|--|-----------|-------|-------------|-------|
|  | Real Estate          |            |                            | Home Equity                 |                    |                                 |  | Insurance | Other | Unallocated | Total |
|  | Multifamily          | Commercial | One -to-<br>Four<br>Family | Construction<br>and<br>Land | Lines of<br>Credit | Commercial<br>and<br>Industrial |  |           |       |             |       |

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| <b>Allowance for loan losses:</b>                            |    |         |    |         |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |         |
|--|----|---------|----|---------|----|--------|----|--------|----|--------|----|--------|----|--------|----|-------|----|-------|----|---------|
| Beginning Balance  | \$ | 5,137   | \$ | 12,654  | \$ | 570    | \$ | 1,855  | \$ | 242    | \$ | 719    | \$ | 111    | \$ | 28    | \$ | 503   | \$ | 21,819  |
| Charge-offs  |    | (718)   |    | (5,398) |    | (101)  |    | (693)  |    | (62)   |    | (638)  |    | (70)   |    |       |    |       |    | (7,680) |
| Recoveries   |    |         |    | 55      |    |        |    |        |    |        |    | 23     |    | 30     |    |       |    |       |    | 108     |
| Provisions   |    | 2,353   |    | 6,809   |    | 498    |    | 27     |    | 238    |    | 1,931  |    | 115    |    | 12    |    | 606   |    | 12,589  |
| Ending Balance   | \$ | 6,772   | \$ | 14,120  | \$ | 967    | \$ | 1,189  | \$ | 418    | \$ | 2,035  | \$ | 186    | \$ | 40    | \$ | 1,109 | \$ | 26,836  |
| <b>Ending balance: individually evaluated for impairment</b> |    |         |    |         |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |         |
|  | \$ | 338     | \$ | 1,895   | \$ | 408    | \$ |        | \$ | 30     | \$ | 1,393  | \$ |        | \$ |       | \$ |       | \$ | 4,064   |
| <b>Ending balance: collectively evaluated for impairment</b> |    |         |    |         |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |         |
|  | \$ | 6,434   | \$ | 12,225  | \$ | 559    | \$ | 1,189  | \$ | 388    | \$ | 642    | \$ | 186    | \$ | 40    | \$ | 1,109 | \$ | 22,772  |
| <b>Originated loans, net:</b>                                |    |         |    |         |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |         |
| Ending balance   | \$ | 459,434 | \$ | 327,141 | \$ | 72,679 | \$ | 23,478 | \$ | 29,906 | \$ | 12,715 | \$ | 59,096 | \$ | 1,496 | \$ |       | \$ | 985,945 |
| <b>Ending balance: individually evaluated for impairment</b> |    |         |    |         |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |         |
|  | \$ | 2,945   | \$ | 43,448  | \$ | 2,532  | \$ | 1,709  | \$ | 1,593  | \$ | 2,043  | \$ |        | \$ |       | \$ |       | \$ | 54,270  |
| <b>Ending balance: collectively evaluated for impairment</b> |    |         |    |         |    |        |    |        |    |        |    |        |    |        |    |       |    |       |    |         |
|  | \$ | 456,489 | \$ | 283,693 | \$ | 70,147 | \$ | 21,769 | \$ | 28,313 | \$ | 10,672 | \$ | 59,096 | \$ | 1,496 | \$ |       | \$ | 931,675 |

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

The Company maintains a credit risk rating system as part of the risk assessment of its loan portfolio. The Company's lending officers are required to assign a credit risk rating to each loan in their portfolio at origination. When the lending officer learns of important financial developments, the risk rating is reviewed and adjusted if necessary. Periodically, management presents monitored assets to the Board Loan Committee. In addition, the Company engages a third party independent loan reviewer that performs semi-annual reviews of a sample of loans, validating the credit risk ratings assigned to such loans. The credit risk ratings play an important role in the 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

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Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are designated special mention.

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The following tables detail the recorded investment of originated loans held-for-investment, net of deferred fees and costs, by loan type and credit quality indicator at June 30, 2012, and December 31, 2011 (in thousands).

| At June 30, 2012            |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|-----------------------------|-------------|------------|------------|------------|---------------------|-----------|-----------------------|---------------------------------|---------------------------|-------------------|----------|------------|
| Real Estate                 |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | Multifamily |            | Commercial |            | One- to Four-Family |           | Construction and Land | Home Equity and Lines of Credit | Commercial and Industrial | Insurance Premium | Other    | Total      |
|                             | <35% LTV    | =>35% LTV  | <35% LTV   | =>35% LTV  | <60% LTV            | =>60% LTV |                       |                                 |                           |                   |          |            |
| Internal Risk Rating        |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
| Pass                        | \$ 23,107   | \$ 495,344 | \$ 32,491  | \$ 204,788 | \$ 35,291           | \$ 28,723 | \$ 15,938             | \$ 26,790                       | \$ 9,465                  | \$ 444            | \$ 1,616 | \$ 873,997 |
| Special Mention             |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | 123         | 13,456     | 562        | 25,090     | 1,546               | 389       | 4,228                 | 676                             | 569                       | 3                 |          | 46,642     |
| Substandard                 |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | 517         | 6,905      | 1,711      | 46,744     | 852                 | 3,057     | 5,348                 | 1,702                           | 3,355                     | 7                 |          | 70,198     |
| Total Loans Receivable, net |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | \$ 23,747   | \$ 515,705 | \$ 34,764  | \$ 276,622 | \$ 37,689           | \$ 32,169 | \$ 25,514             | \$ 29,168                       | \$ 13,389                 | \$ 454            | \$ 1,616 | \$ 990,837 |

| At December 31, 2011        |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|-----------------------------|-------------|------------|------------|------------|---------------------|-----------|-----------------------|---------------------------------|---------------------------|-------------------|----------|------------|
| Real Estate                 |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | Multifamily |            | Commercial |            | One- to Four-Family |           | Construction and Land | Home Equity and Lines of Credit | Commercial and Industrial | Insurance Premium | Other    | Total      |
|                             | <35% LTV    | =>35% LTV  | <35% LTV   | =>35% LTV  | <60% LTV            | =>60% LTV |                       |                                 |                           |                   |          |            |
| Internal Risk Rating        |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
| Pass                        | \$ 23,595   | \$ 419,433 | \$ 30,478  | \$ 214,120 | \$ 39,808           | \$ 27,806 | \$ 17,229             | \$ 27,751                       | \$ 8,761                  | \$ 58,817         | \$ 1,496 | \$ 869,294 |
| Special Mention             |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             |             | 11,989     | 624        | 23,271     | 1,730               |           | 631                   | 389                             | 1,118                     | 142               |          | 39,894     |
| Substandard                 |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | 555         | 3,862      | 2,027      | 56,621     | 821                 | 2,514     | 5,618                 | 1,766                           | 2,836                     | 137               |          | 76,757     |
| Total Loans Receivable, net |             |            |            |            |                     |           |                       |                                 |                           |                   |          |            |
|                             | \$ 24,150   | \$ 435,284 | \$ 33,129  | \$ 294,012 | \$ 42,359           | \$ 30,320 | \$ 23,478             | \$ 29,906                       | \$ 12,715                 | \$ 59,096         | \$ 1,496 | \$ 985,945 |

Included in originated loans receivable (including held-for-sale) are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment of these nonaccrual loans was \$34.4 million and \$43.8 million at June 30, 2012 and December 31, 2011, respectively. 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 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-accrual status.

These non-accrual amounts included loans deemed to be impaired of \$30.6 million and \$36.1 million at June 30, 2012 and December 31, 2011, respectively. Loans on non-accrual status with principal balances less than \$500,000, and therefore not meeting the Company's definition of an impaired loan, amounted to \$3.7 million and \$4.3 million at June 30, 2012 and December 31, 2011, respectively. Non-accrual amounts included in loans held-for-sale were \$80,000 and \$3.4 million at June 30, 2012, and December 31, 2011, respectively. Loans past due 90 days or more and still accruing interest were \$424,000 and \$85,000 at June 30, 2012 and December 31, 2011, respectively, and consisted of loans that are considered well secured and in the process of collection.

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



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|                                      | At June 30, 2012      |                        |                                |        | 90 Days or<br>More<br>Past<br>Due and<br>Accruing | Total Non-<br>Performing<br>Loans |
|--------------------------------------|-----------------------|------------------------|--------------------------------|--------|---|-----------------------------------|
|                                      | Non-Accruing Loans    |                        |                                | Total  |   |                                   |
|                                      | 0-29 Days<br>Past Due | 30-89 Days<br>Past Due | 90 Days or<br>More Past<br>Due |        |   |                                   |
| Loans held-for-investment:           |                       |                        |                                |        |   |                                   |
| Real estate loans:                   |                       |                        |                                |        |   |                                   |
| Commercial                           |                       |                        |                                |        |   |                                   |
| LTV < 35%                            |                       |                        |                                |        |   |                                   |
| Special Mention                      | \$                    | \$                     | \$                             | \$     | \$ 4  | \$ 4                              |
| Substandard                          | 353                   |                        | 1,358                          | 1,711  |   | 1,711                             |
| Total                                | 353                   |                        | 1,358                          | 1,711  | 4   | 1,715                             |
| LTV => 35%                           |                       |                        |                                |        |   |                                   |
| Special Mention                      |                       |                        |                                |        |   |                                   |
| Substandard                          | 14,595                | 464                    | 8,608                          | 23,667 |   | 23,667                            |
| Total                                | 14,595                | 464                    | 8,608                          | 23,667 |   | 23,667                            |
| Total commercial                     | 14,948                | 464                    | 9,966                          | 25,378 | 4   | 25,382                            |
| One-to-four family residential       |                       |                        |                                |        |   |                                   |
| LTV < 60%                            |                       |                        |                                |        |   |                                   |
| Special Mention                      |                       | 20                     | 327                            | 347    | 37  | 384                               |
| Substandard                          | 50                    | 207                    |                                | 257    |   | 257                               |
| Total                                | 50                    | 227                    | 327                            | 604    | 37  | 641                               |
| LTV => 60%                           |                       |                        |                                |        |   |                                   |
| Substandard                          | 234                   | 692                    | 130                            | 1,056  | 253   | 1,309                             |
| Total                                | 234                   | 692                    | 130                            | 1,056  | 253   | 1,309                             |
| Total one-to-four family residential | 284                   | 919                    | 457                            | 1,660  | 290   | 1,950                             |
| Construction and land                |                       |                        |                                |        |   |                                   |
| Substandard                          | 1,861                 |                        |                                | 1,861  |   | 1,861                             |
| Total construction and land          | 1,861                 |                        |                                | 1,861  |   | 1,861                             |
| Multifamily                          |                       |                        |                                |        |   |                                   |
| LTV < 35%                            |                       |                        |                                |        |   |                                   |
| Substandard                          | 517                   |                        |                                | 517    |   | 517                               |
| Total                                | 517                   |                        |                                | 517    |   | 517                               |
| LTV => 35%                           |                       |                        |                                |        |   |                                   |
| Substandard                          |                       |                        | 1,899                          | 1,899  | 71  | 1,970                             |
| Total                                |                       |                        | 1,899                          | 1,899  | 71  | 1,970                             |
| Total multifamily                    | 517                   |                        | 1,899                          | 2,416  | 71  | 2,487                             |

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Home equity and lines of credit

|  |  |            |              |              |  |              |
|--|--|------------|--------------|--------------|--|--------------|
| Substandard                                  |  | 100        | 1,602        | 1,702        |  | 1,702        |
| <b>Total home equity and lines of credit</b> |  | <b>100</b> | <b>1,602</b> | <b>1,702</b> |  | <b>1,702</b> |

