

DIME COMMUNITY BANCSHARES INC  
Form 10-Q  
May 10, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended

March 31, 2011

OR

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

For the transition period from to

Commission file number 0-27782

Dime Community Bancshares, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

11-3297463  
(I.R.S. employer identification  
number)

209 Havemeyer Street, Brooklyn, NY  
(Address of principal executive offices)

11211  
(Zip Code)

(718) 782-6200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all the 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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



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Certain statements contained in this quarterly report on Form 10-Q that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in future filings with the U.S. Securities and Exchange Commission (the "SEC"), press releases, and oral and written statements made by management or with its approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of Dime Community Bancshares, Inc. and its subsidiaries (the "Company") or those of its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements.

Forward-looking statements include information concerning possible or assumed future results of operations and statements preceded by, followed by or that include the words "believes," "expects," "feels," "anticipates," "intends," "plans," "estimates," "predicts," "projects," "potential," "outlook," "could," "will," "may" or similar expressions. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions. Actual results may differ materially from those expressed in or implied by these forward-looking statements. Factors that could cause actual results to differ from these forward-looking statements include, but are not limited to, the following, as well as those discussed elsewhere in this report and the documents incorporated by reference herein:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins;

- changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;
- general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or banking industry, may be less favorable than currently anticipated;
- legislation or regulatory changes may adversely affect the Company's business;
- technological changes may be more difficult or expensive than the Company anticipates;
- success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and
- the risks referred to in the section entitled "Risk Factors."

Undue reliance should not be placed on any forward-looking statements. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update them in light of new information or future events except to the extent required by Federal securities laws.

## Item 1. Condensed Consolidated Financial Statements

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
 (Dollars in thousands except share amounts)

|                                                                                                                                                                 | March 31,<br>2011  | December<br>31,<br>2010 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------|
| <b>ASSETS:</b>                                                                                                                                                  |                    |                         |
| Cash and due from banks                                                                                                                                         | \$171,745          | \$86,193                |
| Federal funds sold and other short-term investments                                                                                                             | 4,461              | 4,536                   |
| Investment securities held-to-maturity (estimated fair value of \$6,558 and \$4,408 at March 31, 2011 and December 31, 2010, respectively) (Fully unencumbered) | 7,192              | 6,641                   |
| Investment securities available-for-sale, at fair value:                                                                                                        |                    |                         |
| Encumbered                                                                                                                                                      | 88,492             | 80,229                  |
| Unencumbered                                                                                                                                                    | 45,149             | 5,413                   |
|                                                                                                                                                                 | 133,641            | 85,642                  |
| Mortgage-backed securities available-for-sale, at fair value:                                                                                                   |                    |                         |
| Encumbered                                                                                                                                                      | 123,960            | 139,192                 |
| Unencumbered                                                                                                                                                    | 4,772              | 5,326                   |
|                                                                                                                                                                 | 128,732            | 144,518                 |
| Trading securities                                                                                                                                              | 1,541              | 1,490                   |
| Loans:                                                                                                                                                          |                    |                         |
| Real estate, net                                                                                                                                                | 3,454,717          | 3,467,644               |
| Other loans                                                                                                                                                     | 2,070              | 2,540                   |
| Less allowance for loan losses                                                                                                                                  | (19,663)           | (19,166)                |
| Total loans, net                                                                                                                                                | 3,437,124          | 3,451,018               |
| Loans held for sale                                                                                                                                             | 1,721              | 3,308                   |
| Premises and fixed assets, net                                                                                                                                  | 32,381             | 31,613                  |
| Federal Home Loan Bank of New York ("FHLBNY") capital stock                                                                                                     | 51,718             | 51,718                  |
| Other real estate owned ("OREO")                                                                                                                                | -                  | -                       |
| Goodwill                                                                                                                                                        | 55,638             | 55,638                  |
| Other assets                                                                                                                                                    | 116,816            | 117,980                 |
| <b>Total Assets</b>                                                                                                                                             | <b>\$4,142,710</b> | <b>\$4,040,295</b>      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                     |                    |                         |
| <b>Liabilities:</b>                                                                                                                                             |                    |                         |
| <b>Due to depositors:</b>                                                                                                                                       |                    |                         |
| Interest bearing deposits                                                                                                                                       | \$2,267,024        | \$2,224,851             |
| Non-interest bearing deposits                                                                                                                                   | 135,661            | 125,730                 |
| Total deposits                                                                                                                                                  | 2,402,685          | 2,350,581               |
| Escrow and other deposits                                                                                                                                       | 108,865            | 68,542                  |
| Securities sold under agreements to repurchase                                                                                                                  | 195,000            | 195,000                 |
| FHLBNY advances                                                                                                                                                 | 990,525            | 990,525                 |
| Trust Preferred securities payable                                                                                                                              | 70,680             | 70,680                  |
| Other liabilities                                                                                                                                               | 37,933             | 36,233                  |
| <b>Total Liabilities</b>                                                                                                                                        | <b>\$3,805,688</b> | <b>\$3,711,561</b>      |
| <b>Commitments and Contingencies</b>                                                                                                                            |                    |                         |
| <b>Stockholders' Equity:</b>                                                                                                                                    |                    |                         |

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|                                                                                                                                                                                                                                                                               |              |              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at March 31, 2011 and December 31, 2010)                                                                                                                                                 | -            | -            |
| Common stock (\$0.01 par, 125,000,000 shares authorized, 51,309,559 shares and 51,219,609 shares issued at March 31, 2011 and December 31, 2010, respectively, and 34,683,130 shares and 34,593,180 shares outstanding at March 31, 2011 and December 31, 2010, respectively) | 513          | 512          |
| Additional paid-in capital                                                                                                                                                                                                                                                    | 227,061      | 225,585      |
| Retained earnings                                                                                                                                                                                                                                                             | 336,060      | 329,668      |
| Accumulated other comprehensive loss, net of deferred taxes                                                                                                                                                                                                                   | (6,299)      | (6,352)      |
| Unallocated common stock of Employee Stock Ownership Plan ("ESOP")                                                                                                                                                                                                            | (3,412)      | (3,470)      |
| Unearned Restricted Stock Award common stock                                                                                                                                                                                                                                  | (2,376)      | (2,684)      |
| Common stock held by Benefit Maintenance Plan ("BMP")                                                                                                                                                                                                                         | (7,979)      | (7,979)      |
| Treasury stock, at cost (16,626,429 shares at both March 31, 2011 and December 31, 2010, respectively)                                                                                                                                                                        | (206,546)    | (206,546)    |
| Total Stockholders' Equity                                                                                                                                                                                                                                                    | \$337,022    | \$328,734    |
| Total Liabilities And Stockholders' Equity                                                                                                                                                                                                                                    | \$ 4,142,710 | \$ 4,040,295 |

See notes to condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
 (Dollars in thousands except per share amounts)

|                                                                                        | Three Months Ended<br>March 31, |                |
|----------------------------------------------------------------------------------------|---------------------------------|----------------|
|                                                                                        | 2011                            | 2010           |
| <b>Interest income:</b>                                                                |                                 |                |
| Loans secured by real estate                                                           | \$50,629                        | \$50,122       |
| Other loans                                                                            | 26                              | 39             |
| Mortgage-backed securities                                                             | 1,452                           | 2,271          |
| Investment securities                                                                  | 316                             | 407            |
| Federal funds sold and other short-term investments                                    | 772                             | 742            |
| <b>Total interest income</b>                                                           | <b>53,195</b>                   | <b>53,581</b>  |
| <b>Interest expense:</b>                                                               |                                 |                |
| Deposits and escrow                                                                    | 6,785                           | 7,593          |
| Borrowed funds                                                                         | 11,367                          | 13,222         |
| <b>Total interest expense</b>                                                          | <b>18,152</b>                   | <b>20,815</b>  |
| <b>Net interest income</b>                                                             | <b>35,043</b>                   | <b>32,766</b>  |
| Provision for loan losses                                                              | 1,426                           | 3,447          |
| <b>Net interest income after provision for loan losses</b>                             | <b>33,617</b>                   | <b>29,319</b>  |
| <b>Non-interest income:</b>                                                            |                                 |                |
| Total other than temporary impairment ("OTTI") losses                                  | (63 )                           | (216 )         |
| Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes) | -                               | 50             |
| <b>Net OTTI recognized in earnings</b>                                                 | <b>(63 )</b>                    | <b>(166 )</b>  |
| Service charges and other fees                                                         | 763                             | 936            |
| Net mortgage banking income                                                            | 93                              | 211            |
| Net gain on securities and sales of other assets (1)                                   | 46                              | 569            |
| Income from bank owned life insurance                                                  | 467                             | 504            |
| Other                                                                                  | 604                             | 456            |
| <b>Total non-interest income</b>                                                       | <b>1,910</b>                    | <b>2,510</b>   |
| <b>Non-interest expense:</b>                                                           |                                 |                |
| Salaries and employee benefits                                                         | 8,735                           | 7,979          |
| Stock benefit plan amortization expense                                                | 992                             | 907            |
| Occupancy and equipment                                                                | 2,689                           | 2,258          |
| Federal deposit insurance premiums                                                     | 1,224                           | 992            |
| Data processing costs                                                                  | 692                             | 759            |
| Provision for losses on OREO                                                           | -                               | 200            |
| Other                                                                                  | 2,528                           | 2,597          |
| <b>Total non-interest expense</b>                                                      | <b>16,860</b>                   | <b>15,692</b>  |
| <b>Income before income taxes</b>                                                      | <b>18,667</b>                   | <b>16,137</b>  |
| Income tax expense                                                                     | 7,587                           | 6,667          |
| <b>Net income</b>                                                                      | <b>\$11,080</b>                 | <b>\$9,470</b> |
| <b>Earnings per Share:</b>                                                             |                                 |                |
| Basic                                                                                  | \$0.33                          | \$0.29         |
| Diluted                                                                                | \$0.33                          | \$0.28         |

(1) Amount includes periodic valuation gains or losses on trading securities.

## STATEMENTS OF COMPREHENSIVE INCOME

|                                                                                                                                                                                                                       |           |          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------|
| Net Income                                                                                                                                                                                                            | \$ 11,080 | \$ 9,470 |
| Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of \$12 during the three months ended both March 31, 2011 and 2010, respectively | 14        | 15       |
| Reduction in non-credit component of OTTI charge, net of taxes of \$276 and \$127 during the three months ended March 31, 2011 and 2010, respectively                                                                 | 336       | 154      |
| Non-credit component of OTTI charge recognized during the period, net of tax benefit of \$(22) during the three months ended March 31, 2010                                                                           | -         | (28 )    |
| Reclassification adjustment for securities sold during the period, net of taxes of \$257 during the three months ended March 31, 2010                                                                                 | -         | (312 )   |
| Net unrealized securities gains arising during the period, net of (tax benefits) taxes of \$(267) and \$240 during the three months ended March 31, 2011 and 2010, respectively                                       | (324 )    | 291      |
| Defined benefit plan adjustments, net of taxes (tax benefits) of \$23 and \$(25) during the three months ended March 31, 2011 and 2010, respectively                                                                  | 27        | (30 )    |
| Comprehensive Income                                                                                                                                                                                                  | \$ 11,133 | \$ 9,560 |

See notes to condensed consolidated financial statements.



DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 (Dollars in thousands)

|                                                                                                                                     | Three Months Ended<br>March 31, |            |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                                                                     | 2011                            | 2010       |
| <b>STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</b>                                                                                |                                 |            |
| <b>Common Stock (Par Value \$0.01):</b>                                                                                             |                                 |            |
| Balance at beginning of period                                                                                                      | \$512                           | \$511      |
| Shares issued in exercise of options                                                                                                | 1                               | -          |
| Balance at end of period                                                                                                            | 513                             | 511        |
| <b>Additional Paid-in Capital:</b>                                                                                                  |                                 |            |
| Balance at beginning of period                                                                                                      | 225,585                         | 214,654    |
| Stock options exercised                                                                                                             | 903                             | -          |
| Forfeited restricted stock award shares returned to treasury stock                                                                  | -                               | 3          |
| Tax benefit (expense) of stock plans                                                                                                | 111                             | (5 )       |
| BMP award distribution                                                                                                              | -                               | (28 )      |
| BMP reclassification                                                                                                                | -                               | 8,007      |
| Amortization of excess fair value over cost – ESOP stock and stock options expense                                                  | 462                             | 415        |
| Balance at end of period                                                                                                            | 227,061                         | 223,046    |
| <b>Retained Earnings:</b>                                                                                                           |                                 |            |
| Balance at beginning of period                                                                                                      | 329,668                         | 306,787    |
| Net income for the period                                                                                                           | 11,080                          | 9,470      |
| Cash dividends declared and paid                                                                                                    | (4,688 )                        | (4,642 )   |
| BMP reclassification                                                                                                                | -                               | 133        |
| Balance at end of period                                                                                                            | 336,060                         | 311,748    |
| <b>Accumulated Other Comprehensive Loss, net of tax:</b>                                                                            |                                 |            |
| Balance at beginning of period                                                                                                      | (6,352 )                        | (5,082 )   |
| Amortization and reversal of net unrealized loss on securities transferred from available-for- sale to held-to-maturity, net of tax | 14                              | 15         |
| Reduction in non-credit component of OTTI charge, net of tax                                                                        | 336                             | 154        |
| Non-credit component of OTTI charge recognized during the period, net of tax                                                        | -                               | (28 )      |
| Increase in unrealized loss on available-for-sale securities during the period                                                      | (324 )                          | (21 )      |
| Adjustments related to defined benefit plans, net of tax                                                                            | 27                              | (30 )      |
| Balance at end of period                                                                                                            | (6,299 )                        | (4,992 )   |
| <b>ESOP:</b>                                                                                                                        |                                 |            |
| Balance at beginning of period                                                                                                      | (3,470 )                        | (3,701 )   |
| Amortization of earned portion of ESOP stock                                                                                        | 58                              | 57         |
| Balance at end of period                                                                                                            | (3,412 )                        | (3,644 )   |
| <b>Unearned Restricted Stock Award Common Stock:</b>                                                                                |                                 |            |
| Balance at beginning of period                                                                                                      | (2,684 )                        | (2,505 )   |
| Amortization of earned portion of restricted stock awards                                                                           | 308                             | 242        |
| Forfeited restricted stock award shares returned to treasury stock                                                                  | -                               | 149        |
| Balance at end of period                                                                                                            | (2,376 )                        | (2,114 )   |
| <b>Treasury Stock, at cost:</b>                                                                                                     |                                 |            |
| Balance at beginning of period                                                                                                      | (206,546 )                      | (207,884 ) |

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|                                                                    |            |            |
|--------------------------------------------------------------------|------------|------------|
| Forfeited restricted stock award shares returned to treasury stock | -          | (152 )     |
| Balance at end of period                                           | (206,546 ) | (208,036 ) |
| Common Stock Held by BMP:                                          |            |            |
| Balance at beginning of period                                     | (7,979 )   | (8,007 )   |
| BMP award distribution                                             | -          | 28         |
| Balance at end of period                                           | (7,979 )   | (7,979 )   |
| Total Stockholders' Equity                                         | 337,022    | 308,540    |

See notes to condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Dollars In thousands)

|                                                                                          | Three Months Ended<br>March 31, |           |
|------------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                          | 2011                            | 2010      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                             |                                 |           |
| Net Income                                                                               | \$11,080                        | \$9,470   |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                                 |           |
| Net loss (gain) on sale of loans originated for sale                                     | 66                              | (42 )     |
| Net gain on sale of investment securities available-for-sale                             | -                               | (327 )    |
| Net gain recognized on the transfer of securities from available-for-sale into trading   | -                               | (242 )    |
| Net gain on trading securities                                                           | (46 )                           | -         |
| Net depreciation and amortization                                                        | 881                             | 649       |
| ESOP compensation expense                                                                | 293                             | 223       |
| Stock plan compensation (excluding ESOP)                                                 | 535                             | 491       |
| Provision for loan losses                                                                | 1,426                           | 3,447     |
| Provision for losses on OREO                                                             | -                               | 200       |
| Provision to increase the liability for loans sold with recourse                         | -                               | -         |
| Recovery of write down of mortgage servicing asset                                       | -                               | -         |
| OTTI charge for investment securities recognized in earnings                             | 63                              | 166       |
| Increase in cash surrender value of Bank Owned Life Insurance                            | (467 )                          | (504 )    |
| Deferred income tax credit                                                               | (159 )                          | (1,538 )  |
| Excess tax cost (benefit) of stock plans                                                 | (111 )                          | 5         |
| Changes in assets and liabilities:                                                       |                                 |           |
| Origination of loans held for sale                                                       | (2,037 )                        | (1,102 )  |
| Proceeds from sale of loans held for sale                                                | 4,318                           | 1,560     |
| Decrease (Increase) in other assets                                                      | 1,856                           | (5,849 )  |
| Increase in other liabilities                                                            | 1,751                           | 7,026     |
| Net cash provided by operating activities                                                | 19,449                          | 13,633    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                             |                                 |           |
| Net (increase) decrease in federal funds sold and other short term investments           | 75                              | (2,062 )  |
| Proceeds from principal repayments of investment securities held-to-maturity             | 32                              | 32        |
| Proceeds from maturities of investment securities available-for-sale                     | -                               | -         |
| Proceeds from calls and principal repayments of investment securities available-for-sale | 20,000                          | -         |
| Proceeds from sales of investment securities available-for-sale                          | -                               | 1,095     |
| Purchases of investment securities available-for-sale                                    | (67,911 )                       | (12,000 ) |
| Purchases of trading securities                                                          | (5 )                            | -         |
| Principal collected on mortgage backed securities available-for-sale                     | 15,080                          | 24,056    |
| Net decrease (increase) in loans                                                         | 11,708                          | (93,120 ) |
| Proceeds from the sale of OREO                                                           | -                               | 168       |
| Purchases of fixed assets, net                                                           | (1,630 )                        | (590 )    |
| Purchase of FHLBNY capital stock                                                         | -                               | (900 )    |
| Net cash used in investing activities                                                    | (22,651 )                       | (83,321 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                             |                                 |           |
| Net increase in due to depositors                                                        | 52,104                          | 95,774    |
| Net increase in escrow and other deposits                                                | 40,323                          | 33,292    |
| Decrease in securities sold under agreements to repurchase                               | -                               | (35,000 ) |

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|                                                                                                       |           |           |
|-------------------------------------------------------------------------------------------------------|-----------|-----------|
| Increase in FHLB NY advances                                                                          | -         | 55,000    |
| Cash dividends paid                                                                                   | (4,688 )  | (4,642 )  |
| Exercise of stock options                                                                             | 904       | -         |
| Excess tax (cost) benefit of stock plans                                                              | 111       | (5 )      |
| Net cash provided by financing activities                                                             | 88,754    | 144,419   |
| INCREASE IN CASH AND DUE FROM BANKS                                                                   | 85,552    | 74,731    |
| CASH AND DUE FROM BANKS, BEGINNING OF PERIOD                                                          | 86,193    | 39,338    |
| CASH AND DUE FROM BANKS, END OF PERIOD                                                                | \$171,745 | \$114,069 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                                                     |           |           |
| Cash paid for income taxes                                                                            | \$6,103   | \$2,284   |
| Cash paid for interest                                                                                | 18,279    | 20,247    |
| Loans transferred to OREO                                                                             | -         | 320       |
| Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity | 26        | 27        |
| Net decrease in non-credit component of OTTI                                                          | (612 )    | (230 )    |
| Adjustments to other comprehensive income from defined benefit plans, net of tax                      | 27        | (30 )     |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS

Dime Community Bancshares, Inc. (the "Holding Company") is a Delaware corporation and parent company of the Bank, a federally chartered stock savings bank. The Holding Company's direct subsidiaries are the Bank, Dime Community Capital Trust 1 and 842 Manhattan Avenue Corp. The Bank's direct subsidiaries are Boulevard Funding Corp., Dime Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.), DSBW Preferred Funding Corporation, DSBW Residential Preferred Funding Corp., Dime Reinvestment Corp. and 195 Havemeyer Corp.

The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-six full service retail banking offices located in the New York City boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate, one- to four-family residential, construction and land acquisition, and consumer loans, as well as mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities.

2. SUMMARY OF ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial condition as of March 31, 2011, the results of operations and statements of comprehensive income for the three-month periods ended March 31, 2011 and 2010, and the changes in stockholders' equity and cash flows for the three months ended March 31, 2011 and 2010. The results of operations for the three-months ended March 31, 2011 are not necessarily indicative of the results of operations for the remainder of the year ending December 31, 2011. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the SEC.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Please see "Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" for a discussion of areas in the accompanying condensed consolidated financial statements where significant estimates are utilized.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2010 and notes thereto.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-2, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring" ("ASU 2011-2"). ASU 2011-2 clarifies the guidance for determining whether a loan restructuring constitutes a troubled debt restructuring ("TDR") outlined in Accounting Standards Codification ("ASC") No. 310-40, "Receivables—Troubled Debt Restructurings by Creditors," by providing additional guidance to a creditor in making the following required

assessments needed to determine whether a restructuring is a TDR: (i) whether or not a concession has been granted in a debt restructuring; (ii) whether a temporary or permanent increase in the contractual interest rate precludes the restructuring from being a TDR; (iii) whether a restructuring results in an insignificant delay in payment; (iv) whether a borrower that is not currently in payment default is experiencing financial difficulties; and (v) whether a creditor can use the effective interest rate test outlined in debtor's guidance on restructuring of payables (ASC Topic No. 470-60-55-10) when evaluating whether or not a restructuring constitutes a TDR. ASU 2011-2 is effective for interim periods beginning on or after June 15, 2011. Adoption of ASU 2011-2 is not expected to have a material effect upon the Company's consolidated financial condition or results of operations.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"). ASU 2010-20 requires companies to provide a greater level of disaggregated information regarding: (1) the credit quality of their financing receivables; and (2) their allowance for credit losses. ASU 2010-20 further requires companies to disclose credit quality indicators, past due information, and modifications of their financing receivables. For public companies, ASU 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. ASU 2010-20 encourages, but does not require, comparative disclosures for earlier reporting periods that ended before initial adoption. Adoption of ASU 2010-20 did not have a material impact upon the Company's consolidated financial condition or results of operations.

