DIME COMMUNITY BANCSHARES INC
Form 10-K
March 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Year Ended December 31, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 0-27782
Dime Community Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
209 Havemeyer Street, Brooklyn, NY	11211
(Address of principal executive offices)	(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
(Title of Class)
Preferred Stock Purchase Rights
(Title of Class)

Indicate by check mark if the registrant is a well-known seasonal issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES o NO x

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, 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 x NO o

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. x

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).
LARGE ACCELERATED FILER o ACCELERATED FILER x NON-ACCELERATED FILER o
SMALLER REPORTING COMPANY o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2012 was approximately $382 million based upon the $13.29 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2012.

As of March 12, 2013, there were 35,871,939 shares of the registrant's common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the definitive Proxy Statement to be distributed on behalf of the Board of Directors of Registrant in connection with the Annual Meeting of Shareholders to be held on May 23, 2013 and any adjournment thereof, are incorporated by reference in Part III.

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This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may be identified by use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "seek," "may," "outlook," "plan," "potential," "predict," "project," "should," "will," "would" and similar terms and phrases, including references to assumptions.

Forward-looking statements are based upon various assumptions and analyses made by Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual conditions or results to differ materially from those expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- 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 the banking industry may be less favorable than the Company currently anticipates;
- 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."

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

PART I

Item 1. Business

General

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered savings bank. The Bank maintains its headquarters in the Williamsburg section of the borough 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 has been, and continues to be, gathering deposits from customers within its market area, and investing them primarily in multifamily residential mortgage, commercial real estate, one- to four-family residential mortgage, construction and land acquisition, and consumer loans, mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities. The Bank's revenues are derived principally from interest on its loan and securities portfolios and other short-term investments. The Bank's primary sources of funds are, in general, deposits; loan amortization, prepayments and maturities; MBS amortization, prepayments and maturities; investment securities maturities and sales; advances from the Federal Home Loan Bank of New York ("FHLBNY") and borrowings in the form of securities sold under agreement to repurchase ("REPOS").

The primary business of the Holding Company is the ownership of its wholly-owned subsidiary, the Bank. The Holding Company is a unitary savings and loan holding company, which, under existing law, is generally not restricted as to the types of business activities in which it may engage.

The Holding Company neither owns nor leases any property, but instead uses the premises and equipment of the Bank. The Holding Company employs no persons other than certain officers of the Bank, who receive no additional compensation as officers of the Holding Company. The Holding Company utilizes the support staff of the Bank from time to time, as required. Additional employees may be hired as deemed appropriate by Holding Company management.

The Company's website address is www.dime.com. The Company makes available free of charge through its website, by clicking the Investor Relations tab and selecting "SEC Filings," its Annual and Transition Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC").

Market Area and Competition

The Bank has historically operated as a community-oriented financial institution providing financial services and loans primarily for multifamily housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York, and operates twenty-six full-service retail banking offices located in the NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is the NYC metropolitan area, although its overall lending area is larger, extending approximately 150 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's mortgage loans are secured by properties located in its primary lending area, with approximately 82% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2012.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from other savings banks, commercial banks, mortgage banks and insurance companies. The Bank has faced sustained competition for the origination of multifamily residential and commercial real estate loans, which together comprised 97% of the Bank's loan portfolio at December 31, 2012.

The Bank gathers deposits in direct competition with other savings banks, commercial banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies with the stock and bond markets, especially during periods of strong performance in those arenas. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has dramatically altered the deposit gathering landscape. Facing increasingly larger and more efficient competitors, the Bank's strategy to attract depositors has utilized various marketing approaches and the delivery of technology-enhanced, customer-friendly banking services while controlling operating expenses.

Banking competition occurs within an economic and financial marketplace that is largely beyond the control of any individual financial institution. The interest rates paid to depositors and charged to borrowers, while affected by marketplace competition, are generally a function of broader-based macroeconomic and financial factors, including the U.S. Gross Domestic Product, the supply of, and demand for, loanable funds, and the impact of global trade and international financial markets. Within this environment, Federal Open Market Committee ("FOMC") monetary policy and governance of short-term rates also significantly influence the interest rates paid and charged by financial institutions.