Commercial and industrial loans

|  |            |  |            |              |  |              |
|--|------------|--|------------|--------------|--|--------------|
| Substandard                                  | 541        |  | 724        | 1,265        |  | 1,265        |
| <b>Total commercial and industrial loans</b> | <b>541</b> |  | <b>724</b> | <b>1,265</b> |  | <b>1,265</b> |

|                                       |  |  |          |          |  |          |
|---------------------------------------|--|--|----------|----------|--|----------|
| Insurance premium loans - substandard |  |  | 7        | 7        |  | 7        |
| <b>Total insurance premium loans</b>  |  |  | <b>7</b> | <b>7</b> |  | <b>7</b> |

Other loans

|      |  |  |  |  |    |    |
|------|--|--|--|--|----|----|
| Pass |  |  |  |  | 59 | 59 |
|------|--|--|--|--|----|----|

|                          |  |  |  |  |           |           |
|--------------------------|--|--|--|--|-----------|-----------|
| <b>Total other loans</b> |  |  |  |  | <b>59</b> | <b>59</b> |
|--------------------------|--|--|--|--|-----------|-----------|

|                                       |               |              |               |               |            |               |
|---------------------------------------|---------------|--------------|---------------|---------------|------------|---------------|
| <b>Total loans-held-for-investmet</b> | <b>18,151</b> | <b>1,483</b> | <b>14,655</b> | <b>34,289</b> | <b>424</b> | <b>34,713</b> |
|---------------------------------------|---------------|--------------|---------------|---------------|------------|---------------|

Loans held-for-sale:

Commercial and industrial loans

|             |  |  |    |    |  |    |
|-------------|--|--|----|----|--|----|
| Substandard |  |  | 80 | 80 |  | 80 |
|-------------|--|--|----|----|--|----|

|  |  |  |           |           |  |           |
|--|--|--|-----------|-----------|--|-----------|
| <b>Total commercial and industrial loans</b> |  |  | <b>80</b> | <b>80</b> |  | <b>80</b> |
|--|--|--|-----------|-----------|--|-----------|

|                                  |  |  |           |           |  |           |
|----------------------------------|--|--|-----------|-----------|--|-----------|
| <b>Total loans held-for-sale</b> |  |  | <b>80</b> | <b>80</b> |  | <b>80</b> |
|----------------------------------|--|--|-----------|-----------|--|-----------|

|                                   |                  |                 |                  |                  |               |                  |
|-----------------------------------|------------------|-----------------|------------------|------------------|---------------|------------------|
| <b>Total non-performing loans</b> | <b>\$ 18,151</b> | <b>\$ 1,483</b> | <b>\$ 14,735</b> | <b>\$ 34,369</b> | <b>\$ 424</b> | <b>\$ 34,793</b> |
|-----------------------------------|------------------|-----------------|------------------|------------------|---------------|------------------|

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|                                      | At December 31, 2011 |                     |                          |          |                                       |                            |
|--------------------------------------|----------------------|---------------------|--------------------------|----------|---------------------------------------|----------------------------|
|                                      | Non-Accruing Loans   |                     |                          | Total    | 90 Days or More Past Due and Accruing | Total Non-Performing Loans |
|                                      | 0-29 Days Past Due   | 30-89 Days Past Due | 90 Days or More Past Due |          |                                       |                            |
| Loans held-for-investment:           |                      |                     |                          |          |                                       |                            |
| Real estate loans:                   |                      |                     |                          |          |                                       |                            |
| Commercial                           |                      |                     |                          |          |                                       |                            |
| LTV < 35%                            |                      |                     |                          |          |                                       |                            |
| Special Mention                      |                      |                     |                          |          | 13                                    | 13                         |
| Substandard                          | \$ 404               | \$                  | \$ 1,360                 | \$ 1,764 | \$                                    | \$ 1,764                   |
| Total                                | 404                  |                     | 1,360                    | 1,764    | 13                                    | 1,777                      |
| LTV => 35%                           |                      |                     |                          |          |                                       |                            |
| Special Mention                      | 876                  |                     | 1,020                    | 1,896    |                                       | 1,896                      |
| Substandard                          | 14,657               | 3,438               | 10,559                   | 28,654   |                                       | 28,654                     |
| Total                                | 15,533               | 3,438               | 11,579                   | 30,550   |                                       | 30,550                     |
| Total commercial                     | 15,937               | 3,438               | 12,939                   | 32,314   | 13                                    | 32,327                     |
| One-to-four family residential       |                      |                     |                          |          |                                       |                            |
| LTV < 60%                            |                      |                     |                          |          |                                       |                            |
| Special Mention                      |                      | 23                  | 335                      | 358      |                                       | 358                        |
| Substandard                          | 210                  |                     | 198                      | 408      |                                       | 408                        |
| Total                                | 210                  | 23                  | 533                      | 766      |                                       | 766                        |
| LTV => 60%                           |                      |                     |                          |          |                                       |                            |
| Substandard                          |                      | 572                 |                          | 572      |                                       | 572                        |
| Total                                |                      | 572                 |                          | 572      |                                       | 572                        |
| Total one-to-four family residential | 210                  | 595                 | 533                      | 1,338    |                                       | 1,338                      |
| Construction and land                |                      |                     |                          |          |                                       |                            |
| Special Mention                      |                      |                     |                          |          |                                       |                            |
| Substandard                          | 1,709                |                     |                          | 1,709    |                                       | 1,709                      |
| Total construction and land          | 1,709                |                     |                          | 1,709    |                                       | 1,709                      |
| Multifamily                          |                      |                     |                          |          |                                       |                            |
| LTV < 35%                            |                      |                     |                          |          |                                       |                            |
| Substandard                          | 523                  |                     |                          | 523      |                                       | 523                        |
| Total                                | 523                  |                     |                          | 523      |                                       | 523                        |
| LTV => 35%                           |                      |                     |                          |          |                                       |                            |
| Substandard                          |                      |                     | 1,179                    | 1,179    | 72                                    | 1,251                      |
| Total                                |                      |                     | 1,179                    | 1,179    | 72                                    | 1,251                      |
| Total multifamily                    | 523                  |                     | 1,179                    | 1,702    | 72                                    | 1,774                      |
| Home equity and lines of credit      | 102                  |                     | 1,664                    | 1,766    |                                       | 1,766                      |

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|                                       |                  |                 |                  |                  |              |                  |
|---------------------------------------|------------------|-----------------|------------------|------------------|--------------|------------------|
| Substandard                           |                  |                 |                  |                  |              |                  |
| Total home equity and lines of credit | 102              |                 | 1,664            | 1,766            |              | 1,766            |
| Commercial and industrial loans       |                  |                 |                  |                  |              |                  |
| Special Mention                       |                  |                 | 724              | 724              |              | 724              |
| Substandard                           | 553              |                 | 90               | 643              |              | 643              |
| Total commercial and industrial loans | 553              |                 | 814              | 1,367            |              | 1,367            |
| Insurance premium loans substandard   |                  |                 | 137              | 137              |              | 137              |
| Total insurance premium loans         |                  |                 | 137              | 137              |              | 137              |
| Total loans-held-for-investmet        | 19,034           | 4,033           | 17,266           | 40,333           | 85           | 40,418           |
| Loans held-for-sale:                  |                  |                 |                  |                  |              |                  |
| Commercial                            |                  |                 |                  |                  |              |                  |
| LTV < 35%                             |                  |                 |                  |                  |              |                  |
| Substandard                           |                  |                 | 263              | 263              |              | 263              |
| Total                                 |                  |                 | 263              | 263              |              | 263              |
| LTV => 35%                            |                  |                 |                  |                  |              |                  |
| Substandard                           | 458              | 175             | 1,449            | 2,082            |              | 2,082            |
| Total                                 | 458              | 175             | 1,449            | 2,082            |              | 2,082            |
| Total commercial                      | 458              | 175             | 1,712            | 2,345            |              | 2,345            |
| Construction and land                 |                  |                 |                  |                  |              |                  |
| Substandard                           |                  |                 | 422              | 422              |              | 422              |
| Total construction and land           |                  |                 | 422              | 422              |              | 422              |
| Multifamily                           |                  |                 |                  |                  |              |                  |
| LTV < 35%                             |                  |                 |                  |                  |              |                  |
| Substandard                           |                  |                 | 32               | 32               |              | 32               |
| Total                                 |                  |                 | 32               | 32               |              | 32               |
| LTV => 35%                            |                  |                 |                  |                  |              |                  |
| Substandard                           |                  |                 | 441              | 441              |              | 441              |
| Total                                 |                  |                 | 441              | 441              |              | 441              |
| Total multifamily                     |                  |                 | 473              | 473              |              | 473              |
| Commercial and industrial loans       |                  |                 |                  |                  |              |                  |
| Substandard                           |                  |                 | 208              | 208              |              | 208              |
| Total commercial and industrial loans |                  |                 | 208              | 208              |              | 208              |
| Total loans held-for-sale             | 458              | 175             | 2,815            | 3,448            |              | 3,448            |
| <b>Total non-performing loans</b>     | <b>\$ 19,492</b> | <b>\$ 4,208</b> | <b>\$ 20,081</b> | <b>\$ 43,781</b> | <b>\$ 85</b> | <b>\$ 43,866</b> |



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The following tables set forth the detail and delinquency status of originated loans held-for-investment, net of deferred fees and costs, by performing and non-performing loans at June 30, 2012 and December 31, 2011 (in thousands).

|   | At June 30, 2012            |                        |                |                         |                                |
|---|-----------------------------|------------------------|----------------|-------------------------|--------------------------------|
|   | Performing (Accruing) Loans |                        |                | Non-Performing<br>Loans | Total Loans<br>Receivable, net |
|   | 0-29 Days<br>Past Due       | 30-89 Days<br>Past Due | Total          |                         |                                |
| <b>Loans held-for-investment:</b>           |                             |                        |                |                         |                                |
| <b>Real estate loans:</b>                   |                             |                        |                |                         |                                |
| <b>Commercial</b>                           |                             |                        |                |                         |                                |
| <b>LTV &lt; 35%</b>                         |                             |                        |                |                         |                                |
| Pass  | \$ 32,491                   | \$                     | \$ 32,491      | \$                      | \$ 32,491                      |
| Special Mention                             | 558                         |                        | 558            | 4                       | 562                            |
| Substandard                                 |                             |                        |                | 1,711                   | 1,711                          |
| <b>Total</b>                                | <b>33,049</b>               |                        | <b>33,049</b>  | <b>1,715</b>            | <b>34,764</b>                  |
| <b>LTV &gt; 35%</b>                         |                             |                        |                |                         |                                |
| Pass  | 202,767                     | 2,021                  | 204,788        |                         | 204,788                        |
| Special Mention                             | 25,090                      |                        | 25,090         |                         | 25,090                         |
| Substandard                                 | 18,600                      | 4,477                  | 23,077         | 23,667                  | 46,744                         |
| <b>Total</b>                                | <b>246,457</b>              | <b>6,498</b>           | <b>252,955</b> | <b>23,667</b>           | <b>276,622</b>                 |
| <b>Total commercial</b>                     | <b>279,506</b>              | <b>6,498</b>           | <b>286,004</b> | <b>25,382</b>           | <b>311,386</b>                 |
| <b>One-to-four family residential</b>       |                             |                        |                |                         |                                |
| <b>LTV &lt; 60%</b>                         |                             |                        |                |                         |                                |
| Pass  | 34,807                      | 484                    | 35,291         |                         | 35,291                         |
| Special Mention                             | 718                         | 444                    | 1,162          | 384                     | 1,546                          |
| Substandard                                 | 125                         | 470                    | 595            | 257                     | 852                            |
| <b>Total</b>                                | <b>35,650</b>               | <b>1,398</b>           | <b>37,048</b>  | <b>641</b>              | <b>37,689</b>                  |
| <b>LTV &gt; 60%</b>                         |                             |                        |                |                         |                                |
| Pass  | 27,016                      | 1,707                  | 28,723         |                         | 28,723                         |
| Special Mention                             | 389                         |                        | 389            |                         | 389                            |
| Substandard                                 | 1,748                       |                        | 1,748          | 1,309                   | 3,057                          |
| <b>Total</b>                                | <b>29,153</b>               | <b>1,707</b>           | <b>30,860</b>  | <b>1,309</b>            | <b>32,169</b>                  |
| <b>Total one-to-four family residential</b> | <b>64,803</b>               | <b>3,105</b>           | <b>67,908</b>  | <b>1,950</b>            | <b>69,858</b>                  |
| <b>Construction and land</b>                |                             |                        |                |                         |                                |
| Pass  | 15,938                      |                        | 15,938         |                         | 15,938                         |
| Special Mention                             | 4,228                       |                        | 4,228          |                         | 4,228                          |
| Substandard                                 | 3,487                       |                        | 3,487          | 1,861                   | 5,348                          |
| <b>Total construction and land</b>          | <b>23,653</b>               |                        | <b>23,653</b>  | <b>1,861</b>            | <b>25,514</b>                  |
| <b>Multifamily</b>                          |                             |                        |                |                         |                                |
| <b>LTV &lt; 35%</b>                         |                             |                        |                |                         |                                |
| Pass  | 22,964                      | 143                    | 23,107         |                         | 23,107                         |
| Special Mention                             | 123                         |                        | 123            |                         | 123                            |
| Substandard                                 |                             |                        |                | 517                     | 517                            |