In February 2010, the FASB issued ASU No. 2010-11, "Derivatives and Hedging (Topic 815) – Scope Exception Related to Embedded Credit Derivatives" ("ASU 2010-11"). ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation (separate accounting) requirements, and addresses various accounting issues associated with subordination of one financial instrument to another. ASU 2010-11 affirms that a credit derivative feature related to the transfer of credit risk that is the only form of subordination of one financial instrument to another is not subject to the embedded derivative bifurcation requirement. Under ASU 2010-11, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may thus need to separately account for the embedded credit derivative feature. In initially adopting ASU 2010-11, an entity may elect the fair value option for any investment in a beneficial interest in a securitized financial asset. The election must be made on an instrument-by-instrument basis at the beginning of the fiscal quarter of initial adoption. However, an entity must perform an impairment analysis of the investment before the initial adoption. ASU 2010-11 was effective at the beginning of an entity's first fiscal quarter commencing after June 15, 2010. Adoption of ASU 2010-11 did not have a material effect upon the Company's financial condition or results of operations.

In January 2010, FASB issued Accounting Standards Update No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements" ("ASU 2010-6"). ASU 2010-6 required new disclosures related to transfers into and out of fair value hierarchy Levels 1 and 2, as well as certain activities for assets whose fair value is measured under the Level 3 hierarchy. ASU 2010-6 also provided amendments clarifying the level of disaggregation and disclosures about inputs and valuation techniques along with conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-6 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of ASU 2010-6 has not had, and is not expected to have, a material impact upon the Company's financial condition or results of operations.

#### 4. TREASURY STOCK

The Company did not repurchase any shares of treasury stock during the three months ended March 31, 2011 and 2010.

#### 5. ACCOUNTING FOR GOODWILL

The Company has designated the last day of its fiscal year as its date for annual impairment testing. The Company performed an impairment test as of December 31, 2010 and concluded that no impairment of goodwill existed. No events or circumstances have occurred subsequent to December 31, 2010 that would, in management's opinion, reduce the fair value of the Company's reporting unit below its carrying value. Such events or circumstances would require the immediate performance of an impairment test in accordance with ASC 350.

#### 6. EARNINGS PER SHARE ("EPS")

EPS is calculated and reported in accordance with ASC 260. For entities like the Company with complex capital structures, ASC 260 requires disclosure of basic EPS and diluted EPS on the face of the income statement, along with a reconciliation of their numerators and denominators.

Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding during the period (weighted-average common shares are adjusted to exclude unallocated ESOP shares). Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if outstanding in-the-money stock options were exercised and converted into common stock.

The following is a reconciliation of the numerators and denominators of basic EPS and diluted EPS for the periods presented:

|                                                                                                         | Three Months Ended March 31, |            |
|---------------------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                                         | 2011                         | 2010       |
|                                                                                                         | (Dollars in Thousands)       |            |
| Numerator:                                                                                              |                              |            |
| Net Income per the Condensed Consolidated Statements of Operations                                      | \$ 11,080                    | \$ 9,470   |
| Denominator:                                                                                            |                              |            |
| Weighted-average number of shares outstanding utilized in the calculation of basic EPS                  | 33,467,483                   | 33,169,263 |
| Common stock equivalents resulting from the dilutive effect of "in-the-money" outstanding stock options | 283,269                      | 92,332     |
| Anti-dilutive effect of tax benefits associated with "in-the-money" outstanding stock options           | (25,026 )                    | (12,513 )  |
| Weighted average number of shares outstanding utilized in the calculation of diluted EPS                | 33,725,726                   | 33,249,082 |



Common stock equivalents resulting from the dilutive effect of "in-the-money" outstanding stock options are calculated based upon the excess of the average market value of the Holding Company's common stock over the exercise price of outstanding in-the-money stock options during the period.

There were 1,166,048 and 2,675,037 weighted-average stock options outstanding for the three-month periods ended March 31, 2011 and 2010, respectively, that were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period.

## 7. ACCOUNTING FOR STOCK BASED COMPENSATION

During the three-month periods ended March 31, 2011 and 2010, the Holding Company and Bank maintained the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees; and the 2004 Stock Incentive Plan (collectively the "Stock Plans"), which are discussed more fully in Note 15 to the Company's audited consolidated financial statements for the year ended December 31, 2010, and which are subject to the accounting requirements of ASC 505-50 and ASC 718.

### Stock Option Awards

Combined activity related to stock options granted under the Stock Plans during the periods presented was as follows:

|                                                                                        | At or for the Three<br>Months Ended March 31,            |           |
|----------------------------------------------------------------------------------------|----------------------------------------------------------|-----------|
|                                                                                        | 2011                                                     | 2010      |
|                                                                                        | (Dollars in Thousands<br>Except Option Price<br>Amounts) |           |
| Options outstanding – beginning of period                                              | 3,213,007                                                | 3,266,920 |
| Options granted                                                                        | -                                                        | -         |
| Weighted average exercise price of grants                                              | -                                                        | -         |
| Options exercised                                                                      | 116,319                                                  | -         |
| Weighted average exercise price of exercised options                                   | \$11.20                                                  | -         |
| Options forfeited                                                                      | 4,561                                                    | 8,149     |
| Weighted average exercise price of forfeited options                                   | \$16.73                                                  | \$14.91   |
| Options outstanding – end of period                                                    | 3,092,127                                                | 3,258,771 |
| Weighted average exercise price of outstanding options at the end of period            | \$14.75                                                  | \$14.56   |
| Remaining options available for grant                                                  | 553,738                                                  | 774,158   |
| Exercisable options at end of period                                                   | 2,671,554                                                | 2,539,516 |
| Weighted average exercise price of exercisable options at the end of period            | \$15.08                                                  | \$15.16   |
| Cash received for option exercise cost                                                 | -                                                        | -         |
| Income tax benefit (cost) recognized                                                   | -                                                        | -         |
| Compensation expense recognized                                                        | 227                                                      | 237       |
| Remaining unrecognized compensation expense                                            | 403                                                      | 1,108     |
| Weighted average remaining years for which compensation<br>expense is to be recognized | 2.0                                                      | 1.6       |

The range of exercise prices and weighted-average remaining contractual lives of options outstanding, vested and unvested, under the Stock Plans were as follows:

Outstanding Options as of March 31,  
2011

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| Range of Exercise Prices | Amount    | Weighted Average Exercise Price | Weighted Average Contractual Years Remaining | Vested Options as of March 31, 2011 |
|--------------------------|-----------|---------------------------------|----------------------------------------------|-------------------------------------|
| \$8.00 - \$8.50          | 160,803   | \$8.34                          | 8.1                                          | 74,957                              |
| 10.50 - \$11.00          | 264,732   | 10.91                           | 0.6                                          | 264,732                             |
| 12.50 - \$13.00          | 87,541    | 12.75                           | 9.1                                          | -                                   |
| \$13.01-\$13.50          | 512,203   | 13.16                           | 1.8                                          | 512,203                             |
| \$13.51-\$14.00          | 866,375   | 13.74                           | 6.1                                          | 662,375                             |
| \$14.50-\$15.00          | 34,425    | 14.92                           | 6.9                                          | 17,212                              |
| \$15.01-\$15.50          | 318,492   | 15.10                           | 4.2                                          | 318,492                             |
| \$16.00-\$16.50          | 76,320    | 16.45                           | 3.8                                          | 76,320                              |
| \$16.51-\$17.00          | 51,943    | 16.73                           | 7.3                                          | 25,970                              |
| \$18.00-\$18.50          | 80,000    | 18.18                           | 7.2                                          | 80,000                              |
| \$19.50-\$20.00          | 639,293   | 19.90                           | 2.8                                          | 639,293                             |
| Total                    | 3,092,127 | \$14.75                         | 4.2                                          | 2,671,554                           |

The weighted average exercise price and contractual years remaining for vested options under the Stock Plans were \$15.08 and 3.8 years, respectively, at March 31, 2011. There were no grants of stock options during the three months ended March 31, 2011 or 2010, respectively.

#### Restricted Stock Awards

The Company, from time to time, issues restricted stock awards to outside directors and officers under the 2004 Stock Incentive Plan. Typically, awards to outside directors fully vest on the first anniversary of the grant date, while awards to officers vest in equal annual installments over a four- or five-year period.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Stock Incentive Plan during the periods indicated:

|                                                 | At or for the Three<br>Months Ended March 31, |         |
|-------------------------------------------------|-----------------------------------------------|---------|
|                                                 | 2011                                          | 2010    |
|                                                 | (Dollars in Thousands)                        |         |
| Unvested allocated shares – beginning of period | 309,783                                       | 295,066 |
| Shares granted                                  | -                                             | -       |
| Shares vested                                   | 2,000                                         | 9,067   |
| Shares forfeited                                | -                                             | 10,176  |
| Unvested allocated shares – end of period       | 307,783                                       | 275,823 |
| Unallocated shares - end of period              | -                                             | -       |
| Compensation recorded to expense                | \$308                                         | \$255   |

#### 8. LOANS RECEIVABLE AND CREDIT QUALITY

Loans are reported at the principal amount outstanding, net of unearned fees or costs and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Under this method, discount accretion and premium amortization are included in interest income. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

##### Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans, such as multifamily residential and mixed use residential, mixed use commercial and commercial real estate loans and construction loans, as well as one-to four family residential and cooperative apartment loans with balances greater than \$730. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

All loans not classified as Special Mention, Substandard or Doubtful were deemed pass loans at both March 31, 2011 and December 31, 2010.

The Bank had no loans classified as Doubtful at March 31, 2011 or December 31, 2010.

The following is a summary of the credit risk profile of the real estate loans (including loans held for sale) by internally assigned grade as of the date indicated:

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Balance at March 31, 2011

| Grade                                                          | One- to                                      | Multifamily                           | Mixed Use              |                        | Construction | Total       |
|----------------------------------------------------------------|----------------------------------------------|---------------------------------------|------------------------|------------------------|--------------|-------------|
|                                                                | Four-Family Residential and Cooperative Unit | Residential and Residential Mixed Use | Commercial Real Estate | Commercial Real Estate |              |             |
|                                                                |                                              |                                       | (Dollars in Thousands) |                        |              |             |
| Pass                                                           | \$67,345                                     | \$2,497,695                           | \$359,576              | \$402,121              | \$8,428      | \$3,335,165 |
| Special Mention                                                | 125                                          | 8,163                                 | 1,590                  | 31,219                 | 4,900        | 45,997      |
| Substandard                                                    | 195                                          | 8,166                                 | 5,885                  | 18,593                 | -            | 32,839      |
| Total real estate loans individually assigned a credit grade   | \$67,665                                     | \$2,514,024                           | \$367,051              | \$451,933              | \$13,328     | \$3,414,001 |
| Real estate loans not individually assigned a credit grade (1) | \$42,437                                     | -                                     | -                      | -                      | -            | \$42,437    |

(1) Amount comprised of fully performing one- to four-family residential and cooperative unit loans with balances of \$730 or less. The credit quality of these loans was instead evaluated based upon payment activity.

Balance at December 31, 2010

| Grade                                                          | One- to                                      | Multifamily                           | Mixed Use              |                        | Construction | Total       |
|----------------------------------------------------------------|----------------------------------------------|---------------------------------------|------------------------|------------------------|--------------|-------------|
|                                                                | Four-Family Residential and Cooperative Unit | Residential and Residential Mixed Use | Commercial Real Estate | Commercial Real Estate |              |             |
|                                                                |                                              |                                       | (Dollars in Thousands) |                        |              |             |
| Pass                                                           | \$70,831                                     | \$2,483,695                           | \$357,463              | \$426,518              | \$9,465      | \$3,347,972 |
| Special Mention                                                | 127                                          | 10,367                                | 5,989                  | 23,150                 | 5,773        | 45,406      |
| Substandard                                                    | 257                                          | 11,216                                | 1,613                  | 18,435                 | -            | 31,521      |
| Total real estate loans individually assigned a credit grade   | \$71,215                                     | \$2,505,278                           | \$365,065              | \$468,103              | \$15,238     | \$3,424,899 |
| Real estate loans not individually assigned a credit grade (1) | \$46,053                                     | -                                     | -                      | -                      | -            | \$46,053    |

(1) Amount comprised of fully performing one- to four-family residential and cooperative unit loans with balances of \$730 or less. The credit quality of these loans was instead evaluated based upon payment activity.

For consumer loans, the Company evaluates credit quality based on payment activity. Consumer loans that are 90 days or more past due are placed on non-accrual status, while all remaining consumer loans are classified and evaluated as performing.

The following is a summary of the credit risk profile of consumer loans by internally assigned grade:

| Grade | Balance at             | Balance at        |
|-------|------------------------|-------------------|
|       | March 31, 2011         | December 31, 2010 |
|       | (Dollars in Thousands) |                   |

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|             |         |         |
|-------------|---------|---------|
| Performing  | \$2,050 | \$2,523 |
| Non-accrual | 20      | 17      |
| Total       | \$2,070 | \$2,540 |

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The following is an age analysis of past due loans (including loans held for sale) as of the dates indicated:

| At March 31, 2011                                    |                              |                              |                                |                   |              |             |                                                                              |
|------------------------------------------------------|------------------------------|------------------------------|--------------------------------|-------------------|--------------|-------------|------------------------------------------------------------------------------|
|                                                      | 30 to 59<br>Days Past<br>Due | 60 to 89<br>Days Past<br>Due | 90 Days or<br>More Past<br>Due | Total Past<br>Due | Current      | Total Loans | Loans 90<br>Days or<br>More Past<br>Due and<br>Still<br>Accruing<br>Interest |
| (Dollars in Thousands)                               |                              |                              |                                |                   |              |             |                                                                              |
| Real Estate:                                         |                              |                              |                                |                   |              |             |                                                                              |
| One- to four-family residential and cooperative unit | \$977                        | \$138                        | \$62                           | \$1,177           | \$108,925    | \$110,102   | -                                                                            |
| Multifamily residential and residential mixed use    | 1,859                        | 1,294                        | 7,201                          | 10,354            | 2,503,670(a) | 2,514,024   | \$1,750                                                                      |
| Mixed use commercial real estate                     | 1,634                        | -                            | 3,909                          | 5,543             | 361,508      | 367,051     | -                                                                            |
| Commercial real estate                               | 4,036                        | 2,070                        | 9,758                          | 15,864            | 436,069      | 451,933     | -                                                                            |
| Construction                                         | -                            | -                            | 2,283                          | 2,283             | 11,045       | 13,328      | 2,283                                                                        |
| Total real estate (including loans held for sale)    | \$8,506                      | \$3,502                      | \$23,213                       | \$35,221          | \$3,421,217  | \$3,456,438 | \$4,033                                                                      |
| Consumer                                             | \$2                          | \$2                          | \$20                           | \$24              | \$2,046      | \$2,070     | -                                                                            |

(a) Includes FHA/VA insured loans totaling \$285.

| At December 31, 2010                                 |                              |                              |                                |                   |              |             |                                                                              |
|------------------------------------------------------|------------------------------|------------------------------|--------------------------------|-------------------|--------------|-------------|------------------------------------------------------------------------------|
|                                                      | 30 to 59<br>Days Past<br>Due | 60 to 89<br>Days Past<br>Due | 90 Days or<br>More Past<br>Due | Total Past<br>Due | Current      | Total Loans | Loans 90<br>Days or<br>More Past<br>Due and<br>Still<br>Accruing<br>Interest |
| (Dollars in Thousands)                               |                              |                              |                                |                   |              |             |                                                                              |
| Real Estate:                                         |                              |                              |                                |                   |              |             |                                                                              |
| One- to four-family residential and cooperative unit | \$130                        | \$141                        | \$223                          | \$494             | \$116,774    | \$117,268   | -                                                                            |
| Multifamily residential and residential mixed use    | 4,435                        | 2,631                        | 11,058                         | 18,124            | 2,487,054(a) | 2,505,178   | \$3,510                                                                      |
| Mixed use commercial real estate                     | 190                          | 3,051                        | 1,217                          | 4,458             | 360,607      | 365,065     | -                                                                            |
| Commercial real estate                               | 3,059                        | 7,592                        | 11,494                         | 22,145            | 446,058      | 468,203     | 331                                                                          |
| Construction                                         | -                            | -                            | 4,500                          | 4,500             | 10,738       | 15,238      | 4,500                                                                        |
| Total real estate (including loans held for sale)    | \$7,814                      | \$13,415                     | \$28,492                       | \$49,721          | \$3,421,231  | \$3,470,952 | \$8,341                                                                      |
| Consumer                                             | \$6                          | \$1                          | \$17                           | \$24              | \$2,516      | \$2,540     | -                                                                            |

(a) Includes FHA/VA insured loans totaling \$285.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank generally does not recognize the interest from the third month and reverses all interest associated with the first two missed payments. The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status, and does not accept partial payments on loans on which foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO. The Bank generally utilizes all available remedies in an effort to resolve either non-accrual loans or OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Such elections have not been commonplace.



The following table summarizes loans on non-accrual status for the periods indicated:

|                                                         | At March 31,<br>2011 | At December<br>31, 2010 |
|---------------------------------------------------------|----------------------|-------------------------|
| (Dollars in Thousands)                                  |                      |                         |
| <b>Real Estate Loans:</b>                               |                      |                         |
| One- to four-family residential and cooperative unit    | \$ 62                | \$ 223                  |
| Multifamily residential and residential mixed use       | 5,451                | 7,548                   |
| Mixed use commercial real estate                        | 3,909                | 1,217                   |
| Commercial real estate                                  | 9,758                | 11,163                  |
| Construction                                            | -                    | -                       |
| Total real estate loans (including loans held for sale) | 19,180               | 20,151                  |
| Consumer loans                                          | 20                   | 17                      |
| Total non-accrual                                       | \$ 19,200            | \$ 20,168               |

#### Accruing Loans 90 Days or More Past Due:

Loans 90 days or more past due and still accruing interest totaled \$4.0 million at March 31, 2011, and were comprised of: (i) \$1.8 million of well secured multifamily real estate loans that had not made their contractual balloon principal payment on the due date but are expected to be either satisfied or formally modified during 2011; and (ii) one construction loan totaling \$2.3 million that had passed its contractual maturity date and is expected to either be satisfied or converted to a permanent real estate loan during 2011.

#### TDRs.

At March 31, 2011, the Bank had seventeen loans totaling \$19.8 million whose terms were modified in a manner that met the criteria for a TDR. Five of these loans, with an aggregate outstanding principal balance of \$7.4 million, were on non-accrual status as of March 31, 2011, while the remaining twelve loans, with an outstanding principal balance of \$12.4 million, were accruing TDRs at March 31, 2011. Six of these TDRs were commercial real estate loans, eight were multifamily residential and mixed-use residential real estate loans and the remaining were mixed-use commercial real estate loans. At December 31, 2010, the Bank had nineteen loans totaling \$22.6 million whose terms were modified in a manner that met the criteria for a TDR. Seven of these loans, with an aggregate outstanding principal balance of \$10.1 million, were on non-accrual status as of December 31, 2010, while the remaining twelve loans, with an outstanding principal balance of \$12.4 million, were accruing TDRs at December 31, 2010. Eight of these TDRs were commercial real estate loans, eight were multifamily and residential mixed-use real estate loans and the remaining were mixed-use commercial real estate loans.

The Company does not restructure troubled consumer loans, thus all TDRs have been made on real estate loans. The following table summarizes TDRs as of and for the three months ended March 31, 2011 and 2010:

| At or for the Three<br>Months<br>Ended March 31,<br>2011 |         | At or for the Three<br>Months<br>Ended March 31, 2010 |         |
|----------------------------------------------------------|---------|-------------------------------------------------------|---------|
| No. of<br>Loans                                          | Balance | No. of<br>Loans                                       | Balance |
| (Dollars in Thousands)                                   |         |                                                       |         |
|                                                          |         |                                                       |         |

Loans modified during the period in a manner that met the definition of a TDR

|   |     |   |          |
|---|-----|---|----------|
| - | \$- | 6 | \$14,200 |
|---|-----|---|----------|

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|                                                                             |    |        |   |        |
|-----------------------------------------------------------------------------|----|--------|---|--------|
| Modifications granted:                                                      |    |        |   |        |
| Reduction of outstanding principal due                                      | -  | -      | - | -      |
| Deferral of principal amounts due                                           | -  | -      | 6 | 14,200 |
| Temporary reduction in interest rate                                        | -  | -      | 6 | 14,200 |
| Below market interest rate granted                                          | -  | -      | 5 | 13,150 |
| Outstanding principal balance immediately before and after modification     | -  | -      | 6 | 14,200 |
| Aggregate principal charge-off recognized on TDRs outstanding at period end | 3  | 623    | - | -      |
| Outstanding principal balance at period end                                 | 17 | 19,828 | 9 | 19,517 |
| TDRs that re-defaulted subsequent to being modified (at period end):        | 5  | 7,427  | 7 | 17,427 |
| TDRs on accrual status at period end                                        | 12 | 12,401 | 2 | 2,090  |
| TDRs on non-accrual status at period end                                    | 5  | 7,427  | 7 | 17,427 |

All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any. If a TDR is substantially performing in accordance with its restructured terms, management will look either to the present value of the expected cash flows from the debt service or the potential liquidation proceeds of the underlying collateral in measuring impairment. If a TDR has re-defaulted, only the likely realizable net proceeds from the liquidation of collateral is considered when measuring impairment. While measured impairment on TDRs is typically charged off immediately, if such impairment was measured solely from a reduction in the present value of expected cash flows of a performing TDR, it may be reflected as allocated reserve within the allowance for loan losses.