The Bank's success is additionally impacted by the overall condition of the economy, particularly in the NYC metropolitan area. As home to several national companies in the financial and business services industries, and as a popular destination for domestic and international travelers, the NYC economy is particularly sensitive to the health of both the national and global economies. Both the NYC and global economies were greatly challenged during the years ended December 31, 2010, 2011 and 2012. Although the significant proportion of Bank loans secured by rent-regulated multifamily residential dwellings, as well as management's measured growth business strategy, have provided the Bank some insulation from these economic downturns, sustained recessionary conditions would be expected to adversely impact the performance of the Bank's assets and deposit customer relationships. Conversely, poor national economic conditions, such as those present throughout 2012 and 2011, often result in lower short-term interest rates, which usually benefits the Bank's financial performance.

Lending Activities

The Bank originates primarily low loan-to-value, non-recourse loans on multifamily and commercial real estate properties to limited liability companies and corporations.

Loan Portfolio Composition. At December 31, 2012, the Bank's loan portfolio totaled $3.50 billion, consisting primarily of mortgage loans secured by multifamily residential apartment buildings, including buildings organized under a cooperative form of ownership; commercial properties; real estate construction and land acquisition; and one- to four-family residences and individual cooperative apartments. Within the loan portfolio, $2.67 billion, or 76.3%, were classified as multifamily residential loans; $735.2 million, or 21.0%, were classified as commercial real estate loans; $91.9 million, or 2.6%, were classified as one- to four-family residential, including condominium or cooperative apartments; and $476,000 were loans to finance real estate construction and land acquisition within the NYC metropolitan area. Of the total mortgage loan portfolio outstanding on December 31, 2012, $2.51 billion, or 71.8%, were adjustable-rate mortgage loans ('"ARMs") and $987.9 million, or 28.2%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 70% were ARMs at December 31, 2012, the majority of which were contracted to reprice no later than 7 years from their origination date and carried a total amortization period of no longer than 30 years. At December 31, 2012, the Bank's loan portfolio additionally included $2.4 million in consumer loans, composed of depositor, consumer installment and other loans. As of December 31, 2012, $2.36 billion, or 67.4% of the loan portfolio, was scheduled to mature or reprice within five years.

The Bank does not originate or purchase loans, either whole loans or collateral underlying MBS, that would be considered subprime at origination (i.e., mortgage loans advanced to borrowers who do not qualify for market interest rates because of problems with their income or credit history).

The types of loans the Bank may originate are subject to both federal and New York State laws and regulations (See "Item 1. Business - Regulation – Regulation of New York State Chartered Savings Banks").

At December 31, 2012, the Bank had $60.5 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2013. At December 31, 2011, the Bank had $50.0 million of loan commitments that were accepted by the borrowers. All of these closed during the year ended December 31, 2012.

The following table sets forth the composition of the Bank's real estate and other loan portfolios (including loans held for sale) in dollar amounts and percentages at the dates indicated:

	At December 31,									
	2012	Percent of Total	2011	Percent of Total	2010	Percent of Total	2009	Percent of Total	2008	P o T
	Dollars in Thousands									
Real Estate loans:										
Multifamily residential	$2,671,533	76.30 %	$2,599,850	75.13 %	$2,500,265	72.09 %	$2,377,278	70.10 %	$2,242,542	
Commercial real estate	735,224	21.00	751,586	21.72	833,168	24.02	834,724	24.61	848,208	
One- to four-family and cooperative apartment units	91,876	2.62	100,712	2.91	117,268	3.38	131,891	3.89	142,295	
Construction and land acquisition	476	0.01	5,827	0.17	15,238	0.44	44,544	1.31	52,982	
Total real estate loans	3,499,109	99.93	3,457,975	99.93	3,465,939	99.93	3,388,437	99.91	3,286,027	
Consumer loans:										
Depositor loans	712	0.02	483	0.01	530	0.02	830	0.02	1,059	
Consumer installment and other	1,711	0.05	1,966	0.06	2,010	0.05	2,391	0.07	1,132	
Total consumer loans	2,423	0.07	2,449	0.07	2,540	0.07	3,221	0.09	2,191	
Gross loans	3,501,532	100.00%	3,460,424	100.00%	3,468,479	100.00%	3,391,658	100.00%	3,288,218	
Net unearned costs	4,836		3,463		5,013		4,017		3,287	
Allowance for loan losses	(20,550)		(20,254)		(19,166)		(21,505)		(17,454)	
Loans, net	$3,485,818		$3,443,633		$3,454,326		$3,374,170		$3,274,051	
Loans serviced for others:										
One- to four-family and	$8,786		$10,841		$12,559		$15,657		$19,181	

cooperative apartment					
Multifamily residential	353,034	475,673	583,751	654,452	640,200
Total loans serviced for others	$361,820	$486,514	$596,310	$670,109	$659,381

Loan Originations, Purchases, Sales and Servicing. For the year ended December 31, 2012, total loan originations were $1.10 billion. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. ARMs were 90% of total loan originations during the period. The great majority of both ARM and fixed-rate originations were multifamily residential and commercial real estate loans.