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|                                       |                   |                  |                   |                  |                   |
|---------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|
| Total                                 | 23,087            | 143              | 23,230            | 517              | 23,747            |
| LTV > 35%                             |                   |                  |                   |                  |                   |
| Pass                                  | 495,344           |                  | 495,344           |                  | 495,344           |
| Special Mention                       | 11,739            | 1,717            | 13,456            |                  | 13,456            |
| Substandard                           | 4,595             | 340              | 4,935             | 1,970            | 6,905             |
| Total                                 | 511,678           | 2,057            | 513,735           | 1,970            | 515,705           |
| Total multifamily                     | 534,765           | 2,200            | 536,965           | 2,487            | 539,452           |
| Home equity and lines of credit       |                   |                  |                   |                  |                   |
| Pass                                  | 26,790            |                  | 26,790            |                  | 26,790            |
| Special Mention                       | 583               | 93               | 676               |                  | 676               |
| Substandard                           |                   |                  |                   | 1,702            | 1,702             |
| Total home equity and lines of credit | 27,373            | 93               | 27,466            | 1,702            | 29,168            |
| Commercial and industrial loans       |                   |                  |                   |                  |                   |
| Pass                                  | 9,465             |                  | 9,465             |                  | 9,465             |
| Special Mention                       | 471               | 98               | 569               |                  | 569               |
| Substandard                           | 2,090             |                  | 2,090             | 1,265            | 3,355             |
| Total commercial and industrial loans | 12,026            | 98               | 12,124            | 1,265            | 13,389            |
| Insurance premium loans               |                   |                  |                   |                  |                   |
| Pass                                  | 358               | 86               | 444               |                  | 444               |
| Special Mention                       |                   | 3                | 3                 |                  | 3                 |
| Substandard                           |                   |                  |                   | 7                | 7                 |
| Total insurance premium loans         | 358               | 89               | 447               | 7                | 454               |
| Other loans                           |                   |                  |                   |                  |                   |
| Pass                                  | 1,520             | 37               | 1,557             | 59               | 1,616             |
| Total other loans                     | 1,520             | 37               | 1,557             | 59               | 1,616             |
|                                       | <b>\$ 944,004</b> | <b>\$ 12,120</b> | <b>\$ 956,124</b> | <b>\$ 34,713</b> | <b>\$ 990,837</b> |

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|                                      | At December 31, 2011        |                        |           |                         |                                |
|--------------------------------------|-----------------------------|------------------------|-----------|-------------------------|--------------------------------|
|                                      | Performing (Accruing) Loans |                        |           | Non-Performing<br>Loans | Total Loans<br>Receivable, net |
|                                      | 0-29 Days<br>Past Due       | 30-89 Days<br>Past Due | Total     |                         |                                |
| Real estate loans:                   |                             |                        |           |                         |                                |
| Commercial                           |                             |                        |           |                         |                                |
| LTV < 35%                            |                             |                        |           |                         |                                |
| Pass                                 | \$ 30,478                   | \$                     | \$ 30,478 | \$                      | \$ 30,478                      |
| Special Mention                      | 611                         |                        | 611       | 13                      | 624                            |
| Substandard                          |                             |                        |           | 1,764                   | 1,764                          |
| Total                                | 31,089                      |                        | 31,089    | 1,777                   | 32,866                         |
| LTV > 35%                            |                             |                        |           |                         |                                |
| Pass                                 | 215,123                     | 1,342                  | 216,465   |                         | 216,465                        |
| Special Mention                      | 20,796                      | 579                    | 21,375    | 1,896                   | 23,271                         |
| Substandard                          | 19,402                      | 6,483                  | 25,885    | 28,654                  | 54,539                         |
| Total                                | 255,321                     | 8,404                  | 263,725   | 30,550                  | 294,275                        |
| Total commercial                     | 286,410                     | 8,404                  | 294,814   | 32,327                  | 327,141                        |
| One-to-four family residential       |                             |                        |           |                         |                                |
| LTV < 60%                            |                             |                        |           |                         |                                |
| Pass                                 | 39,420                      | 388                    | 39,808    |                         | 39,808                         |
| Special Mention                      | 974                         | 398                    | 1,372     | 358                     | 1,730                          |
| Substandard                          | 129                         | 284                    | 413       | 408                     | 821                            |
| Total                                | 40,523                      | 1,070                  | 41,593    | 766                     | 42,359                         |
| LTV > 60%                            |                             |                        |           |                         |                                |
| Pass                                 | 26,618                      | 1,188                  | 27,806    |                         | 27,806                         |
| Special Mention                      |                             |                        |           |                         |                                |
| Substandard                          | 1,942                       |                        | 1,942     | 572                     | 2,514                          |
| Total                                | 28,560                      | 1,188                  | 29,748    | 572                     | 30,320                         |
| Total one-to-four family residential | 69,083                      | 2,258                  | 71,341    | 1,338                   | 72,679                         |
| Construction and land                |                             |                        |           |                         |                                |
| Pass                                 | 14,610                      | 3,041                  | 17,651    |                         | 17,651                         |
| Special Mention                      | 631                         |                        | 631       |                         | 631                            |
| Substandard                          | 3,487                       |                        | 3,487     | 1,709                   | 5,196                          |
| Total construction and land          | 18,728                      | 3,041                  | 21,769    | 1,709                   | 23,478                         |
| Multifamily                          |                             |                        |           |                         |                                |
| LTV < 35%                            |                             |                        |           |                         |                                |
| Pass                                 | 23,595                      |                        | 23,595    |                         | 23,595                         |
| Substandard                          |                             |                        |           | 523                     | 523                            |
| Total                                | 23,595                      |                        | 23,595    | 523                     | 24,118                         |
| LTV > 35%                            |                             |                        |           |                         |                                |
| Pass                                 | 416,453                     | 3,453                  | 419,906   |                         | 419,906                        |
| Special Mention                      | 10,526                      | 1,463                  | 11,989    |                         | 11,989                         |
| Substandard                          | 618                         | 1,552                  | 2,170     | 1,251                   | 3,421                          |
| Total                                | 427,597                     | 6,468                  | 434,065   | 1,251                   | 435,316                        |



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|                                       |                   |                  |                   |                  |                   |
|---------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|
| Total multifamily                     | 451,192           | 6,468            | 457,660           | 1,774            | 459,434           |
| Home equity and lines of credit       |                   |                  |                   |                  |                   |
| Pass                                  | 27,721            | 30               | 27,751            |                  | 27,751            |
| Special Mention                       | 389               |                  | 389               |                  | 389               |
| Substandard                           |                   |                  |                   | 1,766            | 1,766             |
| Total home equity and lines of credit | 28,110            | 30               | 28,140            | 1,766            | 29,906            |
| Commercial and industrial loans       |                   |                  |                   |                  |                   |
| Pass                                  | 8,887             | 82               | 8,969             |                  | 8,969             |
| Special Mention                       | 269               | 125              | 394               | 724              | 1,118             |
| Substandard                           | 1,985             |                  | 1,985             | 643              | 2,628             |
| Total commercial and industrial loans | 11,141            | 207              | 11,348            | 1,367            | 12,715            |
| Insurance premium loans               |                   |                  |                   |                  |                   |
| Pass                                  | 58,391            | 426              | 58,817            |                  | 58,817            |
| Special Mention                       |                   | 142              | 142               |                  | 142               |
| Substandard                           |                   |                  |                   | 137              | 137               |
| Total insurance premium loans         | 58,391            | 568              | 58,959            | 137              | 59,096            |
| Other loans                           |                   |                  |                   |                  |                   |
| Pass                                  | 1,405             | 91               | 1,496             |                  | 1,496             |
| Total other loans                     | 1,405             | 91               | 1,496             |                  | 1,496             |
|                                       | <b>\$ 924,460</b> | <b>\$ 21,067</b> | <b>\$ 945,527</b> | <b>\$ 40,418</b> | <b>\$ 985,945</b> |

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

|   | Recorded<br>Investment | At June 30, 2012<br>Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|---|------------------------|--|----------------------|
| <b>With No Allowance Recorded:</b>        |                        |  |                      |
| Real estate loans:                        |                        |  |                      |
| Commercial                                |                        |  |                      |
| LTV < 35%                                 |                        |  |                      |
| Substandard                               | \$ 1,711               | \$ 1,711   | \$                   |
| LTV => 35%                                |                        |  |                      |
| Pass                                      | 884                    | 884  |                      |
| Special Mention                           | 2,972                  | 2,980  |                      |
| Substandard                               | 26,904                 | 27,630   |                      |
| One-to-four family residential            |                        |  |                      |
| LTV < 60%                                 |                        |  |                      |
| Substandard                               | 50                     | 50   |                      |
| LTV => 60%                                |                        |  |                      |
| Substandard                               | 257                    | 257  |                      |
| Construction and land                     |                        |  |                      |
| Substandard                               | 2,164                  | 2,822  |                      |
| Multifamily                               |                        |  |                      |
| LTV < 35%                                 |                        |  |                      |
| Substandard                               | 517                    | 517  |                      |
| LTV => 35%                                |                        |  |                      |
| Substandard                               | 835                    | 1,305  |                      |
| Commercial and industrial loans           |                        |  |                      |
| Special Mention                           | 39                     | 39   |                      |
| Substandard                               | 1,557                  | 1,557  |                      |
| <b>With a Related Allowance Recorded:</b> |                        |  |                      |
| Real estate loans:                        |                        |  |                      |
| Commercial                                |                        |  |                      |
| LTV => 35%                                |                        |  |                      |
| Special Mention                           | 648                    | 675  | (71)                 |
| Substandard                               | 11,875                 | 12,232   | (2,254)              |
| One-to-four family residential            |                        |  |                      |
| LTV < 60%                                 |                        |  |                      |
| Special Mention                           | 527                    | 527  | (12)                 |
| LTV => 60%                                |                        |  |                      |
| Substandard                               | 1,748                  | 1,748  | (384)                |
| Multifamily                               |                        |  |                      |
| LTV => 35%                                |                        |  |                      |
| Substandard                               | 2,410                  | 2,410  | (343)                |
| Home equity and lines of credit           |                        |  |                      |
| Special Mention                           | 364                    | 364  | (22)                 |
| Substandard                               | 1,591                  | 1,591  | (110)                |
| Commercial and industrial loans           |                        |  |                      |
| Substandard                               | 495                    | 495  | (1,468)              |
| <b>Total:</b>                             |                        |  |                      |
| Real estate loans                         |                        |  |                      |
| Commercial                                | 44,994                 | 46,112   | (2,325)              |
| One-to-four family residential            | 2,582                  | 2,582  | (396)                |
| Construction and land                     | 2,164                  | 2,822  |                      |

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|                                 |           |           |            |
|---------------------------------|-----------|-----------|------------|
| Multifamily                     | 3,762     | 4,232     | (343)      |
| Home equity and lines of credit | 1,955     | 1,955     | (132)      |
| Commercial and industrial loans | 2,091     | 2,091     | (1,468)    |
|                                 | \$ 57,548 | \$ 59,794 | \$ (4,664) |

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



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Included in the table above at June 30, 2012 are loans with carrying balances of \$37.9 million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Included in the table above at December 31, 2011 are loans with carrying balances of \$27.9 million that were not written down by either charge-offs or specific reserves in our allowance for loan losses. Loans not written down by charge-offs or specific reserves at June 30, 2012 and December 31, 2011, are considered to have sufficient collateral values, less costs to sell, to support the carrying balances of the loans.