#### Impaired Loans

At March 31, 2011, the Bank had fifty-two loans totaling \$41.2 million deemed impaired (as defined in Note 9), compared to sixty-four loans totaling \$44.1 million as of December 31, 2010. The average balance of impaired loans was approximately \$42.6 million during the three months ended March 31, 2011 and \$29.1 million during the three months ended March 31, 2010. During the three months ended March 31, 2011, write-downs of principal totaling \$886,000 were recognized on impaired loans. There were no write-downs of principal on impaired loans during the three months ended March 31, 2010. In late 2010, the Bank commenced a general practice of immediately charging off calculated reserves on impaired loans. At March 31, 2011, there was one impaired loan with a reserve of \$298,000 allocated within the allowance for loan losses, related to a present value shortfall on cash flows associated with a performing TDR. At March 31, 2010, an aggregate balance of \$6.9 million was allocated within the allowance for loan losses for probable losses on impaired loans, and, with the exception of one loan with an outstanding balance of \$2.5 million; all impaired loans had an allocated reserve at March 31, 2010. The Bank disposed of six impaired loans with a recorded balance totaling \$5.1 million during the three months ended March 31, 2011, receiving an aggregate amount approximating their recorded balance. During the three months ended March 31, 2010, the Bank disposed of one impaired loan with a recorded balance of \$500,000, receiving the recorded balance upon disposal. Net interest received on impaired loans totaled \$454,000 during the three months ended March 31, 2011, and \$162,000 during the three months ended March 31, 2010.

At both March 31, 2011 and December 31, 2010, approximately \$82,000 and \$340,000, respectively, of one- to four-family residential and cooperative apartment loans with a balance of \$730,000 or less and consumer loans were on nonaccrual status. These loans are considered as a homogeneous loan pool. At March 31, 2011 and December 31, 2010, loans totaling \$22.1 million and \$24.3 million, respectively, while on accrual status, were deemed impaired. The great majority of these loans were either accruing TDRs or loans past due 90 days or more but still accruing as of both March 31, 2011 and December 31, 2010.

#### Delinquent Serviced Loans Subject to a First Loss Position

The Bank has a first loss position associated with multifamily loans that it sold to FNMA between December 2002 and February 2009 (the "First Loss Position"). Under the terms of its seller/servicer agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans until the earlier of the following events: (1) the loans have been fully satisfied or enter OREO status; or (2) the first loss position is fully exhausted.

At March 31, 2011, within the pool of multifamily loans sold to FNMA, there was one \$1.4 million loan that was delinquent 90 days or more. This loan was fully satisfied in April 2011, with all principal and interest arrears received. At March 31, 2011, there were no loans within the pool of multifamily loans sold to FNMA delinquent between 30 and 89 days. At December 31, 2010, within the pool of multifamily loans sold to FNMA, there were no loans 90 days or more delinquent and three loans totaling \$3.7 million 30 to 89 days delinquent.

#### 9. ALLOWANCE FOR LOAN LOSSES AND RESERVE FOR FIRST LOSS POSITION ON MULTIFAMILY LOANS SOLD TO FNMA

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using, among other factors, past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, and economic conditions. Allocations to the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

In determining its periodic allowance for loan losses, the Company has identified two portfolio segments: 1) real estate loans; and 2) consumer loans. Consumer loans represent a nominal portion of the Company's loan portfolio. Within the real estate loan segment, the Bank analyzes the allowance based upon: 1) their designation as an impaired, special mention or pass graded loan; and 2) within loans designated as pass, the underlying collateral type.

#### Real Estate Loans

The Bank's periodic evaluation of its allowance for loan losses on real estate loans has traditionally been comprised of three primary components. The first two components relate to problem loans and are divided between loans deemed impaired (primarily classified and TDR loans) and loans designated as special mention. The final component relates to pass graded or performing loans.

## Impaired Loan Component

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified in a manner that meets the criteria of a TDR are deemed impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays or shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All multifamily residential, mixed use, commercial real estate and construction loans that are deemed to meet the definition of impaired are individually evaluated for impairment. In addition, all cooperative unit, one- to four-family residential and consumer loans over \$730,000 are individually evaluated for impairment. Impairment is typically measured using either: 1) the likely realizable value of a note sale; 2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected solely from liquidation of the collateral; or 3) the present value of estimated future cash flows using the loan's existing rate. TDRs are typically separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less estimated disposal costs. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Until late 2010, the Company recognized impairment of real estate loans through an allocated reserve balance within the allowance for loan losses. As a result, increases or decreases in either the amount of impaired loans, the magnitude of impairment of such loans, or the election to recognize the impairment as either an allocated reserve or a principal charge-off could create potential volatility within the allocated portion of the allowance for loan losses associated with such loans. In late 2010, with the exception of performing TDRs, the Bank commenced a general practice of immediately charging off the specific components of the allowance related to loans individually classified as impaired, and not recognizing them through a reserve within the allowance for loan losses. As previously mentioned, the Bank has retained the commonplace practice of recognizing an allocated reserve within the allowance for loan losses for instances in which impairment is measured solely from a reduction in the present value of expected cash flows of a performing TDR. Since the allocated reserves related to performing TDRs have not historically been significant, the general practice of immediately charging off the specific components of the allowance related to loans individually classified as impaired (other than performing TDRs), although not mandated under GAAP, has significantly reduced the level of volatility of the allowance for loan losses associated with impaired loans.

There were no allocated reserves associated with impaired loans at December 31, 2010. At March 31, 2011, an allocated reserve of \$298,000 was recognized for a reduction in the present value of expected cash flows associated with one performing TDR loan. Otherwise, there were no allocated reserves on impaired loans at March 31, 2011. Charge-offs of measured impairment of principal balances (full or partial) on impaired loans totaled \$886,000 and \$656,000 during the three months ended March 31, 2011 and 2010, respectively. In addition, charge-offs of \$18,000 were recognized during the three months ended March 31, 2010 on impaired loans that were disposed of during the period. As previously discussed, prior to July 1, 2010, if impairment was measured on these loans, a portion of the allowance was allocated so that the loan was reported, net of its measured impairment, once its allocated reserve within the allowance for loan losses was considered.

Large groups of smaller balance homogeneous real estate loans, such as cooperative unit and one-to four-family residential real estate loans with balances of \$730,000 or less, are collectively evaluated for impairment, and

accordingly, are not separately identified for impairment disclosures.

#### Special Mention Component

In order to determine an expected loss percentage on its pool of special mention loans, the Bank calculates a rolling 12-month loss history analysis on its pool of such loans. The loss percentage resulting from this analysis is then applied to the aggregate pool of special mention loans at the measurement date. Based upon this methodology, increases or decreases in either the amount of special mention loans, or the magnitude of charge-offs recognized within the 12 months prior to the assessment date, will impact the estimated portion of the allowance for loan losses associated with such loans. As a result, the allowance for loan losses associated with special mention loans is subject to great volatility.

The portion of the allowance for loan losses attributable to Special Mention loans increased from \$1.9 million at December 31, 2010 to \$2.1 million at March 31, 2011, primarily reflecting an increase of 0.43% in the 12-month loss history analysis performed on the Special Mention pool at March 31, 2011 compared to December 31, 2010.

Performing Loan Component (Pass Graded Loans)

The Bank initially looks to the underlying collateral type when determining the allowance for loan losses associated with performing real estate loans. The following underlying collateral types are analyzed separately: 1) one- to four family residential and cooperative unit; 2) multifamily residential and residential mixed use; 3) mixed use commercial real estate, 4) commercial real estate; and 5) construction. Within the analyses of each underlying collateral type, the following elements are additionally considered in determining the allowance for loan losses for performing loans:

- i. Charge-off experience
- ii. Economic conditions
- iii. Underwriting standards or experience
- iv. Loan concentrations
- v. The period of time the loan has been held and performing

The following is a brief synopsis of the manner in which each element is considered.

(i) Charge off experience – Loans within the performing loan portfolio are segmented by significant common characteristics, against which historical loss rates are applied. In late 2010, the Bank updated the historical period used in this methodology. Previously, the 1992 to 1996 experience factors were used, since that period represented the most recent complete loss cycle experienced by the Bank for its geography and type of collateral. During the final quarter of 2010, the Bank updated its experience factors to include only the period 2008 to 2010; for although the current credit cycle may not have completely run its course, the Bank concluded that there was sufficient data to make the experience factors from this period relevant and meaningful.

(ii) Economic conditions - At both March 31, 2011 and December 31, 2010, the Bank assigned an expected loss rate to its entire performing mortgage loan portfolio based, in part, upon a review of economic conditions affecting the local real estate market. Specifically, the Bank considered both the level of and recent trends in: 1) the local unemployment rate, 2) real estate vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank's loan portfolio. At March 31, 2010, the Bank considered the same set of variables in its analysis of expected economic loss from the performing mortgage loan portfolio, however, due to the relatively higher level of uncertainty surrounding the local real estate market at that time, the Bank arrived at a higher expected loss rate for the performing loan group as compared to March 31, 2011.

(iii) Underwriting standards or experience – Underwriting standards are reviewed to ensure that changes in the Bank's lending policies and practices are adequately evaluated for risk and reflected in its analysis of potential credit losses. Different loss expectations are incorporated into the methodology. Based upon the Bank's mitigation of only certain less critical underwriting practices during the year ended December 31, 2010 and the three months ended March 31, 2011, this component did not impact the methodology at either March 31, 2011 or December 31, 2010.

(iv) Concentrations of credit – The Bank regularly reviews its loan concentrations (both borrower and location) in order to ensure that heightened risk has not evolved that has not been captured through other factors. The risk component of loan concentrations is regularly evaluated for reserve adequacy.

(v) The period of time loans have been held and performing (Loan Seasoning) – Generally, it is assumed that loans performing for a period of at least three years are likely to result in diminishing principal losses with the passage of time. As a result, it is assumed that a lower expected loss percentage should be applied to these loans. This element was given considerable weight in the evaluation of the allowance for loan losses at March 31, 2010, however, received significantly less consideration in the March 31, 2011 and December 31, 2010 evaluations. The decrease in consideration resulted from an analysis of the loss experience recognized during the 2008 to 2010 recessionary period (to which the Company migrated late in 2010), which concluded that, contrary to this common assumption, the age or

seasoning of the loan did not inversely correlate to the Bank's loss experience.

#### Consumer Loans

Loss percentages are applied to consumer loans based upon either their delinquency status or loan type. These loss percentages are derived from a combination of the Company's historical loss experience and/or nationally published loss data on these loans. Consumer loans in excess of 120 days delinquent are typically fully charged off.



Changes in the aggregate allowance for loan losses for loans owned by the Bank were as follows:

|                                            | Three Months Ended<br>March 31, |           |
|--------------------------------------------|---------------------------------|-----------|
|                                            | 2011                            | 2010      |
|                                            | (Dollars in Thousands)          |           |
| Balance at beginning of period             | \$ 19,166                       | \$ 21,505 |
| Provision for loan losses                  | 1,426                           | 3,447     |
| Loans charged off                          | (1,201 )                        | (769 )    |
| Recoveries                                 | 221                             | -         |
| Transfer from reserves on loan commitments | 51                              | 437       |
| Balance at end of period                   | \$ 19,663                       | \$ 24,620 |

The following table presents data regarding the allowance for loan losses and loans evaluated for impairment by class of loan within the real estate loan segment as well as for the aggregate consumer loan segment:

| At or for the Three Months Ended March 31, 2011                                        |                                                                     |                                                |                                        |                           |              |                   |                |  |
|----------------------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------|----------------------------------------|---------------------------|--------------|-------------------|----------------|--|
|                                                                                        | Real Estate Loans                                                   |                                                |                                        |                           |              | Total Real Estate | Consumer Loans |  |
|                                                                                        | One- to<br>Four Family<br>Residential<br>and<br>Cooperative<br>Unit | Multifamily<br>Residential<br>and<br>Mixed Use | Mixed Use<br>Commercial<br>Real Estate | Commercial<br>Real Estate | Construction |                   |                |  |
|                                                                                        | (Dollars in Thousands)                                              |                                                |                                        |                           |              |                   |                |  |
| Beginning balance                                                                      | \$409                                                               | \$14,226                                       | \$1,331                                | \$2,821                   | \$345        | \$19,132          | \$34           |  |
| Charge-offs                                                                            | (75)                                                                | (366)                                          | (203)                                  | (557)                     | -            | (1,201)           | -              |  |
| Recoveries                                                                             | -                                                                   | 121                                            | 3                                      | 97                        | -            | 221               | -              |  |
| Transfer from (to) reserve<br>for loan commitments                                     | -                                                                   | 97                                             | (39)                                   | (15)                      | 8            | 51                | -              |  |
| Provision (reduction)                                                                  | (54)                                                                | 347                                            | (18)                                   | 1,186                     | (35)         | 1,426             | -              |  |
| Ending balance                                                                         | \$280                                                               | \$14,425                                       | \$1,074                                | \$3,532                   | \$318        | \$19,629          | \$34           |  |
| Ending balance – loans<br>individually evaluated for<br>impairment                     | -                                                                   | \$13,130                                       | \$5,074                                | \$20,669                  | \$2,283      | \$41,156          | -              |  |
| Ending balance – loans<br>collectively evaluated for<br>impairment                     | \$110,102                                                           | \$2,500,894                                    | \$361,977                              | \$431,264                 | \$11,045     | \$3,415,282       | \$2,070        |  |
| Allowance balance<br>associated with loans<br>individually<br>evaluated for impairment | \$-                                                                 | \$-                                            | \$-                                    | \$298                     | \$-          | \$298             | \$-            |  |
| Allowance balance<br>associated with loans<br>collectively<br>evaluated for impairment | 280                                                                 | 14,425                                         | 1,074                                  | 3,234                     | 318          | 19,331            | 34             |  |



Due to their small individual balances, the Bank does not evaluate individual consumer loans for impairment. The following table summarizes impaired real estate loans for the periods indicated:

| At or for the Three Months Ended March 31, 2011          |                                                 |                                            |                                                                                                   |                    |                                  |  |
|----------------------------------------------------------|-------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------|--------------------|----------------------------------|--|
|                                                          | Unpaid<br>Principal<br>Balance at<br>Period End | Recorded<br>Investment<br>at Period<br>End | Reserve<br>Balance<br>Allocated<br>Within the<br>Allowance<br>for Loan<br>Losses at<br>Period End | Average<br>Balance | Interest<br>Income<br>Recognized |  |
| (Dollars in Thousands)                                   |                                                 |                                            |                                                                                                   |                    |                                  |  |
| <b>Multifamily Residential and Residential Mixed Use</b> |                                                 |                                            |                                                                                                   |                    |                                  |  |
| With no allocated reserve                                | \$15,751                                        | \$13,130                                   | -                                                                                                 | \$14,749           | \$123                            |  |
| With an allocated reserve                                | -                                               | -                                          | -                                                                                                 | -                  | -                                |  |
| <b>Mixed Use Commercial Real Estate</b>                  |                                                 |                                            |                                                                                                   |                    |                                  |  |
| With no allocated reserve                                | 5,074                                           | 5,074                                      | -                                                                                                 | 3,731              | 36                               |  |
| With an allocated reserve                                | -                                               | -                                          | -                                                                                                 | -                  | -                                |  |
| <b>Commercial Real Estate</b>                            |                                                 |                                            |                                                                                                   |                    |                                  |  |
| With no allocated reserve                                | 16,748                                          | 14,826                                     | -                                                                                                 | 17,834             | 48                               |  |
| With an allocated reserve                                | 5,843                                           | 5,843                                      | 298                                                                                               | 2,922              | 156                              |  |
| <b>Construction</b>                                      |                                                 |                                            |                                                                                                   |                    |                                  |  |
| With no allocated reserve                                | 2,283                                           | 2,283                                      | -                                                                                                 | 3,391              | 91                               |  |
| With an allocated reserve                                | -                                               | -                                          | -                                                                                                 | -                  | -                                |  |
| <b>Total</b>                                             |                                                 |                                            |                                                                                                   |                    |                                  |  |
| With no allocated reserve                                | \$39,856                                        | \$35,313                                   | -                                                                                                 | \$39,705           | \$298                            |  |
| With an allocated reserve                                | 5,843                                           | 5,843                                      | 298                                                                                               | 2,922              | 156                              |  |

|                                                          | Unpaid<br>Principal<br>Balance<br>at Period<br>End | Recorded<br>Investment<br>at Period<br>End | Reserve<br>Balance<br>Allocated<br>Within the<br>Allowance<br>for Loan<br>Losses at<br>Period End |  |
|----------------------------------------------------------|----------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------|--|
| (Dollars in Thousands)                                   |                                                    |                                            |                                                                                                   |  |
| <b>Multifamily Residential and Residential Mixed Use</b> |                                                    |                                            |                                                                                                   |  |
| With no allocated reserve                                | \$19,460                                           | \$16,368                                   | -                                                                                                 |  |
| With an allocated reserve                                | -                                                  | -                                          | -                                                                                                 |  |
| <b>Mixed Use Commercial Real Estate</b>                  |                                                    |                                            |                                                                                                   |  |
| With no allocated reserve                                | 2,388                                              | 2,387                                      | -                                                                                                 |  |
| With an allocated reserve                                | -                                                  | -                                          | -                                                                                                 |  |
| <b>Commercial Real Estate</b>                            |                                                    |                                            |                                                                                                   |  |
| With no allocated reserve                                | 23,771                                             | 20,842                                     | -                                                                                                 |  |

|                           |          |          |   |
|---------------------------|----------|----------|---|
| With an allocated reserve | -        | -        | - |
| Construction              |          |          |   |
| With no allocated reserve | 4,500    | 4,500    | - |
| With an allocated reserve | -        | -        | - |
| Total                     |          |          |   |
| With no allocated reserve | \$50,119 | \$44,097 | - |
| With an allocated reserve | -        | -        | - |

The Bank maintains a reserve liability in relation to the First Loss Position that reflects estimated losses on this loan pool at each period end. For performing loans within the FNMA serviced pool, the reserve recognized is the present value of the estimated losses calculated based upon the historical loss experience for comparable multifamily loans owned by the Bank. For problem loans within the pool, the estimated losses are determined in a manner consistent with impaired or classified loans within the Bank's loan portfolio.

The following is a summary of the aggregate balance of multifamily loans serviced for FNMA, the period-end First Loss Position associated with these loans, and activity in the related reserve liability.

|                                                                          | At or for the Three<br>Months Ended March 31, |           |
|--------------------------------------------------------------------------|-----------------------------------------------|-----------|
|                                                                          | 2011                                          | 2010      |
| (Dollars in Thousands)                                                   |                                               |           |
| Outstanding balance of multifamily loans serviced for FNMA at period end | \$360,971                                     | \$428,044 |
| Total First Loss Position at end of period                               | 16,789                                        | 18,697    |
| Reserve Liability on the First Loss Position                             |                                               |           |
| Balance at beginning of period                                           | \$2,993                                       | \$4,373   |
| Transfer of specific reserve for serviced loans re-acquired by the Bank  | -                                             | -         |
| Provision for losses on problem loans(1)                                 | -                                             | -         |
| Charge-offs and other net reductions in balance                          | -                                             | (152)     |
| Balance at period end                                                    | \$2,993                                       | \$4,221   |

(1) Amount recognized as a component of mortgage banking income during the period.

During the three months ended March 31 2010, the Bank received approval from FNMA to reduce the total First Loss Position by \$1.5 million for losses incurred.

The Bank has elected to periodically repurchase problematic or non-problematic loans from within the FNMA serviced loan pool. The repurchase of problematic loans is made in order to expedite their resolution and control losses. All such elections have been made on an individual loan/borrower basis. All repurchases from FNMA are made at par, and any reserves recognized on the re-acquired loan within the FNMA reserve analysis reduce the recorded balance of the loan when it is transferred to the Bank's portfolio. In most instances, all economic losses realized by the Bank on the re-acquired loans can be applied against the First Loss Position, and any material exceptions for individual loans are disclosed in the Company's public filings. Since the Bank is fully responsible for all losses on FNMA serviced loans up to the First Loss Position, it has greater incentive to minimize losses. Had the resolution of these loans been left to FNMA to manage, management believes that the ultimate losses recognized would have been greater. The Bank did not re-acquire any problematic loans within the pool of loans serviced for FNMA during the three months ended March 31, 2011 or 2010 .

## 10. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following is a summary of major categories of securities owned by the Company at March 31, 2011.

|                                                  | Unrealized Gains or Losses<br>Recognized in Accumulated Other<br>Comprehensive Loss |                                                  |                    |                     |                      |               |                               |               |
|--------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------|--------------------|---------------------|----------------------|---------------|-------------------------------|---------------|
|                                                  | Purchase<br>Amortized<br>/ Historical<br>Cost                                       | Recorded<br>Amortized/<br>Historical<br>Cost (1) | Non-Credit<br>OTTI | Unrealized<br>Gains | Unrealized<br>Losses | Book<br>Value | Other<br>Unrealized<br>Losses | Fair<br>Value |
| (Dollars in Thousands)                           |                                                                                     |                                                  |                    |                     |                      |               |                               |               |
| Held-to-Maturity:                                |                                                                                     |                                                  |                    |                     |                      |               |                               |               |
| Pooled bank trust preferred securities ("TRUPS") | \$18,983                                                                            | \$10,673                                         | \$(1,591)          | -                   | \$(1,890)(2)         | \$7,192       | \$(634)                       | \$6,558       |

## Available-for-sale:

|                                                             |                  |                  |                  |                |                  |                  |                |                  |
|-------------------------------------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|----------------|------------------|
| Mutual fund investments                                     | 4,970            | 3,545            | -                | 1,106          | (7)              | 4,644            | -              | 4,644            |
| Agency notes                                                | 129,331          | 129,331          | -                | 3              | (337)            | 128,997          | -              | 128,997          |
| Pass-through MBS issued by GSEs                             | 91,382           | 91,382           | -                | 4,890          | -                | 96,272           | -              | 96,272           |
| Collateralized mortgage obligations ("CMOs") issued by GSEs | 27,722           | 27,722           | -                | 812            | -                | 28,534           | -              | 28,534           |
| Private issuer pass through MBS                             | 2,120            | 2,120            | -                | -              | (138)            | 1,982            | -              | 1,982            |
| Private issuer CMOs                                         | 1,912            | 1,912            | -                | 32             | -                | 1,944            | -              | 1,944            |
| <b>Total</b>                                                | <b>\$276,420</b> | <b>\$266,685</b> | <b>\$(1,591)</b> | <b>\$6,843</b> | <b>\$(2,372)</b> | <b>\$269,565</b> | <b>\$(634)</b> | <b>\$268,931</b> |

(1) Amount represents the purchase amortized / historical cost less any credit-related OTTI charges recognized through earnings.