Multifamily residential real estate loans are either retained in the Bank's portfolio or sold in the secondary market to other third-party financial institutions. From December 2002 through February 2009, the Bank sold multifamily residential loans to Fannie Mae ("FNMA") pursuant to a multifamily seller/servicing agreement entered into in December 2002. The contract expired on December 31, 2008 and was not renewed; however, the Bank retained servicing and a first loss position on the portfolio of sold loans. The Bank currently has no formal arrangement pursuant to which it sells commercial real estate loans to the secondary market.

The Bank generally retains the servicing rights in connection with multifamily loans it sells in the secondary market. The loan servicing fees on multifamily residential loans sold to FNMA varied, and were derived based upon the difference between the actual origination rate and contractual pass-through rate of the loans at the time of sale. At December 31, 2012, the Bank had recorded mortgage servicing rights ("MSR") of $1.1 million associated with the sale of one- to four-family and multifamily residential loans to FNMA and other third party institutions.

The Bank sold participation interests in multifamily loans totaling $24.4 million and $18.4 million to third party financial institutions during the years ended December 31, 2012 and 2010, respectively, but did not sell any participation interests during the year ended December 31, 2011. These sales were individually negotiated transactions, made primarily to generate additional liquidity, or, in certain instances, to reduce concentrations of credit (as a percentage of capital) with individual borrowers.

The Bank generally sells its newly originated one- to four-family fixed-rate mortgage loans in the secondary market. Sales of fixed-rate one- to four-family mortgage loans totaled $8.3 million, $5.6 million, and $6.9 million, respectively, during the years ended December 31, 2012, 2011, and 2010, all of which were sold through an origination assistance agreement with PHH Mortgage ("PHH"), an independent lending institution, whereby PHH processes and underwrites fixed-rate one- to four-family loans, the Bank funds the loans at origination and elects to either keep them in its portfolio or sell them to PHH. PHH retains full servicing of all loans, regardless of the Bank's ownership election.

At December 31, 2012, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained totaled $361.8 million. $105.1 million were sold without recourse. The remaining $256.7 million were whole loans sold to FNMA subject to a recourse exposure totaling $16.4 million at December 31, 2012.

The following table sets forth the Bank's loan originations (including loans held for sale), sales, purchases and principal repayments for the periods indicated:

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	Dollars in Thousands				
Gross loans:					
At beginning of period	$3,460,424	$3,468,479	$3,391,658	$3,288,218	$2,875,192
Real estate loans originated:					
Multifamily residential	942,326	563,696	467,160	369,424	786,918
Commercial real estate	142,418	98,607	58,687	49,827	226,605
One- to four-family and cooperative apartment units(1)	12,184	7,094	7,431	25,399	44,140
	2,764	7,685	6,540	8,808	10,843

Equity lines of credit on multifamily residential or commercial properties					
Construction and land acquisition	-	1,712	1,901	10,944	18,215
Total mortgage loans originated	1,099,692	678,794	541,719	464,402	1,086,721
Other loans originated	1,414	1,552	1,756	1,639	2,640
Total loans originated	1,101,106	680,346	543,475	466,041	1,089,361
Loans purchased (2)	30,425	54,364	45,096	90,648	
Less:					
Principal repayments (including satisfactions and refinances)	1,020,525	698,928	427,307	327,433	523,788
Loans sold (3)	67,593	38,320	75,221	119,350	150,983
Write down of principal balance for expected loss	2,305	5,517	8,902	5,515	
Loans transferred to other real estate owned	-	-	320	951	1,564
Gross loans at end of period	$3,501,532	$3,460,424	$3,468,479	$3,391,658	$3,288,218

(1) Includes one- to four-family home equity and home improvement loans.

(2) Includes $30.4 million, $26.4 million, $22.3 million and $31.5 million of serviced loans previously sold to a third party that were re-acquired during the years ended December 31, 2012, 2011, 2010 and 2009, respectively.

(3) Includes $30.9 million, $29.8 million and $47.0 million of note sales on problem loans from portfolio during the years ended December 31, 2012, 2011 and 2010, respectively. Problem loan note sales were immaterial during the years ended December 31, 2009 and 2008.