The average recorded balance of originated impaired loans for the six months ended June 30, 2012 and 2011 was \$55.9 million and \$62.2 million, respectively. The Company recorded \$577,000 and \$1.3 million of interest income on impaired loans for the three and six months ended June 30, 2012, respectively, as compared to \$735,000 and \$1.6 million of interest income on impaired loans for the three and six months ended June 30, 2011, respectively.

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

|   | Number<br>of<br>Relationships | Six Months Ended June 30, 2012   |   |
|---|-------------------------------|--|---|
|   |                               | Pre-Modification<br>Outstanding Recorded<br>Investment<br>(in thousands) | Post-Modification<br>Outstanding Recorded<br>Investment |
| <b>Troubled Debt Restructurings</b>       |                               |  |   |
| Commercial real estate loans              |                               |  |   |
| Substandard                               | 1                             | \$ 6,360   | \$ 6,360  |
| One -to- four Family                      |                               |  |   |
| Substandard                               | 1                             | 257  | 257   |
| Home equity and lines of credit           |                               |  |   |
| Special Mention                           | 2                             | 364  | 364   |
| <b>Total Troubled Debt Restructurings</b> | <b>4</b>                      | <b>\$ 6,981</b>  | <b>\$ 6,981</b>   |

At June 30, 2012 and December 31, 2011, we had troubled debt restructurings of \$47.1 million and \$41.6 million, respectively.

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

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

One loan that was restructured during the last twelve months has subsequently defaulted. The loan was a one-to-four family loan with a recorded investment of \$257,000 and currently is maintained on non-accrual status as of June 30, 2012.

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

Deposits are as follows (in thousands):

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Non-interest-bearing demand                            | \$ 160,225       | \$ 156,493           |
| Interest-bearing negotiable orders of withdrawal (NOW) | 105,795          | 91,829               |
| Savings-passbook, statement, tiered, and money market  | 794,742          | 765,081              |
| Certificates of deposit                                | 482,419          | 480,123              |
|  | \$ 1,543,181     | \$ 1,493,526         |

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

|  | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2012                           | 2011     | 2012                         | 2011     |
| NOW, savings-passbook, statement, tiered, and money market | \$ 1,023                       | \$ 1,164 | \$ 2,119                     | \$ 2,298 |
| Certificates of deposit                                    | 1,438                          | 2,106    | 2,866                        | 3,989    |
|  | \$ 2,461                       | \$ 3,270 | \$ 4,985                     | \$ 6,287 |

**Note 5 Equity Incentive Plan**

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

|                               | Number of<br>Stock Options | Weighted<br>Average<br>Grant Date<br>Fair<br>Value | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Life<br>(years) |
|-------------------------------|----------------------------|--|--|---|
| Outstanding December 31, 2011 | 2,056,660                  | \$ 3.22  | \$ 9.95                                  | 7.02  |
| Granted                       |                            |  |  |   |
| Forfeited                     | (3,560)                    | 3.22   | 9.94                                     |   |
| Exercised                     |                            |  |  |   |
| Outstanding June 30, 2012     | 2,053,100                  | \$ 3.22  | \$ 9.95                                  | 6.57  |
| Exercisable June 30, 2012     | 1,240,040                  | \$ 3.22  | \$ 9.95                                  | 6.57  |

Expected future stock option expense related to the non-vested options outstanding as of June 30, 2012 is \$2.1 million over an average period of 1.6 years.

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

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

Expected future stock award expense related to the non-vested restricted share awards as of June 30, 2012 is \$2.6 million over an average period of 1.6 years.



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During the three and six months ended June 30, 2012, the Company recorded \$742,000 and \$1.5 million of stock-based compensation related to the above plans, respectively. During the three and six months ended June 30, 2011, the Company recorded \$775,000 and \$1.5 million of stock-based compensation related to the above plans, respectively.

**Note 6- Fair Value Measurements**

The following table presents the assets reported on the consolidated balance sheet at their estimated fair value as of June 30, 2012, and December 31, 2011, by level within the fair value hierarchy as required by the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

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

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

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

|                                    | Fair Value Measurements at Reporting Date Using: |  |   |   |
|------------------------------------|--|--|---|---|
|                                    | June 30, 2012                                    | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                                    | (in thousands)                                   |  |   |   |
| Measured on a recurring basis:     |  |  |   |   |
| Assets:                            |  |  |   |   |
| Investment securities:             |  |  |   |   |
| Available-for-sale:                |  |  |   |   |
| Mortgage-backed securities:        |  |  |   |   |
| GSE                                | \$ 1,071,654                                     | \$   | \$ 1,071,654                                  | \$  |
| Non-GSE                            | 33,359   |  | 33,359  |   |
| Corporate bonds                    | 102,703  |  | 102,703                                       |   |
| Equities                           | 13,503   | 13,503   |   |   |
| Total available-for-sale           | 1,221,219  | 13,503   | 1,207,716                                     |   |
| Trading securities                 | 4,490  | 4,490  |   |   |
| Total                              | \$ 1,225,709                                     | \$ 17,993  | \$ 1,207,716                                  | \$  |
| Measured on a non-recurring basis: |  |  |   |   |
| Assets:                            |  |  |   |   |
| Impaired loans:                    |  |  |   |   |
| Real estate loans:                 |  |  |   |   |
| Commercial real estate             | \$ 26,524  | \$   | \$  | \$ 26,524                                 |

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|   |           |    |    |           |
|---|-----------|----|----|-----------|
| One- to- four family residential mortgage | 2,532     |    |    | 2,532     |
| Construction and land                     | 1,861     |    |    | 1,861     |
| Multifamily                               | 2,411     |    |    | 2,411     |
| Home equity and lines of credit           | 1,954     |    |    | 1,954     |
| <br>                                      |           |    |    |           |
| Total impaired loans                      | 35,282    |    |    | 35,282    |
| <br>                                      |           |    |    |           |
| Commercial and industrial loans           | 456       |    |    | 456       |
| Other real estate owned                   | 2,139     |    |    | 2,139     |
| <br>                                      |           |    |    |           |
| Total                                     | \$ 37,877 | \$ | \$ | \$ 37,877 |

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|   | Fair Value Measurements at Reporting Date Using: |   |   |  |
|---|--|---|---|--|
|   | December 31,<br>2011                             | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|   | (in thousands)                                   |   |   |  |
| Measured on a recurring basis:            |  |   |   |  |
| Assets:                                   |  |   |   |  |
| Investment securities:                    |  |   |   |  |
| Available-for-sale:                       |  |   |   |  |
| Mortgage-backed securities:               |  |   |   |  |
| GSE                                       | \$ 945,782                                       | \$  | \$ 945,782  | \$   |
| Non-GSE                                   | 40,451   |   | 40,451  |  |
| Corporate bonds                           | 100,657  |   | 100,657   |  |
| Equities                                  | 11,835   | 11,835  |   |  |
| Total available-for-sale                  | 1,098,725  | 11,835  | 1,086,890   |  |
| Trading securities                        | 4,146  | 4,146   |   |  |
| Total                                     | \$ 1,102,871                                     | \$ 15,981   | \$ 1,086,890  | \$   |
| Measured on a non-recurring basis:        |  |   |   |  |
| Assets:                                   |  |   |   |  |
| Impaired loans:                           |  |   |   |  |
| Real estate loans:                        |  |   |   |  |
| Commercial real estate                    | \$ 27,826  | \$  | \$  | \$ 27,826  |
| One- to- four family residential mortgage | 2,532  |   |   | 2,532  |
| Construction and land                     | 1,709  |   |   | 1,709  |
| Multifamily                               | 1,552  |   |   | 1,552  |
| Home equity and lines of credit           | 1,593  |   |   | 1,593  |
| Total impaired loans                      | 35,212   |   |   | 35,212   |
| Commercial and industrial loans           | 462  |   |   | 462  |
| Other real estate owned                   | 3,359  |   |   | 3,359  |
| Total                                     | \$ 39,033  | \$  | \$  | \$ 39,033  |

The following table presents qualitative information for Level 3 assets measured at fair value on a non-recurring basis at June 30, 2012:

|                         | Fair Value<br>(in thousands) | Valuation Methodology | Unobservable Inputs   | Range of Inputs |
|-------------------------|------------------------------|-----------------------|---|-----------------|
| Impaired loans          | \$ 35,738                    | Appraisals            | Discount for costs to sell  | 7.0%            |
|                         |                              |                       | Discount for quick sale   | 10.0% - 20.0%   |
|                         |                              |                       | Discount for dated appraisal utilizing changes in real estate indexes | Varies          |
| Other real estate owned | \$ 2,139                     | Appraisals            | Discount for costs to sell  | 7.0%            |
|                         |                              |                       | Discount for dated appraisal utilizing changes 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

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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 six months ended June 30, 2012.

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

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

**Impaired Loans:** At June 30, 2012 and December 31, 2011, the Company had originated impaired loans held-for-investment and held-for-sale with outstanding principal balances of \$39.3 million and \$39.1 million, respectively, that were recorded at their estimated fair value of \$35.7 million and \$35.7 million, respectively. The Company recorded net impairment charges of \$604,000 and \$2.4 million for the six months ended June 30, 2012, and 2011, respectively, and charge-offs of \$992,000 and \$1.4 million for the six months ended June 30, 2012 and 2011, respectively, utilizing Level 3 inputs. For purposes of estimating fair value of impaired loans, management utilizes independent appraisals, if the loan is collateral dependent, adjusted downward by management, as necessary, for changes in relevant valuation factors subsequent to the appraisal date, or the present value of expected future cash flows for non-collateral dependent loans and troubled debt restructurings.

**Other Real Estate Owned:** At June 30, 2012, and December 31, 2011, the Company had assets acquired through foreclosure, or deed in lieu of foreclosure, of \$2.1 million and \$3.4 million, respectively, recorded at estimated fair value, less estimated selling costs when acquired, establishing a new cost basis. Estimated fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for loan losses. If the estimated fair value of the asset declines, a write-down is recorded through non-interest expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions.