(2) Amount represents the unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on

September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

The following is a summary of major categories of securities owned by the Company at December 31, 2010.

|                             | Purchase                          |                                                  | Unrealized Gains or Losses<br>Recognized in<br>Accumulated Other<br>Comprehensive Loss |                     |                      | Book<br>Value  | Other<br>Unrealized<br>Losses | Fair<br>Value    |
|-----------------------------|-----------------------------------|--------------------------------------------------|----------------------------------------------------------------------------------------|---------------------|----------------------|----------------|-------------------------------|------------------|
|                             | Amortized<br>/ Historical<br>Cost | Recorded<br>Amortized/<br>Historical<br>Cost (1) | Non-Credit<br>OTTI                                                                     | Unrealized<br>Gains | Unrealized<br>Losses |                |                               |                  |
| (Dollars in Thousands)      |                                   |                                                  |                                                                                        |                     |                      |                |                               |                  |
| Held-to-Maturity:           |                                   |                                                  |                                                                                        |                     |                      |                |                               |                  |
| TRUPs                       | \$19,008                          | \$10,760                                         | \$(2,203)                                                                              | -                   | \$(1,916)(2)         | \$6,641        | \$(2,233)                     | \$4,408          |
| Available-for-sale:         |                                   |                                                  |                                                                                        |                     |                      |                |                               |                  |
| Mutual fund investments     | 4,962                             | 3,537                                            | -                                                                                      | 957                 | (4)                  | 4,490          | -                             | 4,490            |
| Agency notes                | 81,388                            | 81,388                                           | -                                                                                      | 5                   | (241)                | 81,152         | -                             | 81,152           |
| Pass-through MBS issued     |                                   |                                                  |                                                                                        |                     |                      |                |                               |                  |
| by GSEs                     | 100,847                           | 100,847                                          | -                                                                                      | 5,236               | -                    | 106,083        | -                             | 106,083          |
| CMOs issued by GSEs         | 32,953                            | 32,953                                           | -                                                                                      | 1,012               | -                    | 33,965         | -                             | 33,965           |
| Private issuer pass through |                                   |                                                  |                                                                                        |                     |                      |                |                               |                  |
| MBS                         | 2,363                             | 2,363                                            | -                                                                                      | -                   | (65)                 | 2,298          | -                             | 2,298            |
| Private issuer CMOs         | 2,122                             | 2,122                                            | -                                                                                      | 50                  | -                    | 2,172          | -                             | 2,172            |
| <b>Total</b>                | <b>243,643</b>                    | <b>233,970</b>                                   | <b>\$(2,203)</b>                                                                       | <b>7,260</b>        | <b>(2,226)</b>       | <b>236,801</b> | <b>(2,233)</b>                | <b>\$234,568</b> |

(1) Amount represents the purchase amortized / historical cost less any credit-related OTTI charges recognized through earnings.

(2) Amount represents the remaining unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss

on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

At March 31, 2011, the agency note investments in the above table had contractual maturities as follows:

|                                        | Amortized<br>Cost | Estimated<br>Fair Value |
|----------------------------------------|-------------------|-------------------------|
| (Dollars in Thousands)                 |                   |                         |
| Due after one year through five years  | \$128,941         | \$128,605               |
| Due after five years through ten years | 390               | 392                     |
|                                        | \$129,331         | \$128,997               |

The held-to-maturity TRUPs had a weighted average term to maturity of 23.8 years at March 31, 2011. At March 31, 2011, MBS available-for-sale (which include pass-through MBS issued by GSEs, CMOs issued by GSEs, private issuer pass through MBS and private issuer CMOs) possessed a weighted average contractual maturity of 16.7 years and a weighted average estimated duration of 2.2 years. There were no sales of MBS available-for-sale during the three months ended March 31, 2011 and 2010.

There were no sales of investment securities available-for-sale during the three months ended March 31, 2011. Proceeds from the sales of investment securities available-for-sale (which include mutual funds and agency notes) were \$1.1 million during the three months ended March 31, 2010. A gain of \$326,000 was recognized on these

sales. On March 31, 2010, the Company transferred six mutual fund investments totaling \$1.4 million from available-for-sale to trading. On the date of transfer, unrealized holding gains totaling \$242,000 were recognized on these investments.

At March 31, 2011, in management's judgment, the credit quality of the collateral pool underlying six of the Company's eight pooled bank trust preferred securities had deteriorated to the point that full recovery of the Company's initial investment was considered uncertain, thus resulting in recognition of OTTI charges. At March 31, 2011, these six securities had credit ratings ranging from "D" to "Caa3."

For the six pooled bank trust preferred securities that were deemed to meet the OTTI criteria established under ASC 320-10-65, the Company applied the ASC 320-10-65 provisions for determining the credit related component of OTTI by discounting the expected future cash flows applicable to the securities at the effective interest rate implicit in the security at the date of acquisition by the Company.



The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's trust preferred securities.

|                                                        | At or for the Three Months Ended<br>March 31, 2011     |                                                                                      |               | At or for the Three Months Ended<br>March 31, 2010     |                                                                                      |               |
|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|--------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|
|                                                        | Credit<br>Related<br>OTTI<br>Recognized<br>in Earnings | Non-Credit<br>OTTI<br>Recognized in<br>Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>OTTI | Credit<br>Related<br>OTTI<br>Recognized<br>in Earnings | Non-Credit<br>OTTI<br>Recognized in<br>Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>OTTI |
| (Dollars in Thousands)                                 |                                                        |                                                                                      |               |                                                        |                                                                                      |               |
| Cumulative balance at the beginning of the period      | \$8,247                                                | \$2,203                                                                              | \$10,450      | \$5,772                                                | \$4,425                                                                              | \$10,197      |
| Cumulative effect adjustment of adopting ASC 320-10-65 | -                                                      | -                                                                                    | -             | -                                                      | -                                                                                    | -             |
| OTTI recognized on securities with previous OTTI       | 63                                                     | -                                                                                    | 63            | 166                                                    | 50                                                                                   | 216           |
| Reductions and transfers to credit-related OTTI        | -                                                      | (605)                                                                                | (605)         | -                                                      | (254)                                                                                | (254)         |
| Amortization of previously recognized OTTI             | -                                                      | (7)                                                                                  | (7)           | -                                                      | (26)                                                                                 | (26)          |
| Cumulative balance at end of the period                | \$8,310                                                | \$1,591                                                                              | \$9,901       | \$5,938                                                | \$4,195                                                                              | \$10,133      |

The remaining aggregate amortized cost of pooled bank trust preferred securities that could be subject to future OTTI charges through earnings was \$10.7 million at March 31, 2011. Of this total, unrealized losses of \$3.5 million have already been recognized as a component of accumulated other comprehensive loss.

In March 2010, the Company sold a portion of one of the five mutual fund investments for which it had previously recognized OTTI charges, recovering \$685,000 of the apportioned OTTI previously recognized on these fund shares.

The remaining four mutual fund investments are Company-owned assets that are earmarked for the payment of benefits earned by participants in the BMP. The Company elected to transfer a portion of four mutual fund investments that are earmarked for future settlement of non-qualified 401(k) Plan defined contribution benefits earned under the BMP from available-for-sale into trading effective March 31, 2010. The Company simultaneously transferred two additional mutual fund balances that are similarly earmarked for payment of non-qualified 401(k) benefits earned under the BMP, which were never deemed to meet the criteria of OTTI, from available-for-sale into trading. The transfer of these six mutual funds on March 31, 2010 has produced an offset within the Company's operating results for any required changes in future BMP benefit expense caused by fluctuations in the market value of these earmarked investments. As a result of the transfer from available-for-sale into trading, approximately \$336,000 of previously recognized OTTI on these investments was recovered.

The remainder of the Company's investment in the initial four mutual funds discussed in the previous paragraph is earmarked for future settlement of non-qualified pension benefits earned under the BMP. The recovery of their apportioned OTTI through March 2011 has remained unrealized as a component of accumulated other comprehensive income.

The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's equity mutual funds (contained within investment securities available-for-sale):

|                                                                           | At or<br>For the Three Months<br>Ended March 31, |         |
|---------------------------------------------------------------------------|--------------------------------------------------|---------|
| PRE-TAX OTTI:                                                             | 2011                                             | 2010    |
|                                                                           | (Dollars in Thousands)                           |         |
| Cumulative balance at the beginning of the period                         | \$1,425                                          | \$3,063 |
| OTTI recognized during the period                                         | -                                                | -       |
| Reduction of OTTI for securities sold during the period                   | -                                                | (685)   |
| Reduction of OTTI for securities transferred to trading during the period | -                                                | (336)   |
| Cumulative balance at end of the period                                   | \$1,425                                          | \$2,042 |

The following table summarizes the gross unrealized losses and fair value of investment securities and MBS as of March 31, 2011, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position.

|                                | Total      |                   | 12 or More Consecutive Months of Unrealized Losses |                   | Less than 12 Consecutive Months of Unrealized Losses |                   |
|--------------------------------|------------|-------------------|----------------------------------------------------|-------------------|------------------------------------------------------|-------------------|
|                                | Fair Value | Unrealized Losses | Fair Value                                         | Unrealized Losses | Fair Value                                           | Unrealized Losses |
| (Dollars in thousands)         |            |                   |                                                    |                   |                                                      |                   |
| Held-to-Maturity Securities:   |            |                   |                                                    |                   |                                                      |                   |
| TRUPs (1)                      | \$6,558    | \$4,115           | \$6,558                                            | \$4,115           | \$-                                                  | \$-               |
| Available-for-Sale Securities: |            |                   |                                                    |                   |                                                      |                   |
| Federal agency Obligations     | 118,639    | 337               | -                                                  | -                 | 118,639                                              | 337               |
| Fixed Income mutual fund       | 506        | 7                 | -                                                  | -                 | 506                                                  | 7                 |
| Private issuer pass through    |            |                   |                                                    |                   |                                                      |                   |
| MBS                            | 1,982      | 138               | 1,982                                              | 138               |                                                      |                   |
| Total                          | \$127,685  | \$4,597           | \$8,540                                            | \$4,253           | \$119,145                                            | \$344             |

(1) At March 31, 2011, the recorded balance of these securities was \$7.2 million. This balance reflected both the remaining unrealized loss of \$1.9 million that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity) for two trust preferred securities that have not been deemed OTTI, and an unrealized loss of \$1.6 million that has been recognized in accumulated other comprehensive loss that represents the non-credit component of impairment for five trust preferred securities that have been deemed OTTI. In accordance with both ASC 320-10-35-17 and ASC 320-10-65, these unrealized losses are currently being amortized over the remaining estimated life of these securities.

#### Trust Preferred Securities That Have Maintained an Unrealized Holding Loss for 12 or More Consecutive Months

At March 31, 2011, two of the TRUPs, with an amortized cost of \$7.2 million were not deemed to have OTTI. These securities remained in an unrealized loss for 12 or more consecutive months, and their cumulative unrealized loss was \$3.0 million at March 31, 2011, reflecting both illiquidity in the marketplace and concerns over future bank failures. At March 31, 2011, these securities had ratings ranging from "CC" to "Ba1" on one and "CCC" to "Ba1" on the other. Despite both the significant decline in market value and the duration of their impairment, management believes that the unrealized losses on these securities at March 31, 2011 were temporary, and that the full value of the investments will be realized once the market dislocations have been removed, or as the securities continue to make their contractual payments of principal and interest. In making this determination, management considered the following:

- Based upon an internal review of the collateral backing the TRUPs portfolio, which accounted for current and prospective deferrals, each of the securities could reasonably be expected to continue making all contractual payments
- The Company has the intent and ability to hold these securities until they fully recover their impairment, evidenced by the election to reclassify them as held-to-maturity in 2008
- There were no cash or working capital requirements nor contractual or regulatory obligations that would compel the Company to sell any of these securities prior to their forecasted recovery or maturity
- Each security has a pool of underlying issuers comprised primarily of banks
- None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
- Each security featured either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security

- Each security is characterized by some level of over-collateralization

The remaining six trust preferred securities, with an aggregate amortized cost of \$3.4 million at March 31, 2011, have previously been determined to meet the OTTI criteria.

#### Private Issuer Pass Through MBS That Have Maintained an Unrealized Holding Loss for 12 or More Consecutive Months

At March 31, 2011, the Company owned one private label pass-through MBS that possessed unrealized losses for 12 or more consecutive months, with an amortized cost of \$2.1 million and an unrealized loss of \$138,000. The Company's investment is in the most senior tranche (or repayment pool) of this security. Despite a challenging real estate marketplace, the private label pass-through MBS made contractual principal and interest payments that reduced its principal balance by approximately 28% during the twelve months ended March 31, 2011. At March 31, 2011, the Company performed an analysis of likely potential defaults of the real estate loans underlying this security in the current economic environment, and determined that this security could reasonably be expected to continue making all contractual payments. The Company has no intent to sell this security and it is not likely that the Company will be required to sell this security before the recovery of its remaining amortized cost.

The following summarizes the gross unrealized losses and fair value of investment securities and MBS as of December 31, 2010, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

|                                 | Total      |                   | 12 or More Consecutive Months of Unrealized Losses |                   | Less than 12 Consecutive Months of Unrealized Losses |                   |
|---------------------------------|------------|-------------------|----------------------------------------------------|-------------------|------------------------------------------------------|-------------------|
|                                 | Fair Value | Unrealized Losses | Fair Value                                         | Unrealized Losses | Fair Value                                           | Unrealized Losses |
| (Dollars in thousands)          |            |                   |                                                    |                   |                                                      |                   |
| Held-to-Maturity Securities:    |            |                   |                                                    |                   |                                                      |                   |
| TRUPs                           | \$4,408    | \$6,352           | \$4,408                                            | \$6,352           | \$-                                                  | \$-               |
| Available-for-Sale Securities:  |            |                   |                                                    |                   |                                                      |                   |
| Federal agency Obligations      | 75,756     | 241               | -                                                  | -                 | 75,756                                               | 241               |
| Fixed Income mutual fund        | 506        | 4                 | -                                                  | -                 | 506                                                  | 4                 |
| Private issuer pass through MBS | 2,298      | 65                | 2,298                                              | 65                |                                                      |                   |
| Total                           | \$82,968   | \$6,662           | \$6,706                                            | \$6,417           | \$76,262                                             | \$245             |

#### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted ASC 820-10 on January 1, 2008. The fair value hierarchy established under ASC 820-10 is summarized as follows:

Level 1 Inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Significant other observable inputs such as any of the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 Inputs – Unobservable inputs for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following tables present the assets that are reported on the condensed consolidated statements of financial condition at fair value as of March 31, 2011 by level within the fair value hierarchy. As required by ASC 820-10, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Assets Measured at Fair Value on a Recurring Basis at March 31, 2011 |       |                               |                |                |                             |
|----------------------------------------------------------------------|-------|-------------------------------|----------------|----------------|-----------------------------|
| Description                                                          | Total | Fair Value Measurements Using |                |                | Losses for the Three Months |
|                                                                      |       | Level 1 Inputs                | Level 2 Inputs | Level 3 Inputs |                             |
|                                                                      |       |                               |                |                |                             |

Ended  
March 31,  
2011

(Dollars in Thousands)

Trading securities (Registered Mutual Funds):

|                                          |         |       |         |     |     |
|------------------------------------------|---------|-------|---------|-----|-----|
| Domestic Equity                          | \$717   | \$717 | \$-     | \$- | \$- |
| International Equity                     | 111     | 111   | -       | -   | -   |
| Fixed Income                             | 713     | 713   | -       | -   | -   |
| Investment securities available-for-sale | 133,641 | 4,644 | 128,997 | -   | -   |
| MBS available-for-sale                   | 128,732 | -     | 128,732 | -   | -   |

| Assets Measured at Fair Value on a Recurring Basis at December 31, 2010 |          |                               |                |                |                                                  |
|-------------------------------------------------------------------------|----------|-------------------------------|----------------|----------------|--------------------------------------------------|
| Description                                                             | Total    | Fair Value Measurements Using |                |                | Losses for the Three Months Ended March 31, 2010 |
|                                                                         |          | Level 1 Inputs                | Level 2 Inputs | Level 3 Inputs |                                                  |
| (Dollars in Thousands)                                                  |          |                               |                |                |                                                  |
| <b>Trading Securities (Registered Mutual Funds)</b>                     |          |                               |                |                |                                                  |
| Domestic Equity                                                         | \$-      | \$672                         | \$-            | \$-            | \$-                                              |
| International Equity                                                    | -        | 108                           | -              | -              | -                                                |
| Fixed Income                                                            | -        | 710                           | -              | -              | -                                                |
| Investment securities available-for-sale                                | \$85,642 | \$4,883                       | \$80,759       | \$-            | \$-                                              |
| MBS available-for-sale                                                  | 144,518  | -                             | 144,518        | -              | -                                                |

The Company's trading securities and available-for-sale investment securities and MBS are reported at fair value, which is determined utilizing prices obtained from independent parties. The valuations obtained are based upon market data, and often utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (obtained only from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Prioritization of inputs may vary on any given day based on market conditions.

The Company's trading securities are registered, actively-traded mutual funds that satisfy the criteria for Level 1 valuation. The Company's available-for-sale investment securities and MBS at March 31, 2011 were categorized as follows:

| Investment Category                                         | Percentage of Total | Valuation Level Under ASC 820-10 |
|-------------------------------------------------------------|---------------------|----------------------------------|
| Pass Through MBS or CMOs issued by GSEs                     | 47.6 %              | Two                              |
| Federal agency obligation notes                             | 49.1                | Two                              |
| Pass Through MBS or CMOs issued by entities other than GSEs | 1.5                 | Two                              |
| Mutual fund investments                                     | 1.8                 | One                              |

The agency notes owned by the Company possessed the highest possible credit rating published by multiple established credit rating agencies as of March 31, 2011. Obtaining a market value as of March 31, 2011 for these securities utilizing significant observable inputs as defined under ASC 820-10 was not difficult due to their continued marketplace demand. The pass-through MBS and CMOs issued by GSEs, which comprised approximately 47.6% of the Company's total available-for-sale investment securities and MBS at March 31, 2011, all possessed the highest possible credit rating published by multiple established credit rating agencies as of March 31, 2011. Obtaining a market value as of March 31, 2011 for these securities utilizing significant observable inputs as defined under ASC 820-10 was not difficult due to their considerable demand. In accordance with established policies and procedures, the Company utilized a midpoint value obtained as its recorded fair value for securities that were valued with significant observable inputs.

As of March 31, 2011 and 2010, the Company owned one pass through MBS issued by an entity other than a GSE. This security had an amortized cost basis of \$2.1 million at March 31, 2011. The Company's investment is within the senior tranche of this security, and the weighted average contractual interest rate on the security was 5.0% at both March 31, 2011 and 2010. The assets underlying this security are a pool of 15-year fixed rate amortizing prime mortgages on residential properties located throughout the United States. The underlying mortgages were originated in 2005, and, as of March 31, 2011, had a weighted average coupon of 5.26% and a weighted average loan-to-value ratio of 46%. There is no significant geographical concentration on the underlying mortgages, and less than 9% of the total underlying mortgage pool was delinquent at March 31, 2011. The credit ratings on this security ranged from Caa1 to Ba1 at March 31, 2011. As a result of the overall credit quality of this investment, marketplace demand was deemed sufficient at March 31, 2011 to permit it to be valued utilizing estimated sales determined under benchmarking and matrix pricing. The Company obtained such values from at least two credible independent market sources, and verified that the values were prepared utilizing significant observable inputs as defined under ASC 820-10.

As of March 31, 2011 and 2010, the Company owned one CMO issued by an entity other than a GSE. This security had an amortized cost basis of \$1.9 million at March 31, 2011. The Company's investment is within the senior tranche of this security, and the weighted average contractual interest rate on the security was 4.5% at both March 31, 2011 and 2010. The assets underlying this security are a pool of 15-year fixed rate amortizing prime mortgages on residential properties located throughout the United States. The underlying mortgages were originated in 2003, and, as of March 31, 2011, had a weighted average coupon of 5.39% and a weighted average loan-to-value ratio of 30%. Approximately 45% of the underlying mortgages are located in California, while the remainder are diversified geographically. Less than one percent of the total underlying mortgage pool was delinquent at March 31, 2011. This security possessed the highest possible credit rating published by multiple established credit rating agencies at March 31, 2011. As a result of the overall credit quality of this investment, marketplace demand was deemed



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sufficient at March 31, 2011 to permit it to be valued utilizing estimated sales determined under benchmarking and matrix pricing. The Company obtained such values from at least two credible market sources, and verified that these values were prepared utilizing significant observable inputs as defined under ASC 820-10.

| Assets Measured at Fair Value on a Non-Recurring Basis at March 31, 2011 |         |                   |                   |                   |                                                                 |     |
|--------------------------------------------------------------------------|---------|-------------------|-------------------|-------------------|-----------------------------------------------------------------|-----|
| Fair Value Measurements Using                                            |         |                   |                   |                   |                                                                 |     |
| Description                                                              | Total   | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Losses for<br>the Three<br>Months<br>Ended<br>March 31,<br>2011 |     |
| (Dollars in Thousands)                                                   |         |                   |                   |                   |                                                                 |     |
| TRUPs                                                                    | \$1,192 | (1) \$-           | \$-               | \$1,192           | \$63                                                            | (2) |
| Impaired loans                                                           |         | -                 | -                 | 41,156            | 980                                                             | (3) |
| Multifamily Residential and Residential                                  |         |                   |                   |                   |                                                                 |     |
| Mixed Use Real Estate                                                    | 13,130  | -                 | -                 | 13,130            | 245                                                             | (3) |
| Mixed Use Commercial Real Estate                                         | 5,074   | -                 | -                 | 5,074             | 201                                                             | (3) |
| Commercial Real Estate                                                   | 20,669  | -                 | -                 | 20,669            | 460                                                             | (3) |
| Construction                                                             | 2,283   | -                 | -                 | 2,283             | -                                                               |     |

(1) Amount represents the fair value of five held-to-maturity TRUPs that were deemed OTTI at March 31, 2011.