Loan Maturity and Repricing. The following table distributes the Bank's real estate and consumer loan portfolios (including loans held for sale) at December 31, 2012 by the earlier of the maturity or next repricing date. ARMs are included in the period during which their interest rates are next scheduled to adjust. The table does not include prepayments or scheduled principal amortization.

	Real Estate Loans	Consumer Loans	Total
	(Dollars in Thousands)		
Amount due to Mature or Reprice During the Year Ending:			
December 31, 2013	$308,418	$ 2,423	$310,841
December 31, 2014	244,021	-	244,021
December 31, 2015	360,073	-	360,073
December 31, 2016	646,649	-	646,649
December 31, 2017	800,153	-	800,153
Sub-total (within 5 years)	2,359,314	2,423	$2,361,737
December 31, 2018 and beyond	1,139,795	-	1,139,795
TOTAL	$3,499,109	$ 2,423	$3,501,532

The following table sets forth the outstanding principal balance of the Bank's real estate and consumer loan portfolios (including loans held for sale) at December 31, 2012 that is due to mature or reprice after December 31, 2013, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2013		
	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Real estate loans	$940,879	$2,249,812	$3,190,691
Consumer loans			
Total loans	$940,879	$2,249,812	$3,190,691

Multifamily Residential Lending and Commercial Real Estate Lending. The majority of the Bank's lending activities consist of originating adjustable- and fixed-rate multifamily residential (generally buildings possessing a minimum of five residential units) and commercial real estate loans. The properties securing these loans are generally located in the Bank's primary lending area. At December 31, 2012, $2.67 billion, or 76.3% of the Bank's gross loan portfolio, were multifamily residential loans. Of the multifamily residential loans, $2.44 billion, or 91.4%, were secured by apartment buildings and $230.6 million, or 8.6%, were secured by buildings organized under a cooperative form of ownership. The Bank also had $735.2 million of commercial real estate loans in its portfolio at December 31, 2012, representing 21.0% of its total loan portfolio. Of the $735.2 million, approximately $394.5 million were secured by collateral containing strictly commercial tenants, while the remaining $340.7 million had a portion of the underlying collateral composed of residential units.

The Bank originated multifamily residential and commercial real estate loans totaling $1.08 billion during the year ended December 31, 2012 and $662.3 million during the year ended December 31, 2011. At December 31, 2012, the Bank had commitments accepted by borrowers to originate $60.5 million of multifamily residential and commercial real estate loans, compared to $50.0 million outstanding at December 31, 2011.

At December 31, 2012, multifamily residential and commercial real estate loans originated by the Bank were secured by three distinct property types: (1) fully residential apartment buildings; (2) "mixed-use" properties featuring a combination of residential and commercial units within the same building; and (3) fully commercial buildings. The underwriting procedures for each of these property types were substantially similar. The Bank classified loans secured by fully residential apartment buildings as multifamily residential loans in all instances. Loans secured by fully commercial real estate were classified as commercial real estate loans in all instances. Loans secured by mixed-use properties were classified as either residential mixed use (a component of total multifamily residential loans) or mixed use commercial (a component of total commercial real estate loans) based upon the percentage of the property's rental income received from its residential as compared to its commercial tenants. If 50% or more of the rental income was received from residential tenants, the full balance of the loan was classified as multifamily residential. If less than 50% of the rental income was received from residential tenants, the full balance of the loan was classified as commercial real estate. At December 31, 2012, mixed-use properties classified as multifamily residential or commercial real estate loans totaled $1.34 billion.

Multifamily residential and commercial real estate loans in the Bank's portfolio generally range in amount from $250,000 to $4.0 million, and, at December 31, 2012, had an average loan size of approximately $1.7 million. Multifamily residential loans in this range are generally secured by buildings that contain between 5 and 100 apartments. As of December 31, 2012, the Bank had a total of $2.48 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units, representing over 90% of its multifamily residential real estate loan portfolio.

At December 31, 2012, the Bank had 106 multifamily residential or commercial real estate loans in portfolio with principal balances greater than $5.0 million, totaling $903.8 million. Within this total were twenty-three loans totaling $352.5 million with outstanding balances greater than $10.0 million. These 106 loans, while underwritten to the same standards as all other multifamily residential and commercial real estate loans, tend to expose the Bank to a higher degree of risk due to the potential impact of losses from any one loan relative to the size of the Bank's capital position.