There were no subsequent valuation adjustments to other real estate owned (REO) for the three and six months ended June 30, 2012. Operating costs after acquisition are expensed.

### **Fair Value of Financial Instruments**

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

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

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

#### ***(b) Securities (Held to Maturity)***

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

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***(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.

***(i) Advance Payments by Borrowers***

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

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

|   | Carrying Value | June 30, 2012<br>Estimated Fair Value |              |           | Total        |
|---|----------------|---------------------------------------|--------------|-----------|--------------|
|   |                | Level 1                               | Level 2      | Level 3   |              |
| <b>Financial assets:</b>                          |                |                                       |              |           |              |
| Cash and cash equivalents                         | \$ 34,381      | \$ 34,381                             | \$           | \$        | \$ 34,381    |
| Trading securities                                | 4,490          | 4,490                                 |              |           | 4,490        |
| Securities available-for-sale                     | 1,221,219      | 13,503                                | 1,207,716    |           | 1,221,219    |
| Securities held-to-maturity                       | 2,832          |                                       | 2,961        |           | 2,961        |
| Federal Home Loan Bank of New York stock, at cost | 14,208         |                                       | 14,208       |           | 14,208       |
| Loans held-for-sale                               | 355            |                                       |              | 355       | 355          |
| Net loans held-for-investment                     | 1,045,906      |                                       |              | 1,111,954 | 1,111,954    |
| <b>Financial liabilities:</b>                     |                |                                       |              |           |              |
| Deposits  | \$ 1,543,181   | \$                                    | \$ 1,549,103 | \$        | \$ 1,549,103 |
| Repurchase agreements and other borrowings        | 513,571        |                                       | 528,777      |           | 528,777      |
| Advance payments by borrowers                     | 3,177          |                                       | 3,177        |           | 3,177        |

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

**Limitations**

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

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

**Table of Contents****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>June 30, |            | For the six months ended<br>June 30, |            |
|---|--|------------|--------------------------------------|------------|
|   | 2012                                   | 2011       | 2012                                 | 2011       |
| Net income available to common stockholders                         | \$ 3,948                               | \$ 4,347   | \$ 8,896                             | \$ 9,317   |
| Weighted average shares outstanding-basic                           | 38,512,169                             | 40,599,400 | 38,579,475                           | 40,848,467 |
| Effect of non-vested restricted stock and stock options outstanding | 451,952                                | 381,291    | 473,643                              | 411,566    |
| Weighted average shares outstanding-diluted                         | 38,964,121                             | 40,980,691 | 39,053,118                           | 41,260,033 |
| Earnings per share-basic  | \$ 0.10                                | \$ 0.11    | \$ 0.23                              | \$ 0.23    |
| Earnings per share-diluted  | \$ 0.10                                | \$ 0.11    | \$ 0.23                              | \$ 0.23    |

**Note 8 Stock Repurchase Program**

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

**Note 9 Recent Accounting Pronouncements**

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

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risk or counterparty credit risk that are managed on the basis of the entity's net exposure to



either of those risks. This exception

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allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's shareholders equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company's interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 did not result in a material change to the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12,

Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. All other requirements in ASU 2011-05 are not affected by this Update. For a public entity, the ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption was permitted. The adoption of these pronouncements resulted in a change to the presentation of the Company's financial statements but did not have an impact on the Company's financial condition or results of operations.

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

**Note 10 Other Matters**

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

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

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

Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. Costs of \$402,000 have been incurred related to the conversion as of June 30, 2012.

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

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

This Quarterly Report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, and similar expressions. These forward looking statements include:

statements of our goals, intentions, and expectations;

statements regarding our business plans, prospects, growth, and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

the effect of the current financial economic downturn on our loan portfolio, investment portfolio, and our customers;

increased competition among depository and other financial institutions;

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

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

adverse changes in the securities markets;

legislative or regulatory changes that adversely affect our business;

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

changes in consumer spending, borrowing and savings habits;

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

inability of borrowers and/or third-party providers to perform their obligations to us;

the effect of recent governmental legislation restructuring the U.S. financial regulatory system;

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

the level of future deposit insurance premiums; and

changes in our organization, compensation, and benefit plans.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

### **Critical Accounting Policies**

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

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### **Overview**

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

Net income amounted to \$3.9 million and \$8.9 million for the three and six months ended June 30, 2012, respectively, as compared to \$4.3 million and \$9.3 million for the three and six months ended June 30, 2011, respectively. Basic and diluted earnings per share were \$0.10 and \$0.23 for the three and six months ended June 30, 2012, respectively, compared to \$0.11 and \$0.23 for the three and six months ended June 30, 2011, respectively. For the three and six months ended June 30, 2012, our return on average assets was 0.66% and 0.75%, respectively, as compared to 0.75% and 0.82% for the three and six months ended June 30, 2011, respectively. For the three and six months ended June 30, 2012, our return on average stockholders' equity was 4.11% and 4.64%, respectively, as compared to 4.40% and 4.74% for the three and six months ended June 30, 2011, respectively.

Assets increased by 3.7% to \$2.46 billion at June 30, 2012, from \$2.38 billion at December 31, 2011. The increase in total assets reflected an increase in securities available-for-sale of \$122.5 million, or 11.1%, which was partially offset by decreases in loans held-for-investment, cash and cash equivalents and other assets. Deposits increased \$49.7 million to \$1.54 billion at June 30, 2012, from \$1.49 billion at December 31, 2011. The increase in deposits was attributable to growth in transaction accounts, certificates of deposit and savings accounts partially offset by a decrease in short-term certificates of deposit originated through the CDARS® Network. Borrowed funds increased \$31.7 million to \$513.6 million at June 30, 2012, from \$481.9 million at December 31, 2011.

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

Total assets increased \$87.0 million, or 3.7%, to \$2.46 billion at June 30, 2012, from \$2.38 billion at December 31, 2011. The increase was primarily attributable to an increase in securities available-for-sale of \$122.5 million, partially offset by decreases of \$1.7 million in net loans held-for-investment and cash and cash equivalents of \$30.9 million.

Cash and cash equivalents decreased \$30.9 million, or 47.3%, to \$34.4 million at June 30, 2012, from \$65.3 million at December 31, 2011. The Company routinely maintains liquid assets in interest-bearing accounts in other well-capitalized financial institutions.

Securities available-for-sale increased \$122.5 million, or 11.1%, to \$1.22 billion at June 30, 2012, from \$1.10 billion at December 31, 2011. The increase was primarily attributable to purchases of \$466.7 million partially offset by maturities and pay-downs of \$217.6 million and sales of \$130.3 million.

Securities held-to-maturity decreased \$785,000, or 21.7%, to \$2.8 million at June 30, 2012, from \$3.6 million at December 31, 2011. The decrease was attributable to maturities and paydowns during the six months ended June 30, 2012.

Originated loans held-for-investment, net, totaled \$990.8 million at June 30, 2012, as compared to \$985.9 million at December 31, 2011. The increase was primarily due to an increase in multifamily real estate loans, which increased \$79.9 million, or 17.4%, to \$538.3 million at June 30, 2012, from \$458.4 million at December 31, 2011. This was partially offset by a decrease in insurance premium loans of \$58.6 million, due to the sale of the majority of the portfolio, and in commercial real estate loans of \$15.8 million. Currently, management is focused on originating multifamily loans, with less emphasis on other loan types.

Purchased credit-impaired (PCI) loans, acquired as part of a transaction with the Federal Deposit Insurance Corporation, totaled \$82.1 million at June 30, 2012 as compared to \$88.5 million at December 31, 2011. The decrease relates primarily to loan payments.

Bank owned life insurance increased \$1.4 million, or 1.8%, to \$79.2 million at June 30, 2012 from \$77.8 million at December 31, 2011. The increase resulted from income earned on bank owned life insurance for the six months ended June 30, 2012.

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Federal Home Loan Bank of New York stock, at cost, increased \$1.5 million, or 12.1%, to \$14.2 million at June 30, 2012, from \$12.7 million at December 31, 2011. This increase was attributable to an increase in borrowings outstanding with the Federal Home Loan Bank of New York over the same time period.

Premises and equipment, net, increased \$3.1 million, or 15.8%, to \$23.1 million at June 30, 2012, from \$20.0 million at December 31, 2011. This increase was primarily attributable to new branches and the renovation of existing branches.

Other real estate owned decreased \$1.2 million, or 36.3%, to \$2.2 million at June 30, 2012, from \$3.4 million at December 31, 2011. This decrease was attributable to the sale of properties during the six months ended June 30, 2012.

Other assets decreased \$3.0 million, or 19.7%, to \$12.1 million at June 30, 2012, from \$15.1 million at December 31, 2011. The decrease in other assets was attributable to a decrease in amounts due us from taxing authorities, and a decrease in prepaid FDIC insurance premiums due to amortization related to the FDIC prepayment of insurance premiums that was made in 2009, partially offset by an increase in prepaid expenses.

The increase in deposits for the six months ended June 30, 2012, was due to an increase in savings and money market accounts of \$29.7 million, or 3.9%, as compared to December 31, 2011, an increase in transaction accounts of \$17.7 million, or 7.1%, as compared to December 31, 2011, and an increase in certificates of deposit accounts (issued by the Bank) of \$5.0 million, or 1.1%, from December 31, 2011, to June 30, 2012. These increases were partially offset by a decrease of \$2.7 million in short-term certificates of deposit originated through the CDARS® Network. Deposits originated through the CDARS® Network totaled \$659,000 at June 30, 2012, and \$3.4 million at December 31, 2011. The Company utilizes the CDARS® Network as a cost-effective alternative to other short-term funding sources.

Borrowings, consisting primarily of repurchase agreements from other financial institutions and Federal Home Loan Bank advances, increased \$31.7 million, or 6.6%, to \$513.6 million at June 30, 2012, from \$481.9 million at December 31, 2011. The increase in borrowings was primarily the result of increased FHLB advances.

Accrued expenses and other liabilities decreased \$1.5 million, to \$15.1 million at June 30, 2012, from \$16.6 million at December 31, 2011. The decrease was primarily a result of a decrease in net accrued taxes.

Total stockholders' equity increased by \$6.2 million to \$388.9 million at June 30, 2012, from \$382.7 million at December 31, 2011. This increase was primarily attributable to net income of \$8.9 million for the six months ended June 30, 2012, a \$1.3 million increase in accumulated other comprehensive income and an increase of \$1.8 million in additional paid-in capital primarily related to the recognition of compensation expense associated with equity awards. The increase was partially offset by \$4.3 million in stock repurchases and the payment of approximately \$1.7 million in dividends.

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

**Comparison of Operating Results for the Three Months Ended June 30, 2012 and 2011**

**Net income.** Net income was \$3.9 million for the quarter ended June 30, 2012, as compared to \$4.3 million for the quarter ended June 30, 2011. Results reflected an increase of \$1.2 million in net interest income, a \$760,000 decrease in non-interest income, a decrease of \$1.2 million in the provision for loan losses, a \$2.2 million increase in non-interest expense and an \$188,000 decrease in income tax expense.

**Interest income.** Interest income increased \$322,000, or 1.4%, to \$22.8 million for the three months ended June 30, 2012, from \$22.4 million for the three months ended June 30, 2011. The increase was primarily due to an increase in interest income on loans of \$2.1 million. The increase in interest income on loans can be attributed to an increase in the average balances of \$192.2 million, partially offset by a decrease of 25 basis points in the yield earned. This increase was partially offset by a decrease in interest income on mortgage backed securities of \$1.8 million. The decrease in interest income on mortgage backed securities was primarily attributable to a decrease of 41 basis points in the yield earned and a decrease in the average balance of \$96.3 million.