(2) Amount represents the total OTTI (credit or non-credit related) recognized on TRUPs during the three months ended March 31, 2011.

(3) Amount represents total charge-offs on impaired loans during the three months ended March 31, 2011.

| Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2010 |        |                   |                   |                   |                                                                 |     |
|-----------------------------------------------------------------------------|--------|-------------------|-------------------|-------------------|-----------------------------------------------------------------|-----|
| Fair Value Measurements Using                                               |        |                   |                   |                   |                                                                 |     |
| Description                                                                 | Total  | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Losses for<br>the Three<br>Months<br>Ended<br>March 31,<br>2010 |     |
| (Dollars in Thousands)                                                      |        |                   |                   |                   |                                                                 |     |
| TRUPs                                                                       | \$ 650 | (1) \$ -          | \$ -              | \$ 650            | \$ 211                                                          | (2) |
| Impaired loans:                                                             |        |                   |                   |                   |                                                                 |     |
| Multifamily Residential and Residential Mixed Use                           |        |                   |                   |                   |                                                                 |     |
| Real Estate                                                                 | 16,368 | -                 | -                 | 16,368            | 634                                                             | (3) |
| Mixed Use Commercial                                                        |        |                   |                   |                   |                                                                 |     |
| Real Estate                                                                 | 2,387  | -                 | -                 | 2,387             | 42                                                              | (3) |
| Commercial Real Estate                                                      | 20,842 | -                 | -                 | 20,842            | 19                                                              | (3) |
| Construction                                                                | 4,500  | -                 | -                 | 4,500             | -                                                               |     |

(1) Amount represents the fair value of two held-to-maturity TRUPs that were deemed OTTI at December 31, 2010.

(2) Amount represents the total OTTI (credit or non-credit related) recognized on TRUPs during the three months ended March 31, 2010.

(3) Amount represents total charge-offs on impaired loans during the three months ended March 31, 2010.

TRUPs Held to Maturity - At March 31, 2011 and December 31, 2010, the Company owned eight TRUPs classified as held-to-maturity. Late in 2008, the market for these securities became illiquid, and continued to be deemed illiquid as

of March 31, 2011. As a result, at both March 31, 2011 and December 31, 2010, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing). Under the blended valuation approach, the Bank utilized the following valuation sources: 1) broker quotations, which were deemed to meet the criteria of "distressed sale" pricing under the guidance of ASC 820-10-65-4, were given a minor 10% weighting; 2) An internally created cash flow valuation model that considered the creditworthiness of each individual issuer underlying the collateral pools, and utilized default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation"), was given a 45% weighting; and 3) a minimum of two of three available independent cash flow model valuations were averaged and given a 45% weighting.

The major assumptions utilized (each of which represents a significant unobservable input as defined by ASC 820-10) in the Internal Cash Flow Valuation were as follows:

(i) Discount Rate - Pursuant to ASC 320-10-65, the Company utilized two different discount rates for discounting the cash flows for each of the eight TRUPs, as follows:

(1) Purchase discount rate – the rate used to determine the "credit" based valuation of the security.

(2) Current discount rate - the current discount rate utilized was derived from the Bloomberg fair market value curve for debt offerings of similar credit rating. In the event that a security had a split investment rating, separate cash flow valuations were made utilizing the appropriate discount rate and were averaged in order to determine the Internal Cash Flow Valuation. In addition, the discount rate was interpolated from the Bloomberg fair market value curve for securities possessing a credit rating below "B."

(ii) Defaults – The Company utilized the most recently published Fitch bank scores to identify potential defaults in the collateral pool of performing issuers underlying the eight securities. Using a rating scale of 1 to 5 (best-to-worst), all underlying issuers with a Fitch bank rating of 5.0 were assumed to default. Underlying issuers with a Fitch bank rating of 3.5 through 4.5 were assumed to default at levels ranging from 5% to 75% based upon both their rating as well as whether they had been granted approval to receive funding under the U.S. Department of Treasury's Troubled Asset Relief Program Capital Purchase Program. In addition to the defaults derived from the Fitch bank scores, the Company utilized a standard default rate of 1.2% every three years.

(iii) Cash Flows - The expected payments for the tranche of each security owned by the Company, as adjusted to assume that all estimated defaults occur immediately. The cash flows further assume an estimated recovery rate of 6% per annum to occur one year after initial default.

As discussed above, in addition to the Internal Cash Flow Valuation and broker quotations, the Company utilizes a minimum of two of three additional available pricing sources. Two of the three independent cash flow model valuations utilized a methodology similar to the Internal Cash Flow Valuation, differing only in the underlying assumptions deriving estimated cash flows, individual bank defaults and discount rate. The third independent cash flow valuation was derived from a different methodology in which the actual cash flow estimate based upon the underlying collateral of the securities (including default estimates) was not considered. Instead, this cash flow valuation utilized a discount rate determined from the Bloomberg fair market value curve for similar assets that continued to trade actively, with adjustments made for the illiquidity of the pooled trust preferred market. Because of the significant judgment underlying each of the pricing assumptions, management elected to recognize each of the independent valuations and apply a weighting system to all of the valuations, including the Internal Cash Flow Valuation, as all of these valuations were determined utilizing a valid and objective pricing methodology.

Impaired Loans - Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired under ASC 310-10-35 when, based upon existing information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at March 31, 2011 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the collateral. Fair value is estimated through either a negotiated note sale value, or, more commonly, either a current independent appraisal or a drive-by inspection combined with a comparison of the collateral with similar properties in the area by either a licensed appraiser or real estate broker. An appraisal is generally ordered for all impaired multifamily residential, mixed use or commercial real estate loans for which the most recent appraisal is more than one year old. The Bank never adjusts independent appraisal data upward. Occasionally, management will adjust independent appraisal data downward based upon its own lending expertise and/or experience with the subject property, utilizing such factors as potential note sale values, or a more refined estimate of costs to repair and time to lease the property. Adjustments for potential disposal costs are also considered when determining the final appraised value. Of the 39 impaired loans at March 31, 2011, management utilized a likely negotiated note sale value as the valuation for seven of the loans and reduced the independent appraisal value in determining the fair value of nineteen of the loans. In instances in which foreclosure and sale of the collateral property are deemed to provide the likely ultimate realizable value, estimated disposal costs of 10% of the appraised value are applied against the realizable value.

Financial Instruments Not Actively Traded - Quoted market prices available in active trading marketplaces are generally recognized as the best evidence of fair value of financial instruments, however, several of the Company's financial instruments are not bought or sold in active trading marketplaces. Accordingly, their fair values are derived or estimated based on a variety of alternative valuation techniques. All such fair value estimates are based on relevant market information about the financial instrument. These estimates do not reflect any possible tax ramifications, estimated transaction costs, or potential premium or discount that could result from a one time sale of the entire holdings of a particular financial instrument. In addition, the estimates are based on assumptions of future loss experience, current economic conditions, risk characteristics, and other such factors. These assumptions are

subjective in nature and involve inherent uncertainty. Changes in these assumptions could significantly affect the estimates.

Methods and assumptions used to estimate fair values for financial instruments that are not valued utilizing formal marketplace quotations (other than those previously discussed) are summarized as follows:

Cash and Due From Banks - The fair value is assumed to be equal to their carrying value as these amounts are due upon demand.

Federal Funds Sold and Other Short Term Investments – As a result of their short duration to maturity, the fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due.

FHLBNY Capital Stock – It is not practicable to determine the fair value of FHLBNY capital stock due to restrictions placed on transferability.

Loans, Net - The fair value of loans receivable is determined by discounting anticipated future cash flows of the loans, net of anticipated prepayments, using a discount rate reflecting current market rates for loans with similar

terms. This methodology is applied to all loans, inclusive of non-accrual loans, as well as impaired loans for which a write-down to the current fair market value of the underlying collateral is not deemed warranted (generally loans that are sufficiently collateralized). In addition, the valuation of loans generally reflects the consideration of sale pricing for loan types that had traditionally been subject to sales to FNMA (over 80% of the outstanding loan portfolio). Due to significant market dislocation for multifamily loan sales that commenced in 2008, secondary market prices were given little weighting in deriving loan valuation at March 31, 2011. The valuation of impaired loans for which a write down is warranted was discussed previously within this Note.

**Mortgage Servicing Rights ("MSR")** - The estimated fair value of MSR is obtained through independent third party valuation, and is derived by calculating the present value of estimated future net servicing cash flows, using estimated prepayment, default, servicing cost and discount rate assumptions. All estimates and assumptions utilized in the valuation of MSR are derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers.

**Deposits** - The fair value of savings, money market, and checking accounts is assumed to be their carrying amount. The fair value of certificates of deposit ("CDs") is based upon the present value of contractual cash flows using current interest rates for instruments of the same remaining maturity.

**Escrow and Other Deposits** - The estimated fair value of escrow and other deposits is assumed to be their carrying amount payable.

**Securities Sold Under Agreements to Repurchase ("REPOs") and FHLBNY Advances – REPOs** are accounted for as financing transactions. Their fair value is measured by the discounted anticipated cash flows through contractual maturity or next interest repricing date, or an earlier call date if, as of the valuation date, the borrowing is expected to be called. The carrying amount of accrued interest payable is its fair value.

**Commitments to Extend Credit** - The fair value of commitments to extend 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 interest rates and the committed rates.

Based upon the aforementioned valuation methodologies, the estimated carrying amounts and estimated fair values of all of the Company's financial instruments and liabilities were as follows:

| At March 31, 2011                                   | Carrying Amount        | Fair Value |
|-----------------------------------------------------|------------------------|------------|
|                                                     | (Dollars in Thousands) |            |
| <b>Assets:</b>                                      |                        |            |
| Cash and due from banks                             | \$171,745              | \$171,745  |
| Federal funds sold and other short term investments | 4,461                  | 4,461      |
| Investment securities held to maturity (TRUPs)      | 7,192                  | 6,558      |
| <b>Available-for-sale securities:</b>               |                        |            |
| Mutual fund investments                             | 4,644                  | 4,644      |
| Agency notes                                        | 128,997                | 128,997    |
| Pass-through MBS issued by GSEs                     | 97,004                 | 97,004     |
| CMOs issued by GSEs                                 | 27,802                 | 27,802     |
| Private issuer pass-through MBS                     | 1,982                  | 1,982      |
| Private issuer CMOs                                 | 1,944                  | 1,944      |
| Trading securities                                  | 1,541                  | 1,541      |
| Loans, net                                          | 3,437,124              | 3,584,243  |
| Loans held for sale                                 | 1,721                  | 1,720      |

|                                                 |           |           |
|-------------------------------------------------|-----------|-----------|
| MSR                                             | 2,095     | 2,593     |
| FHLBNY capital stock                            | 51,718    | N/A       |
| Liabilities:                                    |           |           |
| Savings, money market and checking accounts     | 1,313,656 | 1,313,656 |
| CDs                                             | 1,089,029 | 1,103,095 |
| Escrow and other deposits                       | 108,865   | 108,865   |
| REPOs                                           | 195,000   | 215,110   |
| FHLBNY advances                                 | 990,525   | 1,027,652 |
| Trust Preferred securities payable <sup>1</sup> | 70,680    | 67,146    |
| Commitments to extend credit                    | 786       | 786       |

<sup>1</sup> The fair value of these liabilities is measured by independent market quotations obtained based upon transactions occurring in the market as of the disclosure date.

| At December 31, 2010                                | Carrying Amount | Fair Value |
|-----------------------------------------------------|-----------------|------------|
| <b>Assets:</b>                                      |                 |            |
| Cash and due from banks                             | \$86,193        | \$86,193   |
| Investment securities held to maturity (TRUPs)      | 6,641           | 4,408      |
| <b>Available-for-sale securities:</b>               |                 |            |
| Mutual fund investments                             | 4,490           | 4,490      |
| Agency notes                                        | 81,152          | 81,152     |
| Pass-through MBS issued by GSEs                     | 106,083         | 106,083    |
| CMOs issued by GSEs                                 | 33,965          | 33,965     |
| Private issuer pass through MBS                     | 2,298           | 2,298      |
| Private issuer CMOs                                 | 2,172           | 2,172      |
| Loans, net                                          | 3,451,018       | 3,598,027  |
| Loans held for sale                                 | 3,308           | 3,309      |
| MSR                                                 | 2,271           | 2,840      |
| Federal funds sold and other short-term investments | 4,536           | 4,536      |
| FHLB NY capital stock                               | 51,718          | N/A        |
| <b>Liabilities:</b>                                 |                 |            |
| Savings, money market and checking accounts         | 1,290,929       | 1,290,929  |
| CDs                                                 | 1,059,652       | 1,074,114  |
| Escrow and other deposits                           | 68,542          | 68,542     |
| REPOs                                               | 195,000         | 217,735    |
| FHLB NY Advances                                    | 990,525         | 1,032,555  |
| Trust Preferred securities payable <sup>1</sup>     | 70,680          | 63,612     |
| Commitments to extend credit                        | 631             | 631        |

<sup>1</sup> The fair value of these liabilities is measured by independent market quotations obtained based upon transactions occurring in the market as of the disclosure date.

## 12. RETIREMENT AND POSTRETIREMENT PLANS

The Holding Company or the Bank maintains the Retirement Plan of The Dime Savings Bank of Williamsburgh (the "Employee Retirement Plan"), the Retirement Plan for Board Members of Dime Community Bancshares, Inc. (the "Outside Director Retirement Plan"), the BMP, and the Postretirement Welfare Plan of The Dime Savings Bank of Williamsburgh ("Postretirement Plan"). Net expenses associated with these plans were comprised of the following components:

|                                                                     | Three Months Ended March 31,<br>2011                               |                        | Three Months Ended March 31,<br>2010                               |                        |
|---------------------------------------------------------------------|--------------------------------------------------------------------|------------------------|--------------------------------------------------------------------|------------------------|
|                                                                     | BMP,<br>Employee<br>and Outside<br>Director<br>Retirement<br>Plans | Postretirement<br>Plan | BMP,<br>Employee<br>and Outside<br>Director<br>Retirement<br>Plans | Postretirement<br>Plan |
|                                                                     | (Dollars in thousands)                                             |                        |                                                                    |                        |
| Service cost                                                        | \$ -                                                               | \$ 33                  | \$ -                                                               | \$ 29                  |
| Interest cost                                                       | 339                                                                | 86                     | 336                                                                | 79                     |
| Actuarial adjustment to prior period interest cost and amortization | -                                                                  | -                      | (325 )                                                             | -                      |

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|                                     |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|
| Expected return on assets           | (361 ) | -      | -      | -      |
| Unrecognized past service liability | -      | -      | -      | -      |
| Amortization of unrealized loss     | 312    | 29     | 232    | 14     |
| Net periodic cost                   | \$ 290 | \$ 148 | \$ 243 | \$ 122 |

The Company disclosed in its consolidated financial statements for the year ended December 31, 2010 that it expected to make contributions or benefit payments totaling \$48,000 to the Employee Retirement Plan, \$389,000 to the BMP, \$135,000 to the Outside Director Retirement Plan, and \$173,000 to the Postretirement Plan during the year ending December 31, 2011. The Company made contributions of \$12,000 to the Employee Retirement Plan during the three months ended March 31, 2011, and expects to make an additional \$36,000 of contributions or benefit payments during the remainder of 2011. The Company made benefit payments of \$33,000 to the Outside Director Retirement Plan during the three months ended March 31, 2011, and expects to make an additional \$98,000 of contributions or benefit payments during the remainder of 2011. The Company made net contributions totaling \$19,000 to the Postretirement Plan during the three months ended March 31, 2011, and expects to make the remainder of the estimated \$173,000 of net contributions or benefit payments during 2011. The Company made no contributions to the BMP



during the three months ended March 31, 2011. The Company does not expect to make any benefit payments from or contributions to the BMP during the remainder of 2011, since anticipated retirements that formed the basis for the expected benefit payments in 2011 are presently not expected to occur.

### 13. INCOME TAXES

During the three months ended March 31, 2011, the Company's consolidated effective tax rate was 40.6%, slightly above its expected 40% normalized rate.

During the three months ended March 31, 2010, the Company's consolidated effective tax rate, which was expected to approximate 37%, was 41.3%. During the three months ended March 31, 2010, the Company recognized gains totaling \$569,000 on both the sale of the mutual funds and the transfer of mutual funds into trading. From a tax perspective, since: (i) these events triggered the reversal of deferred tax assets previously recognized when the Company recorded OTTI charges in March 2009; and (ii) the deferred tax assets on the OTTI were established at a statutory rate approximating 45% (significantly in excess of the then current consolidated 37% tax rate), their reversal created a higher effective tax rate during the March 2010 quarter.

### 14. NET MORTGAGE BANKING INCOME

Net mortgage banking income presented in the condensed consolidated statements of operations was comprised of the following items:

|                                                             | Three Months Ended     |       |
|-------------------------------------------------------------|------------------------|-------|
|                                                             | 2011                   | 2010  |
|                                                             | March 31,              |       |
|                                                             | (Dollars in thousands) |       |
| (Loss) Gain on the sale of loans held for sale              | \$(67 )                | \$42  |
| Credit (Provision) to the liability for First Loss Position | -                      | -     |
| Recovery of write down of mortgage servicing asset          | -                      | -     |
| Mortgage banking fees                                       | 160                    | 169   |
| Net mortgage banking income                                 | \$93                   | \$211 |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

The Holding Company is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank. The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-six full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate, one- to four-family residential, construction and land acquisition loans, consumer loans, MBS, obligations of the U.S. government and GSEs, and corporate debt and equity securities.

### Executive Summary

The Holding Company's primary business is the ownership of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, as well as income associated with Bank Owned Life Insurance. Non-interest expense primarily consists of

employee compensation and benefits, federal deposit insurance premiums, data processing costs, and occupancy and equipment, marketing and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

The Bank's primary strategy is generally to seek to increase its product and service utilization for each individual depositor, and increase its household and deposit market shares in the communities that it serves. In addition, the Bank's primary strategy includes the origination of, and investment in, mortgage loans, with an emphasis on multifamily residential and mixed-use real estate loans. In late 2008, the Company began restricting its plans for future growth based upon the desire to retain capital levels sufficient to accommodate potential credit quality problems resulting from the downturn in the economy and the local real estate market. This strategy continued throughout 2009, 2010 and the three months ended March 31, 2011.

The Company believes that multifamily residential and mixed-use loans in and around NYC provide advantages as investment assets. Initially, they offer a higher yield than investment securities of comparable maturities or terms to repricing. In addition, origination and processing costs for the Bank's multifamily residential and mixed loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. Further, the Bank's market

area has generally provided a stable flow of new and refinanced multifamily residential and mixed-use loan originations. In order to address the credit risk associated with multifamily residential and mixed use lending, the Bank has developed underwriting standards that it believes are reliable in order to maintain consistent credit quality for its loans.

The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities; seeks to maintain the asset quality of its loans and other investments; and uses appropriate portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital.

The years ended December 31, 2010 and 2009 were dominated by a global real estate and economic recession fueled by significant weakness and/or failure in many of the world's largest financial institutions, coupled with ongoing economic and political turmoil in various parts of the world. These events led to historically high dislocations in credit markets, creating favorable origination spreads from the benchmark origination interest rates during the period. This increase, coupled with the continuation of historically low benchmark short-term interest rates by the Federal Open Market Committee ("FOMC") (which greatly impact the pricing of the Bank's retail deposits), resulted in year-over-year increases in both net interest spread and net interest margin during the years ended December 31, 2010 and 2009, thus favorably impacting the Company's consolidated earnings during the period. Partially offsetting this benefit were increased credit costs on Bank-owned loans and TRUPs that were recognized during both 2010 and 2009, as well as increased credit costs recognized during 2009 on loans sold to FNMA with recourse. While both the U.S. and world marketplaces saw greater signs of stability and recovery commencing in late 2010 and continuing during the three months ended March 31, 2011, the FOMC continued its monetary policy actions aimed at maintaining short-term interest rates at historically low levels. This continued to benefit the Company's net interest margin, more particularly its funding costs, during the three months ended March 31, 2011. Credit costs also remained significantly higher than the levels experienced prior to 2009.

#### Recent Market Developments

#### Insurance of Deposit Accounts

On October 19, 2010, the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") adopted a new Restoration Plan (the "Restoration Plan") to ensure that the Deposit Insurance Fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Reform Act"). Among other matters, the Restoration Plan provides that the FDIC will forego the uniform three basis point increase in initial assessment rates that was previously scheduled to take effect on January 1, 2011 and will maintain the current assessment rate schedule for all insured depository institutions until the reserve ratio reaches 1.15%. The FDIC intends to pursue further rulemaking in 2011 regarding the requirement under the Reform Act that the FDIC offset the effect on institutions with less than \$10 billion in assets (such as the Bank) of the requirement that the reserve ratio reach 1.35% by September 30, 2020, rather than 1.15% by the end of 2016 (as required under the prior restoration plan), so that more of the cost of raising the reserve ratio to 1.35% will be borne by institutions with more than \$10 billion in assets. Implementation of the Restoration Plan is not expected to have a material effect upon the Company's consolidated operating results.

In accordance with the Reform Act, on February 7, 2011, the FDIC adopted a final rule that redefines the assessment base for deposit insurance assessments as average consolidated total assets minus average tangible equity, rather than on deposit bases, and adopts a new assessment rate schedule, as well as alternative rate schedules that become effective when the reserve ratio reaches certain levels. The final rule also makes conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates, eliminates the secured liability adjustment and creates a new assessment rate adjustment for unsecured debt held that is issued by another insured depository institution. The depository institution debt adjustment equals fifty basis points of each dollar of long-term, unsecured debt held as an asset by an insured depository institution when that debt was issued by another insured depository institution, to the

extent that all such debt exceeds three percent of the institution's Tier 1 capital.

The new rate schedule and other revisions to the assessment rules became effective April 1, 2011 and will be used to calculate the Bank's June 30, 2011 invoices for assessments due September 30, 2011. As revised by the final rule, for depository institutions with less than \$10 billion in assets, such as the Bank, the initial base assessment rates will range from five to nine basis points for Risk Category I institutions and are fourteen basis points for Risk Category II institutions, twenty-three basis points for Risk Category III institutions and thirty-five basis points for Risk Category IV institutions. Total base assessment rates, after applying the unsecured debt and brokered deposit adjustments, will range from two and one-half to forty-five basis points. This new assessment rate schedule is expected to result in reduced deposit insurance expenses for the Company.

Selected Financial Highlights and Other Data  
(Dollars in Thousands Except Per Share Amounts)

|                                                                         | At or For the Three<br>Months Ended March 31, |   |          |   |
|-------------------------------------------------------------------------|-----------------------------------------------|---|----------|---|
|                                                                         | 2011                                          |   | 2010     |   |
| <b>Performance and Other Selected Ratios:</b>                           |                                               |   |          |   |
| Return on Average Assets                                                | 1.08                                          | % | 0.94     | % |
| Return on Average Stockholders' Equity                                  | 13.31                                         |   | 12.59    |   |
| Stockholders' Equity to Total Assets                                    | 8.14                                          |   | 7.50     |   |
| Loans to Deposits at End of Period                                      | 143.94                                        |   | 150.81   |   |
| Loans to Earning Assets at End of Period                                | 91.35                                         |   | 91.52    |   |
| Net Interest Spread                                                     | 3.38                                          |   | 3.23     |   |
| Net Interest Margin                                                     | 3.62                                          |   | 3.46     |   |
| Average Interest Earning Assets to Average Interest Bearing Liabilities | 110.99                                        |   | 108.79   |   |
| Non-Interest Expense to Average Assets                                  | 1.65                                          |   | 1.56     |   |
| Efficiency Ratio                                                        | 45.60                                         |   | 45.00    |   |
| Effective Tax Rate                                                      | 40.64                                         |   | 41.31    |   |
| Dividend Payout Ratio                                                   | 42.42                                         |   | 50.00    |   |
| <b>Per Share Data:</b>                                                  |                                               |   |          |   |
| Reported EPS (Diluted)                                                  | \$0.33                                        |   | \$0.28   |   |
| Cash Dividends Paid Per Share                                           | 0.14                                          |   | 0.14     |   |
| Stated Book Value                                                       | 9.72                                          |   | 8.97     |   |
| <b>Asset Quality Summary:</b>                                           |                                               |   |          |   |
| Net Charge-offs                                                         | \$980                                         |   | \$769    |   |
| Non-performing Loans                                                    | 19,200                                        |   | 29,520   |   |
| Non-performing Loans/Total Loans                                        | 0.56                                          | % | 0.85     | % |
| Non-performing Assets                                                   | \$19,770                                      |   | \$30,936 |   |
| Non-performing Assets/Total Assets                                      | 0.48                                          | % | 0.75     | % |
| Allowance for Loan Loss/Total Loans                                     | 0.57                                          |   | 0.71     |   |
| Allowance for Loan Loss/Non-performing Loans                            | 102.41                                        |   | 83.40    |   |
| <b>Earnings to Fixed Charges Ratios (1)</b>                             |                                               |   |          |   |
| Including Interest on Deposits                                          | 1.98                                          | x | 1.75     | x |
| Excluding Interest on Deposits                                          | 2.52                                          |   | 2.15     |   |

(1) Please refer to Exhibit 12.1 for further detail on the calculation of these ratios.

#### Critical Accounting Policies

Various elements of the Company's accounting policies are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. The Company's policies with respect to the methodologies it uses to determine the allowance for loan losses, reserves for loan commitments, the liability for the First Loss Position, the valuation of MSR, asset impairments (including the assessment of impairment of goodwill and other than temporary declines in the valuation of securities), the recognition of deferred tax assets and unrecognized tax positions, the recognition of loan income, the valuation of financial instruments and accounting for defined benefit plans are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material variations in the Company's

consolidated results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application.

**Allowance for Loan Losses.** The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Note 9 to the condensed consolidated financial statements.

**Reserve for Loan Commitments.** The reserve for loan commitments is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve are achieved via a transfer of reserves from the Bank's allowance for loan losses, with any subsequent resulting shortfall in the allowance for loan losses satisfied through the quarterly provision for loan losses. Any decreases in the loan commitment

reserve are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

Reserve Liability for the First Loss Position on Multifamily Loans Sold to FNMA. The Bank's methods and assumptions utilized to periodically determine its reserve liability for the First Loss Position are summarized in Note 9 to the condensed consolidated financial statements.

Valuation of MSR. The proceeds received on mortgage loans sold with servicing rights retained by the Bank are allocated between the loans and the servicing rights based on their estimated fair values at the time of the loan sale. In accordance with GAAP, MSR are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, anticipated net servicing income. In accordance with ASC 860-50-35, all separately recognized MSR are required to be initially measured at fair value, if practicable. The estimated fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, using estimated prepayment, default, servicing cost and discount rate assumptions. All estimates and assumptions utilized in the valuation of MSR are derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers.

The fair value of MSR is sensitive to changes in assumptions. Fluctuations in prepayment speed assumptions have the most significant impact on the estimated fair value of MSR. In the event that actual loan prepayments exceed the assumed amount (generally due to increased loan refinancing), the fair value of MSR would likely decline. In the event that actual loan prepayments fall below the assumed amount (generally due to a decline in loan refinancing), the fair value of MSR would likely increase. Any measurement of the value of MSR is limited by the existing conditions and assumptions utilized at a particular point in time, and would not necessarily be appropriate if applied at a different point in time.

Assumptions utilized in measuring the fair value of MSR additionally include the stratification based on predominant risk characteristics of the underlying loans. Increases in the risk characteristics of the underlying loans from the assumptions would result in a decline in the fair value of the MSR. A valuation allowance is established in the event the recorded value of an individual stratum exceeds its fair value for the full amount of the difference.

Asset Impairment Adjustments. Certain assets are carried in the Company's consolidated statements of financial condition at fair value or at the lower of cost or fair value:

(i) Goodwill Impairment Analysis. Goodwill is accounted for in accordance with ASC 805-10. ASC 805-10 requires performance of an annual impairment test at the reporting unit level. Management annually performs analyses to test for impairment of goodwill. In the event an impairment of goodwill is determined to exist, it is recognized as a charge to earnings.

The Company identified a single reporting unit for purposes of its goodwill impairment testing, and thus performs its impairment test on a consolidated basis. The impairment test has two potential stages. In the initial stage, the Holding Company's market capitalization (reporting unit fair value) is compared to its outstanding equity (reporting unit carrying value). The Company utilizes closing price data for the Holding Company's common stock as reported on the Nasdaq National Market in order to compute market capitalization. The Company has designated the last day of its fiscal year as the annual date for impairment testing. The Company performed its annual impairment test as of December 31, 2010 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events or circumstances have occurred subsequent to December 31, 2010 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or circumstances would require the immediate performance of an impairment test in accordance with ASC 805-10.

(ii) Valuation of Financial Instruments and Analysis of OTTI Related to Investment Securities and MBS. Debt securities are classified as held-to-maturity, and carried at amortized cost, only if the Company has a positive intent

and ability to hold them to maturity.

At March 31, 2011, the Company owned eight TRUPs classified as held-to-maturity. Late in 2008, the market for these securities became highly illiquid, and continued to be deemed as such as of March 31, 2011. As a result, at both March 31, 2011 and 2010, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing as described in Note 11 to the condensed consolidated financial statements).

At March 31, 2011 and 2010, the Company had an investment in nine mutual funds totaling \$1.5 million that were classified as trading. All changes in valuation of these securities are recognized in the Company's results of operations.

Debt securities that are not classified as either held-to-maturity or trading are classified as available-for-sale. Available-for-sale debt and equity securities that have readily determinable fair values are carried at fair value. All of the Company's available-for-sale securities at March 31, 2011 and 2010 had readily determinable fair values, which were based on published or securities dealers' market values.



The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in fair value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a corresponding decline in either net income or accumulated other comprehensive income or loss in accordance with ASC 320-10-65. See Note 10 to the condensed consolidated financial statements for a reconciliation of OTTI on securities during the three months ended March 31, 2011 and 2010.

**Recognition of Deferred Tax Assets.** Management reviews all deferred tax assets periodically. Upon such review, in the event that there is a greater than 50% likelihood that the deferred tax asset will not be fully realized, a valuation allowance is recognized against the deferred tax asset in the amount for which realization is determined to be more unlikely than likely to occur.

**Unrecognized Tax Positions.** The Company performs two levels of evaluation for all uncertain tax positions. Initially, a determination is made, based on the technical merits of the position, as to whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. In making its evaluation, management reviews applicable tax rulings and other advice provided by reputable tax professionals.

**Loan Income Recognition.** Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank generally does not recognize the interest from the third month and reverses all interest associated with the first two missed payments. The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status, and does not accept partial payments on loans on which foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO. The Bank generally utilizes all available remedies in an effort to resolve either non-accrual loans or OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Such elections have not been commonplace.

**Accounting for Defined Benefit Plans.** Defined benefit plans are accounted for in accordance with ASC 715, which requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of a benefit

plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

#### Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's Asset-Liability Committee ("ALCO") is responsible for general oversight and strategic implementation of the policy, and management of the appropriate departments are assigned responsibility for implementing any strategies established by ALCO. On a daily basis, senior management receives a current cash position report and one-week forecast to ensure that all short-term obligations are timely satisfied and that adequate liquidity exists to fund future activities. On a monthly basis, reports detailing the Bank's liquidity reserves and forecasted cash flows are presented to both senior management and the Board of Directors. In addition, on a monthly basis, a twelve-month liquidity forecast is presented to ALCO in order to assess potential future liquidity concerns. A forecast of cash flow data for the upcoming 12 months is presented to the Board of Directors on an annual basis.

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security maturities, advances from the FHLBNY, and REPOs entered into with various financial institutions, including the FHLBNY. The Bank may also sell selected multifamily residential, mixed use and one- to four-family residential real estate loans to private sector secondary market purchasers and has in the past sold such loans to FNMA. The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies against the stock and bond markets, especially during periods of strong performance in those arenas. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives such as the U.S. bond or equity markets. To the extent that the Bank is responsive to general market increases or declines in interest rates, its deposit flows should not be materially impacted. However, favorable performance of the equity or bond markets could adversely impact the Bank's deposit flows.

Retail branch and Internet banking deposits increased \$52.1 million during the three months ended March 31, 2011, compared to an increase of \$95.8 million during the three months ended March 31, 2010. Within deposits, CDs increased \$29.4 million during the three months ended March 31, 2011, primarily as a result of successful individual retirement account ("IRA") and new branch promotional activities, while core deposits (i.e., non-CDs) increased \$22.7 million during the period due to both successful gathering efforts tied to its promotional offerings as well as increased commercial checking balances. During the three months ended March 31, 2010, CDs increased \$74.1 million, fueled by a promotional 15-month IRA CD promotion, while core deposits increased \$21.7 million, led by \$26.1 million of competitively priced money market inflows.

During the three months ended March 31, 2011, principal repayments totaled \$168.1 million on real estate loans (including refinanced loans) and \$15.1 million on MBS. During the three months ended March 31, 2010, principal repayments totaled \$76.8 million on real estate loans and \$24.1 million on MBS. The increase in principal repayments on real estate loans resulted from increased refinancing activity, as borrowers within the Bank's loan portfolio became more active in refinancing loans that were approaching their contractual interest rate adjustment date. The decline in principal repayments on MBS resulted from a reduction of \$76.8 million in their average balance from the three months ended March 31, 2010 to the three months ended March 31, 2011. The Company does not presently believe that its future levels of principal repayments will be materially impacted by current conditions in the residential mortgage market.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through its borrowing line at the FHLBNY. At March 31, 2011, the Bank had an additional potential borrowing capacity of \$455.2 million through the FHLBNY, subject to customary minimum FHLBNY common stock ownership requirements imposed by the FHLBNY (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

The Bank is subject to minimum regulatory capital requirements imposed by its primary regulator, The Office of Thrift Supervision (the "OTS"), which, as a general matter, are based on the amount and composition of an institution's assets. At March 31, 2011, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury and the payment of quarterly cash dividends to holders of the Holding Company's common stock. During the three months ended March 31, 2011 and 2010, real estate loan originations totaled \$157.2 million and \$146.4 million,

respectively. Purchases of investment securities (excluding trading securities, short-term investments and federal funds sold) were \$67.9 million during the three months ended March 31, 2011, compared to \$12.0 million during the three months ended March 31, 2010. All of these purchases were limited to medium-term agency notes. The increase in the aggregate level of investment security purchases resulted from management's election to limit loan origination activity during the three months ended March 31, 2011 as marketplace offering rates grew increasingly competitive. As a result of this election, the Company utilized medium term agency note purchases to provide additional yield on liquid deposit and mortgagor escrow funds that it gathered during the three months ended March 31, 2011.

The Holding Company did not repurchase any shares of its common stock during the three months ended March 31, 2011. As of March 31, 2011, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the \$14.76 per share closing price of its common stock as of March 31, 2011, the Holding Company would utilize \$16.6 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

The Company paid \$4.7 million in cash dividends on its common stock during the three months ended March 31, 2011, and \$4.6 million during the three months ended March 31, 2010. The increase in payment resulted from a net increase of 298,000 shares outstanding from March 31, 2010 to March 31, 2011.

On May 1, 2010, the Company repaid a \$25.0 million subordinated note borrowing at its contractual maturity.

#### Contractual Obligations

The Bank is obligated for rental payments under leases on certain of its branches and equipment and for minimum monthly payments under its data systems contract. The Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances and/or REPOs. The Holding Company also has \$70.7 million of callable trust preferred borrowings from third parties due to mature in April 2034, which are callable at any time after April 2009. The Holding Company does not currently intend to call this debt. On May 1, 2010, the Holding Company satisfied at maturity an outstanding \$25.0 million non-callable subordinated note. None of the outstanding contractual obligations have changed materially since December 31, 2010. The Company additionally had a reserve recorded related to unrecognized income tax benefits totaling \$1.4 million at March 31, 2011. The facts and circumstances surrounding this obligation have not changed materially since December 31, 2010. Please refer to Note 14 to the Company's consolidated audited financial statements for the year ended December 31, 2010 for a further discussion of the unrecognized income tax benefits.

#### Off-Balance Sheet Arrangements

From December 2002 through February 2009, the Bank originated and sold multifamily residential mortgage loans in the secondary market to FNMA while retaining servicing. The Bank is required to retain the First Loss Position related to all loans sold under this program, which will remain in effect until the earlier of the following events: (1) the loans have been fully satisfied or enter OREO status; or (2) the First Loss Position is fully exhausted.

In addition, as part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are granted pursuant to its regular underwriting standards. Since many of these loan commitments expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows.

The following table presents off-balance sheet arrangements as of March 31, 2011:

|                                               | Less than<br>One Year | One Year<br>to<br>Three<br>Years | Over Three<br>Years to<br>Five Years | Over Five<br>Years | Total            |
|-----------------------------------------------|-----------------------|----------------------------------|--------------------------------------|--------------------|------------------|
| (Dollars in thousands)                        |                       |                                  |                                      |                    |                  |
| <b>Credit Commitments:</b>                    |                       |                                  |                                      |                    |                  |
| Available lines of credit                     | \$32,955              | \$-                              | \$-                                  | \$-                | \$32,955         |
| Other loan commitments (1)                    | 71,307                | -                                | -                                    | -                  | 71,307           |
| <b>Other Commitments:</b>                     |                       |                                  |                                      |                    |                  |
| First Loss Position on loans sold to FNMA (1) | 16,789                | -                                | -                                    | -                  | 16,789           |
| <b>Total Commitments</b>                      | <b>\$121,051</b>      | <b>\$-</b>                       | <b>\$-</b>                           | <b>\$-</b>         | <b>\$121,051</b> |

(1) In accordance with the requirements of both ASC 450-20-25 and ASC 460-10-25, as of March 31, 2011, reserves on loan commitments and the liability for the First Loss Position on loans sold to FNMA were \$356,000 and \$3.0 million, respectively, and were recorded in other liabilities in the Company's condensed consolidated statements of financial condition.

## Asset Quality

### General

At both March 31, 2011 and December 31, 2010, the Company had neither whole loans nor loans underlying MBS that would be considered subprime loans, i.e., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See Note 10 to the condensed consolidated financial statements for a discussion of impaired investment securities and MBS.

### Monitoring and Collection of Delinquent Loans

Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors regarding the status of all non-performing and otherwise delinquent loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of multifamily residential or commercial real estate loans, or fifteen days late in connection with one- to four-family or consumer loans. A second letter is sent to the borrower if payment has not been received within 30 days of the due date. Thereafter, periodic letters are mailed

and phone calls placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Accrual of interest is generally discontinued on loans that have missed three consecutive monthly payments, at which time the Bank generally does not recognize the interest from the third month and reverses all interest associated with the first two missed payments. The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status, and does not accept partial payments on loans on which foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO. The Bank generally utilizes all available remedies in an effort to resolve either non-accrual loans or OREO properties as quickly and prudently as possible taking into account market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Such elections have not been commonplace.

#### Non-accrual Loans

Within the Bank's portfolio, non-accrual loans totaled \$19.2 million and \$20.2 million at March 31, 2011 and December 31, 2010, respectively, representing 0.56% and 0.58% of total loans at March 31, 2011 and December 31, 2010. During the three months ended March 31, 2011, six loans totaling \$5.3 million were added to non-accrual status. Offsetting this increase were ten loans totaling \$5.3 million that were satisfied during the period, and \$886,000 of principal charge-offs on four loans. The three months ended March 31, 2011 saw a stabilization of the difficulties experienced in both the national real estate and financial services marketplaces that were prevalent throughout 2009 and the great majority of 2010.

#### Impaired Loans

A loan is considered impaired when it is probable that all amounts due will not be collected in accordance with its contractual terms. A loan is not deemed impaired, even during a period of delayed payment by the borrower, if the Bank ultimately expects to collect all amounts due, including interest accrued at the contractual rate. Generally, the Bank considers non-accrual and TDR multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans exceeding \$730,000 (the FNMA single family loan limit for high cost areas), to be impaired. Non-accrual one-to four-family loans of \$730,000 or less, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment. Impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds its likely realizable value (typically obtained from an appraisal of the underlying collateral). Principal balances of all impaired loans are reduced to their likely realizable value, as determined by the impairment analysis. The recorded investment in loans deemed impaired was approximately \$41.2 million, consisting of fifty-two loans, at March 31, 2011, compared to \$44.1 million, consisting of sixty-four loans, at December 31, 2010. During the three months ended March 31, 2011, eight loans totaling \$7.9 million were added to impaired status, while fifteen loans totaling \$9.0 million that were impaired at December 31, 2010 were removed from impaired status as they were either satisfied or were loans that were in excess of 90 days past their contractual balloon payment date that were refinanced. In addition during the March 2011 quarter, principal charge-offs of \$886,000 were recognized on four impaired loans and principal repayments of \$945,000 were received on impaired loans that were on accrual status at both December 31, 2010 and March 31,

2011.

The following is a reconciliation of non-accrual and impaired loans at March 31, 2011:

|                                                                                       | (Dollars in<br>Thousands) |     |
|---------------------------------------------------------------------------------------|---------------------------|-----|
| Non-accrual loans                                                                     | \$ 19,200                 |     |
| Non-accrual one- to four-family and consumer loans with balances of \$730,000 or less | (182)                     | )   |
| TDRs retained on accrual status                                                       | 12,401                    |     |
| Other loans deemed impaired but retained on accrual status                            | 9,737                     | (a) |
| Impaired loans                                                                        | \$ 41,156                 |     |

(a) Amount comprised of \$4.0 million of loans 90 days or more past due on their contractual maturity and retained on accrual status, and \$5.7 million of loans classified as substandard and retained on accrual status.

#### TDRs

Under ASC 310-40-15, the Bank is required to account for certain loan modifications or restructurings as TDRs. A loan modification will be considered a TDR if any of the following factors exist:

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- For economic or legal reasons related to the debtor's financial difficulties, a concession has been granted that would not have otherwise been considered;
  - A reduction of interest rate has been made for the remaining term of the loan;
- The maturity date of the loan has been extended with a stated interest rate lower than the current market rate for new debt with similar risk; or
  - The outstanding principal amount and/or or accrued interest have been reduced

In instances in which the interest rate has been reduced, both of the following must exist:

- The reduction in interest rate reflected either a general decline in market interest rates or an effort to maintain a relationship with a borrower who could readily obtain funds from other sources at the then current market interest rate.
- The terms of the restructured loan must have been comparable to the terms offered by the Bank to non-troubled debtors.

In instances where the loan term has been extended, the terms of the restructured loan must have been comparable to the terms offered by the Bank to non-troubled debtors.