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**Interest expense.** Interest expense decreased \$862,000, or 13.0%, to \$5.7 million for the three months ended June 30, 2012, from \$6.6 million for the three months ended June 30, 2011. The decrease was comprised of a decrease of \$809,000 in interest expense on deposits and a decrease in interest expense on borrowings of \$53,000. The decrease in interest expense on deposits was attributed to a decrease in the cost of interest bearing deposits of 28 basis points to 0.73% from 1.01%, partially offset by an increase in average balance of interest bearing deposit accounts of \$53.2 million, or 4.1%, to \$1.35 billion for the three months ended June 30, 2012, from \$1.30 billion for the three months ended June 30, 2011. The decrease in interest expense on borrowings was attributed to a decrease in the cost of two basis points to 2.66% for the three months ended June 30, 2012, from 2.68% for the three months ended June 30, 2011, and a decrease in average balances of borrowings of \$3.8 million, or 0.8%, to \$496.8 million for the three months ended June 30, 2012 from \$500.6 million for the three months ended June 30, 2011.

**Net Interest Income.** Net interest income increased \$1.2 million, or 7.5%, as interest-earning assets increased by 3.9% to \$2.27 billion. The increase in average interest-earning assets was due primarily to increases in average loans outstanding of \$192.2 million and in other securities of \$10.6 million, partially offset by decreases in interest-earning assets in other financial institutions of \$23.7 million and \$96.3 million in mortgage-backed securities. The quarter ended June 30, 2012 included prepayment loan income of \$226,000 compared to \$84,000 for the quarter ended June 30, 2011. The three months ended June 30, 2012 included a prepayment fee on the call of a corporate debt of \$253,000. Rates paid on interest-bearing liabilities decreased 22 basis points to 1.25% for the current quarter as compared to 1.47% for the prior year comparable period. This was partially offset by a nine basis point decrease in yields earned on interest earning assets to 4.03% for the current quarter as compared to 4.12% for the prior year comparable period.

**Provision for Loan Losses.** The provision for loan losses was \$544,000 for the quarter ended June 30, 2012, a decrease of \$1.2 million, or 68.9%, from the \$1.8 million provision recorded in the quarter ended June 30, 2011. The decrease in the provision for loan losses was due primarily to a shift in the composition of our loan portfolio to multifamily loans, which generally require lower general reserves than commercial real estate loans, and a decrease in non-performing loans during the quarter ended June 30, 2012. During the quarter ended June 30, 2012, we recorded net charge-offs of \$602,000 compared to net charge-offs of \$245,000 for the quarter ended June 30, 2011.

**Non-interest Income.** Non-interest income decreased \$760,000 or 34.7%, to \$1.4 million for the quarter ended June 30, 2012, as compared to \$2.2 million for the quarter ended June 30, 2011. This decrease was primarily a result of a decrease in gain on securities transactions, net of \$916,000 and a decrease in other income of \$76,000, partially offset by no loss on other-than-temporary-impairment of securities for the three months ended June 30, 2012 compared to a loss of \$248,000 for the three months ended June 30, 2011.

**Non-interest Expense.** Non-interest expense increased \$2.2 million, or 23.1%, to \$11.8 million for the quarter ended June 30, 2012, as compared to \$9.6 million for the quarter ended June 30, 2011. The increase was primarily due to employee compensation and benefits increasing by \$596,000 primarily related to branch openings and acquisitions, an increase in occupancy expense of \$737,000 primarily relating to new branches and the renovation of existing branches, an increase of \$258,000 in data processing fees primarily related to conversion costs associated with the transaction with the FDIC, a \$310,000 increase in professional fees primarily related to merger activity and an increase in other non-interest expense of \$229,000.

**Income Tax Expense.** We recorded income tax expense of \$2.1 million for the quarter ended June 30, 2012, compared to \$2.3 million for the quarter ended June 30, 2011. The effective tax rate for the quarter ended June 30, 2012, was 35.3%, as compared to 35.0% for the quarter ended June 30, 2011.



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## NORTHFIELD BANCORP, INC.

## ANALYSIS OF NET INTEREST INCOME

(Dollars in thousands)

|   | For the Three Months Ended June 30, |                  |                              |                                   |                  |                              |
|---|-------------------------------------|------------------|------------------------------|-----------------------------------|------------------|------------------------------|
|   | 2012                                |                  |                              | 2011                              |                  |                              |
|   | Average<br>Outstanding<br>Balance   | Interest         | Average<br>Yield/Rate<br>(1) | Average<br>Outstanding<br>Balance | Interest         | Average<br>Yield/Rate<br>(1) |
| <b>Interest-earning assets:</b>                                 |                                     |                  |                              |                                   |                  |                              |
| Loans (5)   | \$ 1,068,618                        | \$ 14,875        | 5.60%                        | \$ 876,389                        | \$ 12,778        | 5.85%                        |
| Mortgage-backed securities                                      | 1,031,804                           | 6,843            | 2.67                         | 1,128,099                         | 8,675            | 3.08                         |
| Other securities  | 129,806                             | 890              | 2.76                         | 119,161                           | 787              | 2.65                         |
| Federal Home Loan Bank of New York stock                        | 13,462                              | 142              | 4.24                         | 10,104                            | 121              | 4.80                         |
| Interest-earning deposits in financial institutions             | 28,932                              | 10               | 0.14                         | 52,652                            | 77               | 0.59                         |
| <b>Total interest-earning assets</b>                            | <b>2,272,622</b>                    | <b>22,760</b>    | <b>4.03</b>                  | <b>2,186,405</b>                  | <b>22,438</b>    | <b>4.12</b>                  |
| Non-interest-earning assets                                     | 144,906                             |                  |                              | 141,330                           |                  |                              |
| <b>Total assets</b>   | <b>\$ 2,417,528</b>                 |                  |                              | <b>\$ 2,327,735</b>               |                  |                              |
| <b>Interest-bearing liabilities:</b>                            |                                     |                  |                              |                                   |                  |                              |
| Savings, NOW, and money market accounts                         | \$ 878,514                          | \$ 1,023         | 0.47                         | \$ 700,613                        | \$ 1,164         | 0.67                         |
| Certificates of deposit   | 474,196                             | 1,438            | 1.22                         | 598,932                           | 2,106            | 1.41                         |
| <b>Total interest-bearing deposits</b>                          | <b>1,352,710</b>                    | <b>2,461</b>     | <b>0.73</b>                  | <b>1,299,545</b>                  | <b>3,270</b>     | <b>1.01</b>                  |
| Borrowed funds  | 496,770                             | 3,286            | 2.66                         | 500,548                           | 3,339            | 2.68                         |
| <b>Total interest-bearing liabilities</b>                       | <b>1,849,480</b>                    | <b>5,747</b>     | <b>1.25</b>                  | <b>1,800,093</b>                  | <b>6,609</b>     | <b>1.47</b>                  |
| Non-interest bearing deposit accounts                           | 164,969                             |                  |                              | 120,352                           |                  |                              |
| Accrued expenses and other liabilities                          | 16,371                              |                  |                              | 10,723                            |                  |                              |
| <b>Total liabilities</b>  | <b>2,030,820</b>                    |                  |                              | <b>1,931,168</b>                  |                  |                              |
| Stockholders' equity  | 386,708                             |                  |                              | 396,567                           |                  |                              |
| <b>Total liabilities and stockholders' equity</b>               | <b>\$ 2,417,528</b>                 |                  |                              | <b>\$ 2,327,735</b>               |                  |                              |
| <b>Net interest income</b>                                      |                                     | <b>\$ 17,013</b> |                              |                                   | <b>\$ 15,829</b> |                              |
| Net interest rate spread (2)                                    |                                     |                  | 2.78%                        |                                   |                  | 2.65%                        |
| Net interest-earning assets (3)                                 | \$ 423,142                          |                  |                              | \$ 386,312                        |                  |                              |
| Net interest margin (4)   |                                     |                  | 3.01%                        |                                   |                  | 2.90%                        |
| Average interest-earning assets to interest-bearing liabilities |                                     |                  | 122.88%                      |                                   |                  | 121.46%                      |

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

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

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- (3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.
- (5) Loans include non-accrual loans.

### **Comparison of Operating Results for the Six Months Ended June 30, 2012 and 2011**

**Net income.** Net income was \$8.9 million for the six months ended June 30, 2012, as compared to \$9.3 million for the six months ended June 30, 2011. Results reflected an increase of \$2.3 million in net interest income, a \$106,000 increase in non-interest income, a decrease of \$2.0 million in the provision for loan losses, a \$4.9 million increase in non-interest expense, and an \$83,000 decrease in income tax expense.

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**Interest income.** Interest income increased \$1.1 million, or 2.4%, to \$45.5 million for the six months ended June 30, 2012, from \$44.4 million for the six months ended June 30, 2011. The increase was primarily due to an increase in interest income on loans of \$4.8 million. The increase in interest income on loans can be attributed to an increase in the average balances of \$206.3 million, partially offset by a decrease of 26 basis points in the yield earned. This increase in interest income on loans was partially offset by a decrease in interest income on mortgage backed securities of \$3.5 million. The decrease in interest income on mortgage backed securities was primarily attributable to a decrease of 43 basis points in the yield earned and a decrease in the average balance of \$90.4 million.

**Interest expense.** Interest expense decreased \$1.2 million, or 9.9%, to \$11.6 million for the six months ended June 30, 2012, from \$12.8 million for the six months ended June 30, 2011. The decrease resulted from a decrease of \$1.3 in interest expense on deposits. Interest expense on borrowings was relatively flat compared to the prior year period. The decrease in interest expense on deposits was attributed to a decrease in the cost of interest bearing deposits of 26 basis points to 0.74% for the six months ended June 30, 2012, from 1.00% for the six months ended June 30, 2011, partially offset by an increase in average balance of interest bearing deposit accounts of \$77.6 million, or 6.1%, to \$1.35 billion for the six months ended June 30, 2012 from \$1.27 billion for the six months ended June 30, 2011.

**Net Interest Income.** Net interest income increased \$2.3 million, or 7.4%, as interest-earning assets increased by 4.81% to \$2.25 billion. The increase in average interest-earning assets was due primarily to an increase in average loans outstanding of \$206.3 million, partially offset by decreases in interest-earning assets in other financial institutions of \$9.2 million, mortgage-backed securities of \$90.4 million and other securities of \$5.8 million. The six months ended June 30, 2012 included prepayment loan income of \$414,000 compared to \$248,000 for the six months ended June 30, 2011. The six months ended June 30, 2012 included a prepayment fee on the call of a corporate debt of \$253,000. Other securities consist primarily of investment-grade shorter-term corporate bonds, and government-sponsored enterprise bonds. Rates paid on interest-bearing liabilities decreased 20 basis points to 1.27% as compared to 1.47% for the prior-year comparable period. This was partially offset by an 11 basis point decrease in yields earned on interest-earning assets to 4.06% as compared to 4.17% for the prior-year comparable period.

**Provision for Loan Losses.** The provision for loan losses was \$1.2 million for the six months ended June 30, 2012, a decrease of \$1.9 million, or 62.8%, from the \$3.1 million provision recorded in the six months ended June 30, 2011. The decrease in the provision for loan losses was due primarily to a shift in the composition of our loan portfolio to multifamily loans, which generally require lower general reserves than commercial real estate loans, and a decrease in non-performing loans during the six months ended June 30, 2012, as compared to the six months ended June 30, 2011. During the six months ended June 30, 2012, we recorded net charge-offs of \$953,000 compared to net charge-offs of \$1.4 million for the six months ended June 30, 2011.

**Non-interest Income.** Non-interest income increased \$106,000 or 2.0%, to \$5.4 million for the six months ended June 30, 2012, as compared to \$5.3 million for the six months ended June 30, 2011. This increase was primarily a result of a \$128,000 increase in fees and service charges for customer services and no loss on other-than-temporary-impairment of securities for the six months ended June 30, 2012 compared to a loss of \$248,000 for the six months ended June 30, 2011, partially offset by decreases in securities transactions, net of \$584,000 and in income on bank owned life insurance (BOLI) of \$58,000.

**Non-interest Expense.** Non-interest expense increased \$4.9 million, or 25.1%, to \$24.4 million for the six months ended June 30, 2012, as compared to \$19.5 million for the six months ended June 30, 2011. The increase was primarily due to employee compensation and benefits increasing by \$1.7 million primarily related to branch openings and acquisitions, an increase in occupancy expense of \$1.2 million primarily relating to new branches and the renovation of existing branches, an increase of \$669,000 in data processing fees primarily related to conversion costs associated with the transaction with the FDIC, a \$728,000 increase in professional fees primarily related to merger activity and an increase in other non-interest expense of \$487,000.

**Income Tax Expense.** We recorded income tax expense of \$4.8 million for the six months ended June 30, 2012, compared to \$4.9 million for the six months ended June 30, 2011. The effective tax rate for the six months ended June 30, 2012, was 35.3%, as compared to 34.6% for the six months ended June 30, 2011.

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## NORTHFIELD BANCORP, INC.

## ANALYSIS OF NET INTEREST INCOME

(Dollars in thousands)

|   | For the Six Months Ended June 30, |           |                              |                                   |           |                              |
|---|-----------------------------------|-----------|------------------------------|-----------------------------------|-----------|------------------------------|
|   | 2012                              |           |                              | 2011                              |           |                              |
|   | Average<br>Outstanding<br>Balance | Interest  | Average<br>Yield/Rate<br>(1) | Average<br>Outstanding<br>Balance | Interest  | Average<br>Yield/Rate<br>(1) |
| <b>Interest-earning assets:</b>                                 |                                   |           |                              |                                   |           |                              |
| Loans (5)   | \$ 1,065,272                      | \$ 30,025 | 5.67%                        | \$ 858,991                        | \$ 25,252 | 5.93%                        |
| Mortgage-backed securities                                      | 1,008,957                         | 13,619    | 2.71                         | 1,099,390                         | 17,092    | 3.14                         |
| Other securities  | 128,989                           | 1,543     | 2.41                         | 134,822                           | 1,757     | 2.63                         |
| Federal Home Loan Bank of New York stock                        | 13,083                            | 284       | 4.37                         | 10,469                            | 230       | 4.43                         |
| Interest-earning deposits in financial institutions             | 38,483                            | 28        | 0.15                         | 47,708                            | 105       | 0.44                         |
| Total interest-earning assets                                   | 2,254,784                         | 45,499    | 4.06                         | 2,151,380                         | 44,436    | 4.17                         |
| Non-interest-earning assets                                     | 144,572                           |           |                              | 134,861                           |           |                              |
| Total assets  | \$ 2,399,356                      |           |                              | \$ 2,286,241                      |           |                              |
| <b>Interest-bearing liabilities:</b>                            |                                   |           |                              |                                   |           |                              |
| Savings, NOW, and money market accounts                         | \$ 870,663                        | \$ 2,119  | 0.49                         | \$ 697,955                        | \$ 2,298  | 0.66                         |
| Certificates of deposit   | 475,239                           | 2,866     | 1.21                         | 570,312                           | 3,989     | 1.41                         |
| Total interest-bearing deposits                                 | 1,345,902                         | 4,985     | 0.74                         | 1,268,267                         | 6,287     | 1.00                         |
| Borrowed funds  | 489,504                           | 6,576     | 2.70                         | 496,276                           | 6,549     | 2.66                         |
| Total interest-bearing liabilities                              | 1,835,406                         | 11,561    | 1.27                         | 1,764,543                         | 12,836    | 1.47                         |
| Non-interest bearing deposit accounts                           | 162,602                           |           |                              | 115,346                           |           |                              |
| Accrued expenses and other liabilities                          | 15,757                            |           |                              | 9,706                             |           |                              |
| Total liabilities   | 2,013,765                         |           |                              | 1,889,595                         |           |                              |
| Stockholders' equity  | 385,591                           |           |                              | 396,646                           |           |                              |
| Total liabilities and stockholders' equity                      | \$ 2,399,356                      |           |                              | \$ 2,286,241                      |           |                              |
| Net interest income   |                                   | \$ 33,938 |                              |                                   | \$ 31,600 |                              |
| Net interest rate spread (2)                                    |                                   |           | 2.79%                        |                                   |           | 2.70%                        |
| Net interest-earning assets (3)                                 | \$ 419,378                        |           |                              | \$ 386,837                        |           |                              |
| Net interest margin (4)   |                                   |           | 3.03%                        |                                   |           | 2.96%                        |
| Average interest-earning assets to interest-bearing liabilities |                                   |           | 122.85%                      |                                   |           | 121.92%                      |

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

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

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

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- (4) Net interest margin represents net interest income divided by average total interest-earning assets.
- (5) Loans include non-accrual loans.

### **Asset Quality**

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).

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|   | June 30,<br>2012 | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 | June 30,<br>2011 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|
| <b>Non-accruing loans:</b>                                      |                  |                   |                      |                       |                  |
| Held-for-investment   | \$ 12,680        | \$ 15,805         | \$ 17,489            | \$ 28,035             | \$ 29,036        |
| Held-for-sale   | 80               | 80                | 2,991                |                       |                  |
| <b>Non-accruing loans subject to restructuring agreements:</b>  |                  |                   |                      |                       |                  |
| Held-for-investment   | 21,609           | 22,483            | 22,844               | 23,763                | 26,994           |
| Held-for-sale   |                  |                   | 457                  |                       |                  |
| <b>Total non-accruing loans</b>                                 | <b>34,369</b>    | <b>38,368</b>     | <b>43,781</b>        | <b>51,798</b>         | <b>56,030</b>    |
| <b>Loans 90 days or more past due and still accruing:</b>       |                  |                   |                      |                       |                  |
| Held-for-investment   | 424              | 1,786             | 85                   | 1,595                 | 1,987            |
| Held-for-sale   |                  |                   |                      |                       |                  |
| <b>Total loans 90 days or more past due and still accruing:</b> | <b>424</b>       | <b>1,786</b>      | <b>85</b>            | <b>1,595</b>          | <b>1,987</b>     |
| <b>Total non-performing loans</b>                               | <b>34,793</b>    | <b>40,154</b>     | <b>43,866</b>        | <b>53,393</b>         | <b>58,017</b>    |
| <b>Other real estate owned</b>                                  | <b>2,139</b>     | <b>2,444</b>      | <b>3,359</b>         | <b>34</b>             | <b>118</b>       |
| <b>Total non-performing assets</b>                              | <b>\$ 36,932</b> | <b>\$ 42,598</b>  | <b>\$ 47,225</b>     | <b>\$ 53,427</b>      | <b>\$ 58,135</b> |
| <b>Non-performing originated loans to total loans</b>           | <b>3.2%</b>      | <b>3.8%</b>       | <b>4.1%</b>          | <b>5.5%</b>           | <b>6.4%</b>      |
| Loans subject to restructuring agreements and still accruing    | \$ 25,502        | \$ 25,047         | \$ 18,349            | \$ 18,355             | \$ 15,622        |
| Accruing loans 30 to 89 days delinquent                         | \$ 12,121        | \$ 22,075         | \$ 21,067            | \$ 30,973             | \$ 14,169        |

**Total Non-accruing Loans**

Total non-accruing loans decreased \$9.4 million, to \$34.4 million at June 30, 2012, from \$43.8 million at December 31, 2011. This decrease was primarily attributable to loans held-for-sale of \$3.4 million being sold during the six months ended June 30, 2012, \$876,000 of loans returned to accrual status, \$2.2 million of pay-offs and principal pay-downs, charge offs of \$519,000, the sale of \$5.7 million of loans held-for-investment and the transfer of \$166,000 to other real estate owned. The above decreases in non-accruing loans during the six months ended June 30, 2012, were partially offset by \$3.1 million of loans being placed on non-accrual status and advances of \$352,000 during the six months ended June 30, 2012.

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

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

The following tables detail the delinquency status of non-accruing loans (held-for-investment and held-for-sale) at June 30, 2012 and December 31, 2011 (dollars in thousands). All delinquent loans in the following two tables are classified as held-for-investment, with the exception of \$80,000 and \$3.4 million of loans held-for-sale at June 30, 2012 and December 31, 2011, respectively. Delinquent loans held-for-sale at June 30, 2012 consisted of one commercial and industrial loan which was 90 days or more delinquent.

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|                                  | June 30, 2012    |                 |                  | Total            |
|----------------------------------|------------------|-----------------|------------------|------------------|
|                                  | Days Past Due    |                 |                  |                  |
|                                  | 0 to 29          | 30 to 89        | 90 or more       |                  |
| Real estate loans:               |                  |                 |                  |                  |
| Commercial                       | \$ 14,948        | \$ 464          | \$ 9,966         | \$ 25,378        |
| One -to- four family residential | 284              | 919             | 457              | 1,660            |
| Construction and land            | 1,861            |                 |                  | 1,861            |
| Multifamily                      | 517              |                 | 1,899            | 2,416            |
| Home equity and lines of credit  |                  | 100             | 1,602            | 1,702            |
| Commercial and industrial loans  | 541              |                 | 804              | 1,345            |
| Insurance premium loans          |                  |                 | 7                | 7                |
| <b>Total non-accruing loans</b>  | <b>\$ 18,151</b> | <b>\$ 1,483</b> | <b>\$ 14,735</b> | <b>\$ 34,369</b> |

|                                  | December 31, 2011 |                 |                  | Total            |
|----------------------------------|-------------------|-----------------|------------------|------------------|
|                                  | Days Past Due     |                 |                  |                  |
|                                  | 0 to 29           | 30 to 89        | 90 or more       |                  |
| Real estate loans:               |                   |                 |                  |                  |
| Commercial                       | \$ 16,395         | \$ 3,613        | \$ 14,651        | \$ 34,659        |
| One -to- four family residential | 210               | 594             | 534              | 1,338            |
| Construction and land            | 1,709             |                 | 422              | 2,131            |
| Multifamily                      | 523               |                 | 1,652            | 2,175            |
| Home equity and lines of credit  | 102               |                 | 1,664            | 1,766            |
| Commercial and industrial loans  | 553               |                 | 1,022            | 1,575            |
| Insurance premium loans          |                   |                 | 137              | 137              |
| <b>Total non-accruing loans</b>  | <b>\$ 19,492</b>  | <b>\$ 4,207</b> | <b>\$ 20,082</b> | <b>\$ 43,781</b> |

**Loans Subject to Restructuring Agreements**

Included in non-accruing loans are loans subject to restructuring agreements totaling \$21.6 million and \$23.3 million at June 30, 2012, and December 31, 2011, respectively. At June 30, 2012, \$17.8 million, or 82.5% of the \$21.6 million were performing in accordance with their restructured terms.

The Company also holds loans subject to restructuring agreements and still accruing, which totaled \$25.5 million and \$18.3 million at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012, \$23.1 million, or 90.6% of the \$25.5 million were performing in accordance with their restructured terms.