The Bank's policy is not to accept receivables or equity interests in satisfaction of TDRs. Since all TDRs are collateralized by real estate, an appraisal of the underlying collateral is deemed the most appropriate measure to utilize when evaluating impairment. Any shortfall in valuation on TDRs is accounted for through a charge-off, which can impact the level of periodic loan loss provisions.

Accrual status for TDRs is determined separately for each loan. At the time the Bank and borrower agree to the TDR, the loan can be either on accrual or non-accrual status. According to Bank policy, accruals typically cease when a loan misses three consecutive monthly payments. Therefore, if a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructuring period, unless three consecutive payments are not made under the restructuring agreement, and the loan thus becomes non-accrual in accordance with either the Bank's policy, as disclosed previously, and/or the criteria related to accrual of interest established by the OTS. Accrual of interest would cease for any TDR in which a charge-off of principal has been determined during the reporting period.

The following table summarizes TDRs for the periods indicated:

|                                                                               | At or for the Three<br>Months<br>Ended March 31,<br>2011 |         | At or for the Three<br>Months<br>Ended March 31, 2010 |          |
|-------------------------------------------------------------------------------|----------------------------------------------------------|---------|-------------------------------------------------------|----------|
|                                                                               | No. of<br>Loans                                          | Balance | No. of<br>Loans                                       | Balance  |
|                                                                               | (Dollars in Thousands)                                   |         |                                                       |          |
| Loans modified during the period in a manner that met the definition of a TDR | -                                                        | \$-     | 6                                                     | \$14,200 |
| Modifications granted:                                                        |                                                          |         |                                                       |          |
| Reduction of outstanding principal due                                        | -                                                        | -       | -                                                     | -        |
| Deferral of principal amounts due                                             | -                                                        | -       | 6                                                     | 14,200   |
| Temporary reduction in interest rate                                          | -                                                        | -       | 6                                                     | 14,200   |
| Below market interest rate granted                                            | -                                                        | -       | 5                                                     | 13,150   |

|                                                                             |    |        |   |        |
|-----------------------------------------------------------------------------|----|--------|---|--------|
| Outstanding principal balance immediately before and after modification     | -  | -      | 6 | 14,200 |
| Aggregate principal charge-off recognized on TDRs outstanding at period end | 3  | 623    | - | -      |
| Outstanding principal balance at period end                                 | 17 | 19,828 | 9 | 19,517 |
| TDRs that re-defaulted subsequent to being modified (at period end):        | 5  | 7,427  | 7 | 17,427 |
| TDRs on accrual status at period end (1)                                    | 12 | 12,401 | 2 | 2,090  |
| TDRs on non-accrual status at period end                                    | 5  | 7,427  | 7 | 17,427 |

(1) Within this group of loans, six loans totaling \$7.9 million were internally graded Substandard, three loans totaling \$2.6 million were internally graded Special Mention and the remaining \$1.8 million were monitored Pass graded loans.

#### OREO

Property acquired by the Bank or a subsidiary as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses the likely realizable value of the property quarterly thereafter. Only either contractual or formal marketed values that fall below the appraised value are used when determining the likely realizable value of

OREO at each reporting period. The Bank typically seeks to dispose of OREO properties in a timely manner. As a result, OREO properties have generally not warranted a subsequent independent appraisal.

The Bank owned no OREO properties with a recorded balance at March 31, 2011 and December 31, 2010.

The following table sets forth information regarding non-performing assets at the dates indicated:

|                                                         | At<br>At March<br>31, 2011 | At<br>December<br>31, 2010 |      |   |
|---------------------------------------------------------|----------------------------|----------------------------|------|---|
| (Dollars in Thousands)                                  |                            |                            |      |   |
| <b>Real Estate Loans:</b>                               |                            |                            |      |   |
| One- to four-family residential and cooperative unit    | \$62                       | \$223                      |      |   |
| Multifamily residential and residential mixed use       | 5,451                      | 7,548                      |      |   |
| Mixed use commercial real estate                        | 3,909                      | 1,217                      |      |   |
| Commercial real estate                                  | 9,758                      | 11,163                     |      |   |
| Construction                                            | -                          | -                          |      |   |
| Total real estate loans (including loans held for sale) | 19,180                     | 20,151                     |      |   |
| Consumer loans                                          | 20                         | 17                         |      |   |
| Total non-accrual loans                                 | \$19,200                   | \$20,168                   |      |   |
| OREO                                                    | -                          | -                          |      |   |
| Non-performing investment securities                    | 570                        | 564                        |      |   |
| Total non-performing assets                             | \$19,770                   | \$20,732                   |      |   |
| <b>Ratios:</b>                                          |                            |                            |      |   |
| Total non-accrual loans to total loans                  | 0.56                       | %                          | 0.58 | % |
| Total non-performing assets to total assets             | 0.48                       |                            | 0.51 |   |

#### Other Potential Problem Loans

##### (i) Accruing Loans In Excess of 90 Days Past Due

At March 31, 2011, there were seven real estate loans totaling \$1.8 million that were in excess of 90 days past due on their contractual balloon principal payment that continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payment. The weighted average loan-to-value ratio of these loans approximated 35% at March 31, 2011, and management expects that they will either be satisfied or formally modified in the future. As a result, these loans remained on accrual status at March 31, 2011 and were deemed performing assets.

In addition, the Bank had one construction loan totaling \$2.3 million that was in excess of 90 days past its contractual maturity at March 31, 2011, on which the Bank received payments throughout 2010 and the three months ended March 31, 2011, and expects to either receive satisfaction or convert to a permanent real estate loan in future quarters. As a result, this loan remained on accrual status and was deemed a performing loan at March 31, 2011. This loan was internally graded Special Mention at March 31, 2011.

##### (ii) Loans Delinquent 30 to 89 Days

The Bank had 31 real estate loans, totaling \$12.1 million, that were delinquent between 30 and 89 days at March 31, 2011, a net reduction of \$9.1 million compared to 35 such loans totaling \$21.2 million at December 31, 2010. Within the aggregate \$12.1 million balance of 30 to 89 day delinquent loans as of March 31, 2011, were four loans totaling \$3.8 million that were included in the previously discussed \$41.2 million of loans deemed impaired at March 31,

2011. The 30 to 89 day delinquent levels fluctuate monthly, and are generally considered a less accurate indicator of credit quality trends than non-accrual loans. Within this group of loans, three loans totaling \$2.8 million were internally graded Substandard, four loans totaling \$2.6 million were internally graded Special Mention and the remaining loans were internally graded Pass.

(iii) Loan Modifications

At March 31, 2011, the Bank had 36 loans totaling \$76.6 million that were mutually modified with the borrowers in a manner that did not meet the criteria for TDRs, and were either current or less than 30 days delinquent . These modifications, which have a typical term of 12 months, were granted by the Bank to borrowers who requested cash flow relief in order to assist them through periods of sub-optimal occupancy. The key features of modified loans are: 1) the modifications are temporary in nature; 2) they permit only minor reductions in the cash flow requirements of debt service; and 3) they involve no forgiveness of contractual principal and interest amounts due to the Bank. Specific terms of modification have been in the form of either: (1) temporary suspension of monthly principal amortization, which, given the balloon repayment feature of these loans, typically amounts to a minor concession; or

(2) either a temporary reduction of interest rate, or a permanent reduction to an interest rate higher than that offered a prime borrower and generally reflective of the credit condition of the loan at the time of modification. In consideration of paragraph 12c of ASC 310-40-15, the interest rate offered the borrower in a modification is consistent with one that: 1) the Bank would have offered a different borrower with comparable stabilized loan-to-value and debt service coverage ratios; and 2) the borrower could have received from another financial institution at the time of modification. To date, no modified loans have had their maturities extended, nor would this be a typical negotiable item for the Bank. Although all of the modified loans at March 31, 2011 were secured by real estate, none of them were reliant upon the liquidation of the underlying collateral for the repayment of the outstanding loan. In the rare instance in which the Bank also holds a second lien on a first mortgage that is modified, it would consider the combined debt obligations of both liens in determining potential impairment. Any impairment determined based upon this combined debt would result in a charge-off of the second lien initially, and the first loan only after the full second lien has been charged off.

Any loan modification that either: 1) reduced the contractual interest rate below market; 2) forgave principal owed; or 3) satisfied any of the other criteria designated in ASC 310-40-15 at the time of its modification was deemed a TDR commencing in the quarter of modification. Since the Bank is an active multifamily residential and commercial real estate lender, it has continuous access to marketplace offering rates for such properties. Any adjustments to lending rates for loans experiencing sub-optimal debt service conditions would be authorized under the loan approval and underwriting policies that are summarized in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and the Bank's lending function performs a formal review process that serves as an effective re-underwriting of all modified loans.

Based upon the criteria established by the Bank to review its potential problem loans for impairment, designation of these modified loans as TDRs would not have had a material impact upon the determination of the adequacy of the Bank's allowance for loan losses during the three months ended March 31, 2011 and 2010.

Within the \$76.6 million of modified loans discussed above, eight loans totaling \$24.0 million were internally graded Special Mention, while the remaining loans were internally graded Pass loans.

The following table summarizes modifications for the periods indicated:

|                                                                         | At or for the Three Months Ended March 31, 2011 |         | At or for the Three Months Ended March 31, 2010 |         |
|-------------------------------------------------------------------------|-------------------------------------------------|---------|-------------------------------------------------|---------|
|                                                                         | # Loans                                         | Balance | # Loans                                         | Balance |
| (Dollars in Thousands)                                                  |                                                 |         |                                                 |         |
| Loans modified in a manner that did not meet the definition of a TDR    | 6                                               | \$5,963 | 2                                               | \$2,690 |
| Concessions granted:                                                    |                                                 |         |                                                 |         |
| Reduction of outstanding principal due                                  | -                                               | -       | -                                               | -       |
| Deferral of principal amounts due                                       | 5                                               | 5,599   | 1                                               | 1,256   |
| Temporary reduction in interest rate                                    | 1                                               | 364     | 1                                               | 1,434   |
| Below market interest rate granted                                      | -                                               | -       | -                                               | -       |
| Outstanding principal balance immediately before and after modification | 6                                               | 5,963   | 2                                               | 2,690   |

(iv) Current, Non-Modified Loans Internally Graded as Special Mention

At March 31, 2011, two loans totaling \$12.3 million that were fully performing in accordance with their contractual terms were internally graded as Special Mention due solely to concerns that the underlying collateral would not at that

time provide sufficient income to support ongoing service of the debt. While both of these loans are expected to remedy this concern, they were cautiously graded as Special Mention and actively monitored at March 31, 2011. In addition, two loans totaling \$3.3 million were internally graded as Special Mention at March 31, 2011 due to temporary delinquencies that were fully remedied at March 31, 2011. Should these loans continue to demonstrate a consistent payment history, they will likely be upgraded to an internal Pass grade prior to December 31, 2011.

#### Problem Loans Serviced for FNMA Subject to the First Loss Position

The Bank services a pool of multifamily loans sold to FNMA that had an outstanding principal balance of \$368.9 million at March 31, 2011. Pursuant to the sale agreement with FNMA, the Bank retained the First Loss Position, which totaled \$16.8 million at March 31, 2011. Against this off balance sheet contingent liability, the Bank has charged through earnings a recorded liability (reserve for First Loss Position) of \$1.7 million as of March 31, 2011, leaving approximately \$15.1 million of potential charges to earnings for future losses (if any). Within this pool of loans, one loan with an aggregate balance of \$1.4 million was 90 days or more delinquent and no loans were 30 to 89 days past due at March 31, 2011.

#### Allowance for Loan Losses

The methodology utilized to determine the Company's allowance for loan losses, along with periodic activity associated with the allowance for loan losses for the three months ended March 31, 2011 and 2010 are summarized in Note 9 to the condensed consolidated financial statements.

#### Reserve Liability on Loan Origination Commitments

The Bank also maintains a reserve liability related to loan origination commitments (recorded in other liabilities) that totaled \$356,000 at March 31, 2011 and \$408,000 at December 31, 2010. The expected loss rates applied to these commitments are consistent with those applied to comparable loans held within the Bank's portfolio. This amount fluctuates based upon the amount and composition of the Bank's loan commitment pipeline.

#### Comparison of Financial Condition at March 31, 2011 and December 31, 2010

**Assets.** Assets totaled \$4.14 billion at March 31, 2011, an increase of \$102.4 million from total assets of \$4.04 billion at December 31, 2010.

Cash and due from banks and investment securities available-for-sale increased \$85.6 million and \$48.0 million, respectively, during the period. During the first three months of 2011, the Company gathered \$52.1 million in new deposits and \$40.3 million of mortgagor escrow funds and elected to retain a portion of these funds in liquid balances to fund future cash obligations. The Bank also purchased \$67.9 million of medium-term agency obligations in order to deploy additional liquidity more profitably.

**Liabilities.** Total liabilities increased \$94.1 million during the three months ended March 31, 2011, primarily as a result of the addition of \$52.1 million in deposits and \$40.3 million in mortgagor escrow balances during the period. Mortgagor escrow balances increased as borrowers continued to fund real estate tax obligations in advance of semi-annual payments made by the Bank on their behalf during the 2nd and 4th quarters of each year. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the increases in retail branch and Internet banking deposits during the period.

**Stockholders' Equity.** Stockholders' equity increased \$8.3 million during the three months ended March 31, 2011, due primarily to net income of \$11.1 million, \$904,000 of common stock issued for the exercise of stock options, and \$828,000 of stock benefit plan expense amortization that added to the cumulative balance of stockholders' equity. Partially offsetting these items were \$4.7 million in cash dividends paid during the period.

#### Comparison of Operating Results for the Three Months Ended March 31, 2011 and 2010

**General.** Net income was \$11.1 million during the three months ended March 31, 2011, an increase of \$1.6 million from net income of \$9.5 million during the three months ended March 31, 2010. During the comparative period, net interest income increased \$2.3 million and the provision for loan losses fell \$2.0 million, while non-interest income declined \$600,000, and non-interest expense increased \$1.2 million, resulting in an increase in pre-tax income of \$2.5 million. Income tax expense increased \$920,000 during the comparative period due to both the increase in pre-tax earnings as well as a higher effective tax rate.

**Net Interest Income.** The discussion of net interest income for the three months ended March 31, 2011 and 2010 presented below should be read in conjunction with the following tables, which set forth certain information related to the condensed consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average

balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.



## Analysis of Net Interest Income

|                                                           | Three Months Ended March 31, |                  |                           |                     |                  |                           |
|-----------------------------------------------------------|------------------------------|------------------|---------------------------|---------------------|------------------|---------------------------|
|                                                           | 2011                         |                  |                           | 2010                |                  |                           |
|                                                           | Average<br>Balance           | Interest         | Average<br>Yield/<br>Cost | Average<br>Balance  | Interest         | Average<br>Yield/<br>Cost |
| (Dollars In Thousands)                                    |                              |                  |                           |                     |                  |                           |
| <b>Assets:</b>                                            |                              |                  |                           |                     |                  |                           |
| <b>Interest-earning assets:</b>                           |                              |                  |                           |                     |                  |                           |
| Real estate loans                                         | \$ 3,468,902                 | \$ 50,629        | 5.84 %                    | \$ 3,446,103        | \$ 50,122        | 5.82 %                    |
| Other loans                                               | 1,149                        | 26               | 9.05                      | 1,426               | 39               | 10.94                     |
| MBS                                                       | 129,635                      | 1,452            | 4.48                      | 206,466             | 2,271            | 4.40                      |
| Investment securities                                     | 134,299                      | 316              | 0.94                      | 57,159              | 407              | 2.85                      |
| Federal funds sold and<br>other short-term<br>investments | 138,285                      | 772              | 2.23                      | 78,860              | 742              | 3.76                      |
| <b>Total interest-earning<br/>assets</b>                  | <b>3,872,270</b>             | <b>\$ 53,195</b> | <b>5.49 %</b>             | <b>3,790,014</b>    | <b>\$ 53,581</b> | <b>5.65 %</b>             |
| Non-interest earning<br>assets                            | 216,952                      |                  |                           | 225,414             |                  |                           |
| <b>Total assets</b>                                       | <b>\$ 4,089,222</b>          |                  |                           | <b>\$ 4,015,428</b> |                  |                           |
| <b>Liabilities and<br/>Stockholders' Equity:</b>          |                              |                  |                           |                     |                  |                           |
| <b>Interest-bearing<br/>liabilities:</b>                  |                              |                  |                           |                     |                  |                           |
| Interest bearing<br>checking accounts                     | 99,305                       | \$ 110           | 0.45 %                    | \$ 104,117          | \$ 182           | 0.71 %                    |
| Money Market accounts                                     | 732,274                      | 1,258            | 0.70                      | 716,696             | 1,710            | 0.97                      |
| Savings accounts                                          | 333,129                      | 193              | 0.23                      | 302,151             | 200              | 0.27                      |
| CDs                                                       | 1,068,006                    | 5,224            | 1.98                      | 1,015,951           | 5,501            | 2.20                      |
| Borrowed Funds                                            | 1,256,205                    | 11,367           | 3.67                      | 1,344,911           | 13,222           | 3.99                      |
| <b>Total interest-bearing<br/>liabilities</b>             | <b>3,488,919</b>             | <b>\$ 18,152</b> | <b>2.11 %</b>             | <b>3,483,826</b>    | <b>\$ 20,815</b> | <b>2.42 %</b>             |
| Non-interest bearing<br>checking accounts                 | 135,586                      |                  |                           | 109,070             |                  |                           |
| Other<br>non-interest-bearing<br>liabilities              | 131,771                      |                  |                           | 121,658             |                  |                           |
| <b>Total liabilities</b>                                  | <b>3,756,276</b>             |                  |                           | <b>3,714,554</b>    |                  |                           |
| Stockholders' equity                                      | 332,946                      |                  |                           | 300,874             |                  |                           |
| <b>Total liabilities and<br/>stockholders' equity</b>     | <b>\$ 4,089,222</b>          |                  |                           | <b>\$ 4,015,428</b> |                  |                           |
| Net interest income                                       |                              | \$ 35,043        |                           |                     | \$ 32,766        |                           |
| Net interest spread                                       |                              |                  | 3.38 %                    |                     |                  | 3.23 %                    |
| Net interest-earning<br>assets                            | \$ 383,351                   |                  |                           | \$ 306,188          |                  |                           |
| <b>Net interest margin</b>                                |                              |                  | <b>3.62 %</b>             |                     |                  | <b>3.46 %</b>             |
|                                                           |                              |                  | 110.99 %                  |                     |                  | 108.79 %                  |

Ratio of interest-earning  
assets to interest-bearing  
liabilities

Rate/Volume Analysis

|                                                     | Three Months Ended March 31, 2011<br>Compared to Three Months<br>Ended March 31, 2010 Increase/<br>(Decrease) Due to: |            |            |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------|------------|
|                                                     | Volume                                                                                                                | Rate       | Total      |
|                                                     | (Dollars In thousands)                                                                                                |            |            |
| Interest-earning assets:                            |                                                                                                                       |            |            |
| Real Estate Loans                                   | \$333                                                                                                                 | \$174      | \$507      |
| Other loans                                         | (8 )                                                                                                                  | (5 )       | (13 )      |
| MBS                                                 | (853 )                                                                                                                | 34         | (819 )     |
| Investment securities                               | 366                                                                                                                   | (457 )     | (91 )      |
| Federal funds sold and other short-term investments | 446                                                                                                                   | (416 )     | 30         |
| Total                                               | 284                                                                                                                   | \$(670 )   | \$(386 )   |
| Interest-bearing liabilities:                       |                                                                                                                       |            |            |
| Interest bearing checking accounts                  | \$(7 )                                                                                                                | \$(65 )    | \$(72 )    |
| Money market accounts                               | 34                                                                                                                    | (486 )     | (452 )     |
| Savings accounts                                    | 22                                                                                                                    | (29 )      | (7 )       |
| CDs                                                 | 283                                                                                                                   | (560 )     | (277 )     |
| Borrowed funds                                      | (832 )                                                                                                                | (1,023 )   | (1,855 )   |
| Total                                               | \$(500 )                                                                                                              | \$(2,163 ) | \$(2,663 ) |
| Net change in net interest income                   | \$784                                                                                                                 | \$1,493    | \$2,277    |

During the period January 1, 2009 through March 31, 2011, FOMC monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%. As a result, beginning in early 2009, the Company was able to commence an orderly reduction of both its deposit and borrowing costs that continued through March 2011. In addition, dislocations in the securitization marketplace for loans secured by multifamily and commercial real estate reduced the overall competition for the Bank's primary loan product, thus permitting reductions in origination rates on these loans to lag the general reductions in their benchmark interest rates. Both of these factors favorably impacted the Company's net interest margin during the three months ended March 31, 2011 compared to the three months ended March 31, 2010.

**Interest Income.** Interest income was \$53.2 million during the three months ended March 31, 2011, a reduction of \$386,000 from the three months ended March 31, 2010, primarily reflecting \$819,000 of lower interest income on MBS, that was partially offset by an increase of \$507,000 in interest income on real estate loans. The decline in interest income on MBS resulted from a reduction of \$76.8 million in their average balance during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The Company has not purchased MBS for several quarters, thus their average balance continues to decline as principal payments on the underlying mortgages are passed through monthly. The growth in interest income on real estate loans resulted from an increase of \$22.8 million in their average balance during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, reflecting \$552.5 million of real estate loan originations during the period April 1, 2010 through March 31, 2011.

**Interest Expense.** Interest expense decreased \$2.6 million, to \$18.2 million, during the three months ended March 31, 2011, from \$20.8 million during the three months ended March 31, 2010. The decline resulted from reductions in interest expense of \$452,000 on money market accounts, \$277,000 on CDs, and \$1.9 million on borrowed funds.