The following table details the amounts and categories of the loans subject to restructuring agreements by loan type as of June 30, 2012 and December 31, 2011 (dollars in thousands).

|                                 | At June 30, 2012 |           | At December 31, 2011 |           |
|---------------------------------|------------------|-----------|----------------------|-----------|
|                                 | Non-Accruing     | Accruing  | Non-Accruing         | Accruing  |
| Troubled debt restructurings:   |                  |           |                      |           |
| Real estate loans:              |                  |           |                      |           |
| Commercial                      | \$ 18,371        | \$ 20,344 | \$ 20,420            | \$ 13,389 |
| One- to four-family residential | 308              | 2,275     |                      | 2,532     |
| Construction and land           | 1,861            |           | 1,709                |           |
| Multifamily                     | 517              | 1,540     | 523                  | 1,552     |
| Home equity and lines of credit | 100              | 364       | 102                  |           |
| Commercial and industrial       | 452              | 979       | 547                  | 876       |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Total  | \$ 21,609 | \$ 25,502 | \$ 23,301 | \$ 18,349 |
| Performing in accordance with restructured terms | 82.51%    | 90.62%    | 82.34%    | 69.03%    |

### 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 \$339,000 to \$424,000 at June 30, 2012, as compared to \$85,000 at December 31, 2011. Loans 90 days or more past due and still accruing at June 30, 2012, are considered well-secured and in the process of collection.



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Other real estate owned amounted to \$2.1 million at June 30, 2012 as compared to \$3.4 million at December 31, 2011.

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

Loans 30 to 89 days delinquent and on accrual status at June 30, 2012, totaled \$12.1 million, a decrease of \$9.0 million from the December 31, 2011 balance of \$21.1 million. The following tables set forth delinquencies for accruing loans by type and by amount at June 30, 2012 and December 31, 2011 (dollars in thousands).

|                                 | June 30, 2012 | December 31, 2011 |
|---------------------------------|---------------|-------------------|
| Real estate loans:              |               |                   |
| Commercial                      | \$ 6,498      | \$ 8,404          |
| One- to four-family residential | 3,105         | 2,258             |
| Construction and land           |               | 3,041             |
| Multifamily                     | 2,200         | 6,468             |
| Home equity and lines of credit | 93            | 30                |
| Commercial and industrial loans | 98            | 207               |
| Insurance premium loans         | 89            | 568               |
| Other loans                     | 37            | 91                |
| Total delinquent accruing loans | \$ 12,120     | \$ 21,067         |

**PCI Loans (Held-for-Investment)**

At June 30, 2012, based on recorded contractual principal, 6.1% of PCI loans were past due 30 to 89 days, and 12.8% were past due 90 days or more, as compared to 9.0% and 16.1% at December 31, 2011.

**Liquidity and Capital Resources**

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

Our primary sources of funds are deposits, principal and interest payments on loans and securities, borrowed funds, the proceeds from maturing securities and short-term investments, and to a lesser extent the proceeds from the sales of loans and securities and wholesale borrowings. The scheduled 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 \$506.2 million at June 30, 2012, at a weighted average interest rate of 2.53%. A total of \$111.3 million of these borrowings will mature in less than one year. Borrowed funds, excluding capitalized lease obligations and floating rate advances, were \$477.2 million at December 31, 2011. The Company has the ability to obtain additional funding from the FHLB and Federal Reserve Bank discount window of approximately \$588.8 million, utilizing unencumbered securities of \$521.5 million and multifamily loans of \$127.5 million at June 30, 2012. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

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

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|  | Actual<br>Ratio | Minimum<br>Required for<br>Capital<br>Adequacy<br>Purposes | Minimum<br>Required to<br>Be<br>Well Capitalized<br>under Prompt<br>Corrective Action<br>Provisions |
|--|-----------------|--|---|
| <b>As of June 30, 2012:</b>                |                 |  |   |
| Tangible capital to tangible assets        | 13.40%          | 1.50%  | NA  |
| Tier 1 capital (core) (to adjusted assets) | 13.40           | 4.00   | 5.00  |
| Total capital (to risk-weighted assets)    | 22.50           | 8.00   | 10.00   |
| <b>As of December 31, 2011:</b>            |                 |  |   |
| Tangible capital to tangible assets        | 13.42%          | 1.50%  | NA  |
| Tier 1 capital (core) (to adjusted assets) | 13.42           | 4.00   | 5.00  |
| Total capital (to risk-weighted assets)    | 24.71           | 8.00   | 10.00   |

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

**Off-Balance Sheet Arrangements and Contractual Obligations**

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

The following table shows the contractual obligations of the Company by expected payment period as of June 30, 2012:

| Contractual Obligation                          | Total      | Less than<br>One Year | One to less<br>than Three<br>Years<br>(in thousands) | Three to<br>less than<br>Five<br>Years | Five Years<br>and greater |
|---|------------|-----------------------|--|--|---------------------------|
|   |            |                       |  |  |                           |
| Debt obligations (excluding capitalized leases) | \$ 506,213 | \$ 111,300            | \$ 203,000   | \$ 187,913                             | \$ 4,000                  |
| Commitments to originate loans                  | \$ 28,004  | \$ 28,004             | \$   | \$                                     | \$                        |
| Commitments to fund unused lines of credit      | \$ 48,577  | \$ 48,577             | \$   | \$                                     | \$                        |

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

As of June 30, 2012, we serviced \$35.3 million of loans for Freddie Mac. These one-to-four family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and to comply with applicable federal, state, and local laws. At the time of the closing of these loans the Company owned the loans and subsequently sold them to Freddie Mac providing normal and customary representations and warranties, including representations and warranties related to compliance with Freddie Mac underwriting standards. At the time of sale, the loans were free from encumbrances except for the mortgages filed for by the Company which, with



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other underwriting documents, were subsequently assigned and delivered to Freddie Mac. At June 30, 2012, substantially all of the loans serviced for Freddie Mac were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans.

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

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

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

We seek to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:

originating commercial real estate loans and multifamily loans that generally tend to have shorter maturities and higher interest rates that generally reset at five years;

investing in shorter term investment grade corporate securities and mortgage-backed securities; and

obtaining general financing through lower-cost deposits and longer-term Federal Home Loan Bank advances and repurchase agreements.

Shortening the average term of our interest-earning assets by increasing our investments in shorter-term assets, as well as loans with variable interest rates, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates.

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

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

The table below sets forth, as of June 30, 2012, our calculation of the estimated changes in our NPV, NPV ratio, and percent change in net interest income that would result from the designated instantaneous and sustained changes in interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied on as indicative of actual results (dollars in thousands).

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| Change in Interest Rates (basis points) | NPV                               |  |               |                         | Estimated NPV/Present Value of Assets Ratio | Net Interest Income Percent Change |
|---|-----------------------------------|--|---------------|-------------------------|---|------------------------------------|
|   | Estimated Present Value of Assets | Estimated Present Value of Liabilities | Estimated NPV | Estimated Change In NPV |   |                                    |
| +400                                    | \$ 2,269,383                      | \$ 1,927,290                           | \$ 342,093    | \$ (129,308)            | 15.07%                                      | -13.97%                            |
| +300                                    | 2,327,665                         | 1,959,109                              | 368,556       | (102,845)               | 15.83                                       | -10.13                             |
| +200                                    | 2,398,531                         | 1,991,973                              | 406,558       | (64,843)                | 16.95                                       | -6.12                              |
| +100                                    | 2,470,577                         | 2,025,930                              | 444,647       | (26,754)                | 18.00                                       | -2.43                              |
| 0                                       | 2,532,431                         | 2,061,030                              | 471,401       |                         | 18.61                                       | 0.00                               |
| -100                                    | 2,566,109                         | 2,091,868                              | 474,241       | 2,840                   | 18.48                                       | -0.59                              |
| -200                                    | 2,598,437                         | 2,101,301                              | 497,136       | 25,735                  | 19.13                                       | -3.82                              |

The table above indicates that at June 30, 2012, in the event of a 300 basis point increase in interest rates, we would experience a 278 basis point decrease in NPV ratio (18.61% versus 15.83%), and a 10.13% decrease in net interest income. In the event of a 200 basis point decrease in interest rates, we would experience a 52 basis point increase in NPV ratio (18.61% versus 19.13%) and a 3.82% decrease in net interest income. Our policies provide that, in the event of a 300 basis point increase/decrease or less in interest rates, our net present value ratio should decrease by no more than 400 basis points and in the event of a 200 basis point increase/decrease, our projected net interest income should decrease by no more than 20%. Additionally, our policy states that our net portfolio value should be at least 8.5% of total assets before and after such shock. At June 30, 2012, we were in compliance with all board approved policies with respect to interest rate risk management.

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

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**ITEM 4. CONTROLS AND PROCEDURES**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2012. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended June 30, 2012, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

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

**Our inability to achieve profitability on new branches may negatively impact our earnings.**

We currently intend to open four new branch offices by December 31, 2013, two in Brooklyn, New York, one in Staten Island, New York, and one in Union, New Jersey. The profitability of these branches will depend on whether the income that we generate from the additional branches we establish will offset the increased expenses resulting from operating new branches. We expect that it may take a period of time before new branches can become profitable. During this period, operating new branches may negatively affect our operating results.

**The expiration of unlimited Federal Deposit Insurance Corporation insurance on certain non-interest-bearing transaction accounts may increase our costs and reduce our liquidity levels.**

On December 31, 2012, unlimited Federal Deposit Insurance Corporation insurance on certain non-interest-bearing transaction accounts is scheduled to expire. Unlimited insurance coverage does not apply to money market deposit accounts or negotiable order of withdrawal accounts. The reduction in Federal Deposit Insurance Corporation insurance on other types of accounts to the standard \$250,000 maximum amount may cause depositors to place such funds in fully insured interest-bearing accounts, which would increase our costs of funds and negatively affect our results of operations, or may cause depositors to withdraw their deposits and invest uninsured funds in investments perceived as being more secure, such as securities issued by the United States Treasury. This may reduce our liquidity, or require us to pay higher interest rates to maintain our liquidity by retaining deposits.

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

(a) **Unregistered Sale of Equity Securities.** There were no sales of unregistered securities during the period covered by this report.

(b) **Use of Proceeds.** Not applicable

(c) **Repurchases of Our Equity Securities.**

The following table shows the Company's repurchase of its common stock for each calendar month in the three months ended June 30, 2012.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced | (d) Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs <sup>(1)</sup> |
|--------|--------------------------------------|----------------------------------|--|---|
|        |                                      |                                  |  |   |



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|                                       |         |          | <b>Plans<br/>or Programs <sup>(1)</sup></b> |           |
|---------------------------------------|---------|----------|---|-----------|
| April 1, 2012, through April 30, 2012 | 70,800  | \$ 13.87 | 70,800                                      | 1,176,454 |
| May 1, 2012, through May 31, 2012     | 94,000  | 13.78    | 94,000                                      | 1,082,454 |
| June 1, 2012, through June 30, 2012   | 25,390  | 13.83    | 25,390                                      |           |
| Total                                 | 190,190 | \$ 13.82 | 190,190                                     |           |

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

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**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: August 9, 2012

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

/s/ Steven M. Klein  
Steven M. Klein  
Chief Operating Officer and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

| Exhibit Number | Description   |
|----------------|---|
| 31.1           | Certification of John W. Alexander, Chairman, President and Chief Executive Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)*   |
| 31.2           | Certification of Steven M. Klein, Chief Operating Officer and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)*   |
| 32             | Certification of John W. Alexander, Chairman, President and Chief Executive Officer, and Steven M. Klein, Chief Operating Officer and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*  |
| 101            | The following materials from the Company's Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements** |

\* Filed herewith.

\*\* Furnished, not filed