The decrease in interest expense on money market accounts and CDs resulted from declines of 26 basis points and 22 basis points, respectively, in their average cost, as a result of the Company's orderly reduction in offering rates on all deposit accounts from April 1, 2010 through March 31, 2011. In addition, the Company was able to re-finance maturing borrowings at lower average costs during the period April 1, 2010 through March 31, 2011, contributing significantly to a reduction of 32 basis points in its average borrowing costs from the three months ended March 31, 2010 to the three months ended March 31, 2011. The average balance of borrowed funds declined \$88.7 million during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, reflecting both a reduction of \$63.7 million in the aggregate balance of FHLB NY advances and REPOs from April 1, 2010 to March 31, 2011, as well as the satisfaction of the Holding Company's \$25.0 million subordinated note in May 2010.

**Provision for Loan Losses.** The provision for loan losses was \$1.4 million during the three months ended March 31, 2011, a reduction of \$2.0 million from the provision of \$3.4 million recorded during the three months ended March 31, 2010. This decline reflects the stabilization of the NYC multifamily residential real estate marketplace during the three months ended March 31, 2011, which resulted in less expected future losses on problematic loans at March 31, 2011 than March 31, 2010.

**Non-Interest Income.** Total non-interest income declined \$600,000 from the three months ended March 31, 2010 to the three months ended March 31, 2011. During the March 2010 quarter, the Company recognized gains of \$327,000 on a sale, and \$242,000 on the transfer from available-for-sale into trading, of some equity mutual fund holdings. No such gains were recognized during the March 2011 quarter. Mortgage banking income also declined \$118,000 during the comparative period. See Note 14 to the condensed consolidated financial statements for a summary of the components of mortgage banking income recognized during the three months ended March 31, 2011 and 2010.

**Non-Interest Expense.** Non-interest expense was \$16.9 million during the three months ended March 31, 2011, an increase of \$1.2 million from \$15.7 million during the three months ended March 31, 2010.

Salaries and employee benefits (including stock benefit plan) expense increased \$841,000 due to both ongoing salary and benefits increases and additional charges associated with the restructuring of the Company's BMP benefits. Occupancy and equipment expense increased \$431,000, primarily as a result of the acceleration of depreciation on some leasehold fixed assets. FDIC insurance costs increased \$232,000 as a result of higher assessment rates effective in the March 2011 transitional quarter between recapitalization plans. During the three months ended March 31, 2010, the Company recorded a provision for losses on OREO of \$200,000 for the write-down of two OREO properties to their likely disposal value. No such provision was recorded during the three months ended March 31, 2011. Other expenses declined \$69,000, primarily as a result of lower legal costs.

Non-interest expense was 1.65% of average assets during the three months ended March 31, 2011, compared to 1.56% during the three months ended March 31, 2010, reflecting the \$1.2 million increase in expenses.

**Income Tax Expense.** Income tax expense increased \$920,000 during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, due primarily to an increase of \$2.5 million in pre-tax earnings. The Company's consolidated tax rate approximated its normalized 40% rate during the three months ended March 31, 2011. During the three months ended March 31, 2010, the Company recognized gains totaling \$569,000 on both the sale of mutual funds and the transfer of mutual funds into trading. From a tax perspective, since: (i) these events triggered the reversal of deferred tax assets previously recognized when the Company recorded OTTI charges in March 2009; and (ii) the deferred tax assets on the OTTI were established at a statutory rate approximating 45% (significantly in excess of the consolidated 37% tax rate then in effect), their reversal created a higher effective tax rate of 41.3% during the March 2010 quarter.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk were presented at December 31, 2010 in Item 7A of the Company's Annual Report on Form 10-K, filed with the SEC on March 14, 2011. The following is an update of the discussion provided therein.

**General.** Virtually all of the Company's market risk continues to reside at the Bank level. The Bank's largest component of market risk remains interest rate risk. The Company is not subject to foreign currency exchange or commodity price risk. At March 31, 2011, the Company owned six mutual fund investments totaling \$1.41 million that were designated as trading. At March 31, 2011, the Company did not conduct transactions involving derivative instruments requiring bifurcation in order to hedge interest rate or market risk.

**Assets, Deposit Liabilities and Wholesale Funds.** There was no material change in the composition of assets, deposit liabilities or wholesale funds from December 31, 2010 to March 31, 2011.

**Interest Sensitivity Gap.** There was no material change in the computed one-year interest sensitivity gap from December 31, 2010 to March 31, 2011.

**Interest Rate Risk Exposure (Net Portfolio Value) Compliance.** At March 31, 2011, the Bank continued to monitor the impact of interest rate volatility upon net interest income and net portfolio value ("NPV") in the same manner as at December 31, 2010. There were no changes in the Board-approved limits of acceptable variance in the effect of interest rate fluctuations upon net interest income and NPV at March 31, 2011 compared to December 31, 2010.

The analysis that follows presents the estimated NPV resulting from market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under four other interest rate scenarios (each a "Rate Shock Scenario") represented by immediate, permanent, parallel shifts in interest rates from those observed at March 31, 2011 and December 31, 2010. The analysis additionally presents a measurement of the interest rate sensitivity at March 31, 2011 and December 31, 2010. Interest rate sensitivity is measured by the basis point changes in the various NPV ratios ("NPV Ratios") from the Pre-Shock Scenario to the Rate Shock Scenarios. NPV Ratios represent the NPV as a percentage of the total value of assets determined under each respective Pre- and Rate Shock Scenario. An increase in the NPV Ratio is considered favorable, while a decline is considered unfavorable.

|                     | At March 31, 2011      |                   |         |           |                                 | At December 31, 2010 |           |                                 |                                |
|---------------------|------------------------|-------------------|---------|-----------|---------------------------------|----------------------|-----------|---------------------------------|--------------------------------|
|                     | Net Portfolio Value    |                   |         | NPV Ratio | Basis Point Change in NPV Ratio | NPV Dollar Amount    | NPV Ratio | Basis Point Change in NPV Ratio | Board Approved NPV Ratio Limit |
| Dollar Amount       | Dollar Change          | Percentage Change |         |           |                                 |                      |           |                                 |                                |
|                     | (Dollars in thousands) |                   |         |           |                                 |                      |           |                                 |                                |
| Rate Shock Scenario |                        |                   |         |           |                                 |                      |           |                                 |                                |
| + 200 Basis Points  | \$ 461,993             | \$ (10,207)       | -2.16 % | 11.06 %   | 3                               | \$ 432,333           | 10.63 %   | (9 )                            | 5.0 %                          |
| + 100 Basis Points  | 476,287                | 4,087             | 0.87    | 11.24     | 21                              | 448,038              | 10.86     | 14                              | 6.0                            |

|                    |         |       |      |       |     |         |       |     |     |
|--------------------|---------|-------|------|-------|-----|---------|-------|-----|-----|
| Pre-Shock Scenario | 472,200 | -     | -    | 11.03 | -   | 447,222 | 10.72 | -   | 7.0 |
| - 100 Basis Points | 480,282 | 8,082 | 1.71 | 11.07 | 4   | 457,563 | 10.81 | 9   | 7.0 |
| - 200 Basis Points | N/A     | N/A   | N/A  | N/A   | N/A | N/A     | N/A   | N/A | 7.0 |

The NPVs presented above incorporate some asset and liability values derived from the Bank's valuation model, such as those for mortgage loans and time deposits, and some asset and liability values that are provided by reputable independent sources, such as values for the Bank's MBS and CMO portfolios, as well as its puttable borrowings. The Bank's valuation model makes various estimates regarding cash flows from principal repayments on loans and passbook deposit decay rates at each level of interest rate change. The Bank's estimates for loan repayment levels are influenced by the recent history of prepayment activity in its loan portfolio as well as the interest rate composition of the existing portfolio, especially vis-à-vis the existing interest rate environment. In addition, the Bank considers the amount of fee protection inherent in the loan portfolio when estimating future repayment cash flows. Regarding passbook deposit decay rates, the Bank tracks and analyzes the decay rate of its passbook deposits over time and over various interest rate scenarios and then makes estimates of its passbook deposit decay rate for use in the valuation model. No matter the care and precision with which the estimates are derived, however, actual cash flows for passbooks, as well as loans, could differ significantly from the Bank's estimates, resulting in significantly different NPV calculations.

The Bank also generates a series of spot discount rates that are integral to the valuation of the projected monthly cash flows of its assets and liabilities. The Bank's valuation model employs discount rates that it considers representative of prevailing market rates of interest, with appropriate adjustments it believes are suited to the heterogeneous characteristics of the Bank's various asset and liability portfolios.

The Pre-Shock Scenario NPV increased from \$447.2 million at December 31, 2010 to \$472.2 million at March 31, 2011. The NPV Ratio at March 31, 2011 was 11.03% in the Pre-Shock Scenario, compared to 10.72% at December 31, 2010. The increase in the Pre-Shock Scenario NPV was due primarily to an increase in the valuation of multifamily loans (reflecting lower marketplace offering rates on such loans at March 31, 2011 compared to December 31, 2010). The growth in the Pre-Shock Scenario NPV Ratio reflected the increased Pre-Shock Scenario NPV at March 31, 2011 compared to December 31, 2010.

The Bank's +200 basis point Rate Shock Scenario NPV increased from \$432.3 million at December 31, 2010 to \$462.0 million at March 31, 2011. The increase resulted primarily from a more favorable valuation of multifamily loans at March 31, 2011 compared to December 31, 2010, reflecting a decline in their estimated term to next interest rate repricing at March 31, 2011 compared to December 31, 2010. Assets with a reduced term to next interest rate repricing generate a more favorable NPV in a rising rate interest rate environment. As a result, the decline in the NPV of total assets from the Pre-Shock Scenario to the +200 basis point Rate Shock Scenario was lower at March 31, 2011 than December 31, 2010.

The NPV Ratio was 11.06% in the +200 basis point Rate Shock Scenario at March 31, 2011, an increase from the NPV Ratio of 10.63% in the +200 basis point Rate Shock Scenario at December 31, 2010. The increase reflected the aforementioned increase in the +200 basis point Rate Shock Scenario NPV during the comparative period.

At March 31, 2011, the interest rate sensitivity in the +200 basis point Rate Shock Scenario was positive 3 basis points, compared to interest rate sensitivity of negative 9 basis points in the +200 basis point Rate Shock Scenario at December 31, 2010. The reduction in sensitivity was due primarily to less sensitivity in the valuation of multifamily loans in the +200 basis point Rate Shock Scenario at March 31, 2011 compared to December 31, 2010, as the majority of these loans moved closer to their contractual repricing.

#### Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of March 31, 2011, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2011 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

#### Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

#### Item 1. Legal Proceedings

In the ordinary course of business, the Company is routinely named as a defendant in or party to various pending or threatened legal actions or proceedings. Certain of these matters may seek substantial monetary damages. In the opinion of management, the Company is involved in no actions or proceedings that will have a material adverse impact on its financial condition and results of operations.

#### Item 1A. Risk Factors

Except as noted below, there were no material changes from the risks disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The FDIC's restoration plan and the related increased assessment rate schedule may have a further material effect on the Company's results of operations.

In February 2009, the FDIC adopted a final rule which set the initial base assessment rates beginning April 1, 2009 and provided for the following adjustments to an institution's assessment rate: (1) a decrease for long-term unsecured debt, including most senior and subordinated debt; (2) an increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, an increase for brokered deposits above a threshold amount. The Bank's deposit insurance assessments totaled \$3.7 million for the year ended December 31, 2009, compared to \$899,000 for the year ended December 31, 2008.

The FDIC also adopted a final rule in May 2009 imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, which was collected on September 30, 2009. The Bank's FDIC special assessment totaled \$1.8 million for the year ended December 31, 2009.

On September 29, 2009, the FDIC adopted an amendment to the restoration plan that increases the deposit insurance assessment rate uniformly across all four risk categories by three basis points (annualized) of insured deposits beginning January 1, 2011. In addition, on November 17, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay their quarterly deposit insurance assessments for the fourth quarter of 2009



and for all of 2010, 2011 and 2012 on December 30, 2009, together with their regular deposit insurance assessment for the third quarter of 2009. The Bank's payment on December 30, 2009 totaled approximately \$13.4 million, and was \$9.6 million as of December 31, 2010.

On October 19, 2010, the Board of Directors of the FDIC adopted the Restoration Plan to ensure that the Deposit Insurance Fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Reform Act. Among other matters, the Restoration Plan provides that the FDIC will forego the uniform three basis point increase in initial assessment rates that was previously scheduled to take effect on January 1, 2011 and will maintain the current assessment rate schedule for all insured depository institutions until the reserve ratio reaches 1.15%. The FDIC intends to pursue further rulemaking in 2011 regarding the requirement under the Reform Act that the FDIC offset the effect on institutions with less than \$15 billion in assets (such as the Bank) of the requirement that the reserve ratio reach 1.35% by September 30, 2020, rather than 1.15% by the end of 2016 (as required under the prior restoration plan), so that more of the cost of raising the reserve ratio to 1.35% will be borne by institutions with more than \$10 billion in assets.

On February 7, 2011, the FDIC adopted a final rule that redefines the assessment base for deposit insurance assessments as average consolidated total assets minus average tangible equity, rather than on deposit bases, as required by the Reform Act, and revises the risk-based assessment system for all large insured depository institutions by introducing a scoring system. This system involves the FDIC establishing a score for each such institution which then translates into an assessment rate. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Market Developments – Insurance of Deposit Accounts" for a further discussion of the impact of this final rule.

The final rule allows the FDIC to make limited adjustments to the score used to calculate an institution's assessment rate and provides that the FDIC will not make any adjustments until new guidelines have been published for comment and approved by the FDIC. On April 12, 2011, the FDIC Board of Directors authorized publication of proposed guidelines describing the process that the FDIC would follow to determine whether to make an adjustment to the score used to calculate the assessment rate for a large or highly complex institution, the size of any such adjustment, and the procedure the FDIC would follow to notify an institution of an adjustment. Pursuant to the proposed guidelines, the FDIC can make a limited adjustment, either upward or downward, to an institution's total score based upon risks or risk mitigating factors that are not adequately captured in the institution's scorecard. In addition, an institution can make written request to the FDIC for such an adjustment. In either case, the FDIC would consult with an institution's primary federal regulator and appropriate state banking supervisor before making any decision to adjust an institution's total score. Any adjustment to an institution's score must be approved by the FDIC and there is no assurance that a request for an adjustment will result in a downward adjustment.

The recent adoption of regulatory reform legislation has created uncertainty and may have a material effect on the Company's operations and capital requirements.

There are many provisions of the Reform Act which are to be implemented through regulations to be adopted by the federal bank regulatory agencies within specified time frames following the effective date of the Reform Act, which creates a risk of uncertainty as to the ultimate effect of such provisions. Although it is not possible to currently determine whether the Reform Act will have a material effect on the Company's business, financial condition or results of operations, management believes that the following provisions of the Reform Act will impact the Company:

The elimination of the Company's primary federal regulator, the OTS, and the assumption by the Office of the Comptroller of the Currency ("OCC") of regulatory authority over all federal savings associations, such as the Bank, and the acquisition by the Board of Governors of the Federal Reserve System ("FRB") of regulatory authority over all savings and loan holding companies, such as the Holding Company, as well as all subsidiaries of savings and loan holding companies other than depository institutions. Although the laws and regulations currently applicable to the

Company generally will not change by virtue of the elimination of the OTS (except to the extent such laws have been modified by the Reform Act), the application of these laws and regulations may vary as administered by the OCC and the FRB.

The Reform Act includes other provisions, subject to further rulemaking by the federal bank regulatory agencies, that may affect the Company's future operations, including provisions that restrict proprietary trading by banking entities, restrict the sponsorship of and investment in hedge funds and private equity funds by banking entities and that remove certain obstacles to the conversion of savings associations to national banks. The Company will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

As a result of the Reform Act and other proposed changes, the Bank may become subject to more stringent capital requirements.

The Reform Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and systemically important nonbank financial companies. These requirements must be no less than those to which insured depository institutions are currently subject, and the new requirements will effectively eliminate the use of trust preferred securities as a component of Tier 1 capital for depository institution holding companies of \$10 billion or greater. As a result, in July 2015, the Company will become subject to consolidated capital requirements to which it has not been previously subject. In addition, in December 2010, the Basel Committee on Banking Supervision announced the new "Basel III" capital rules, which set new standards for common equity, Tier 1 and total capital, determined on a risk-

weighted basis. It is not yet known how these standards, which will be phased in over a period of years, will be implemented by U.S. regulators generally or the manner in which they will be applied to financial institutions of the Company's size.

Pursuant to the Reform Act, the FRB will become responsible for the supervision of savings and loan holding companies on July 21, 2011. In accordance with this authority, on April 15, 2011, the FRB requested comment on proposed supervisory guidance pursuant to which the FRB is seeking to apply certain elements of its consolidated supervisory program for bank holding companies, including consolidated capital requirements, to savings and loan holding companies. Pursuant to the proposed supervisory guidance, the FRB is considering applying to savings and loan holding companies the same consolidated risk-based and leverage capital requirements currently applicable to bank holding companies. The FRB, together with the other federal banking agencies, expects to issue a notice of proposed rulemaking in 2011 that will outline how Basel III-based requirements will be implemented for all institutions, including savings and loan holding companies. The FRB expects that final rules establishing Basel III-based capital requirements would be finalized in 2012 and implementation would start in 2013.

The FRB's proposed rule to repeal the prohibition against payment of interest on demand deposits may increase competition for such deposits and ultimately increase interest expense.

On April 6, 2011, the FRB requested comment on a proposed rule to repeal Regulation Q, which prohibits the payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System. The proposed rule would implement Section 627 of the Reform Act, which repeals Section 19(i) of the Federal Reserve Act in its entirety effective July 21, 2011. As a result, banks and thrifts will be permitted to offer interest-bearing demand deposit accounts to commercial customers, which were previously forbidden under Regulation Q. The repeal of Regulation Q may cause increased competition from other financial institutions for these deposits. If the Bank decides to pay interest on demand accounts, it would expect interest expense to increase.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The Holding Company did not repurchase any shares of its common stock into treasury during the three months ended March 31, 2011. No existing repurchase programs expired during the three months ended March 31, 2011, nor did the Company terminate any repurchase programs prior to expiration during the quarter. As of March 31, 2011, the Company had an additional 1,124,549 shares remaining eligible for repurchase under its twelfth stock repurchase program, which was publicly announced in June 2007.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number

3(i) Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1)

3(ii) Amended and Restated Bylaws of Dime Community Bancshares, Inc. (14)

- 4.1 Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto]
- 4.2 Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto]
- 4.3 Draft Stock Certificate of Dime Community Bancshares, Inc. (3)
- 4.4 Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company as Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I and the holders from time to time of undivided beneficial interests in the assets of Dime Community Capital Trust I (9)
- 4.5 Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (9)
- 4.6 Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (9)
- 10.1 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (13)
- 10.2 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (13)

- 10.3 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (13)
- 10.4 Employment Agreement between Dime Community Bancorp, Inc. and Vincent F. Palagiano
- 10.5 Employment Agreement between Dime Community Bancorp, Inc. and Michael P. Devine
- 10.6 Employment Agreement between Dime Community Bancorp, Inc. and Kenneth J. Mahon
- 10.7 Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (5)
- 10.7(i) Amendment to Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (13)
- 10.8 The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (16)
- 10.9 Severance Pay Plan of The Dime Savings Bank of Williamsburgh (13)
- 10.10 Retirement Plan for Board Members of Dime Community Bancorp, Inc. (13)
- 10.12 Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (6)
- 10.13 Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan. (6)
- 10.14 Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan (6)
- 10.15 Form of award notice for outside directors under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (6)
- 10.16 Form of award notice for officers and employees under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (6)
- 10.17 Financial Federal Savings Bank Incentive Savings Plan in RSI Retirement Trust (7)
- 10.18 Financial Federal Savings Bank Employee Stock Ownership Plan (7)
- 10.19 Option Conversion Certificates between Dime Community Bancshares, Inc. and each of Messrs. Russo, Segrete, Calamari, Latawiec, O'Gorman, and Ms. Swaya pursuant to Section 1.6(b) of the Agreement and Plan of Merger, dated as of July 18, 1998 by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc. (7)
- 10.20 Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (8)
- 10.21 Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (12)
- 10.22 Waiver executed by Vincent F. Palagiano (11)
- 10.23 Waiver executed by Michael P. Devine (11)
- 10.24 Waiver executed by Kenneth J. Mahon (11)
- 10.25 Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (10)
- 10.27 Form of restricted stock award notice for outside directors under the 2004 Stock Incentive Plan (10)
- 10.28 Employee Retention Agreement between The Dime Savings Bank of Williamsburgh, Dime Community Bancshares, Inc. and Daniel Harris (13)
- 10.29 Dime Community Bancshares, Inc. Annual Incentive Plan (13)
- 10.30 Amendment to the Dime Savings Bank of Williamsburgh 401(K) Plan (15)
- 10.31 Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (13)
- 12.1 Computation of ratio of earnings to fixed charges

31(i).1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)

31(i).2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

- (1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.
- (2) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed on May 11, 2009.
- (3) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.
- (4) Incorporated by reference to the registrant's Current Report on Form 8-K dated April 9, 1998 and filed on April 16, 1998.
- (5) Incorporated by reference to Exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997.
- (6) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997, and the Current Reports on Form 8-K filed on March 22, 2004 and March 29, 2005.
- (7) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.

- (8) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003.
- (9) Incorporated by reference to Exhibits to the registrant's Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.
- (10) Incorporated by reference to the registrant's Current Report on Form 8-K filed on March 22, 2005.
- (11) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 10, 2005.
- (12) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed on August 8, 2008.
- (13) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 16, 2009.
- (14) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed on May 11, 2009.
- (15) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed on May 10, 2010.
- (16) Incorporated by reference to the registrant's Current Report on Form 8-K filed on April 4, 2011.

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.

Dime Community Bancshares, Inc.

Dated: May 10, 2011

By: /s/ VINCENT F. PALAGIANO  
Vincent F. Palagiano  
Chairman of the Board and Chief Executive Officer

Dated: May 10, 2011

By: /s/ KENNETH J. MAHON  
Kenneth J. Mahon  
First Executive Vice President and Chief Financial Officer (Principal  
Accounting Officer)