Repayment of multifamily residential loans is dependent, in significant part, on cash flow from the collateral property sufficient to satisfy operating expenses and debt service. Future increases in interest rates, increases in vacancy rates on multifamily residential or commercial buildings, and other economic events which are outside the control of the borrower or the Bank could negatively impact the future net operating income of such properties. Similarly, government regulations, such as the existing NYC Rent Regulation and Rent Stabilization laws, could limit future increases in the revenue from these buildings. As a result, rental income might not rise sufficiently over time to satisfy increases in either the loan rate at repricing or in overhead expenses (e.g., utilities, taxes, and insurance).

The Bank's underwriting standards for multifamily residential and commercial real estate loans generally require: (1) a maximum loan-to-value ratio of 75% based upon an appraisal performed by an independent, state licensed appraiser, and (2) sufficient rental income from the underlying property to adequately service the debt, represented by a minimum debt service ratio of 120% for multifamily residential and 125% for commercial real estate loans. The weighted average loan-to-value and debt service ratios approximated 56% and 203%, respectively, on all multifamily real estate loans originated during the year ended December 31, 2012, and 50% and 204%, respectively, on commercial loans originated during the year ended December 31, 2012. The Bank additionally requires all multifamily and commercial real estate borrowers to represent that they are unaware of any environmental risks directly related to the collateral. In instances where the Bank's property inspection procedures indicate a potential environmental risk on a collateral property, the Bank will require a Phase 1 environmental risk analysis to be completed, and will decline loans where any significant residual environmental liability is indicated. The Bank further considers the borrower's experience in owning or managing similar properties, the Bank's lending experience with the borrower, and the borrower's credit history and business experience (See "Item 1. Business - Lending Activities - Loan Approval Authority and Underwriting" for a discussion of the Bank's underwriting procedures utilized in originating multifamily residential and commercial real estate loans).

It is the Bank's policy to require appropriate insurance protection at closing, including title and hazard insurance, on all real estate mortgage loans. Borrowers generally are required to advance funds for certain expenses such as real estate taxes, hazard insurance and flood insurance.

The typical multifamily residential and commercial real estate ARM carries a final maturity of 10 or 12 years, and an amortization period not exceeding 30 years. These loans generally have an interest rate that adjusts once after the fifth or seventh year, indexed to the 5-year FHLBNY advance rate plus a spread typically approximating 250 basis points, but generally may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the majority of the life of the loans. The Bank also offers fixed-rate, self-amortizing, multifamily residential and commercial real estate loans with maturities of up to fifteen years.

Commercial real estate loans are generally viewed as exposing lenders to a greater risk of loss than both one- to four-family and multifamily residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, as well as the success of the business and retail tenants occupying the properties, repayment of such loans are generally more vulnerable to weak economic conditions. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon its rentability, among other commercial factors. This increased risk is partially mitigated in the following manners: (i) the Bank requires, in addition to the security interest in the commercial real estate, a security interest in the personal property associated with the collateral and standby assignments of rents and leases from the borrower; (ii) the Bank will generally favor investments in mixed-use commercial properties that derive some portion of income from residential units, which provide a more reliable source of cash flow and lower vacancy rates, and (iii) the interest rate on commercial real estate loans generally exceeds that on multifamily and one- to four family residential loans. At December 31, 2012, approximately $340.7 million, or 46.3%, of the Bank's commercial real estate loans were secured by mixed-use commercial properties that derived some portion of income from residential units . The average size of commercial real estate loans was $1.7 million at December 31, 2012.

The Bank's three largest multifamily residential loans at December 31, 2012 were: (i) a $38.0 million loan initially originated in September 2008 (subsequently re-financed in March 2012) secured by seventeen mixed-use buildings located in Manhattan, New York, containing, in aggregate, 401 residential units and 11 commercial units; (ii) a $30.0 million loan originated in November 2012 secured by three apartment building complexes located in Queens, New York, containing 514 residential units and one commercial unit; and (iii) a $21.8 million loan originated in March 2004 secured by an eight-story mixed-use building located in Flushing, New York, containing 137 residential units and 4 commercial units. Each of these loans made all contractual payments during the year ended December 31, 2012.

The Bank's three largest commercial real estate loans at December 31, 2012 were: (i) a $14.7 million loan initially originated in May 2005 (subsequently re-financed in September 2011) secured by a three-story building located in Manhattan, New York containing 10 retail stores; (ii) a $13.1 million loan originated in June 2009 secured by three commercial use buildings located in Queens, New York, containing, in aggregate, fourteen retail units and 20 office rental units, and (iii) a $13.0 million loan originated in February 2007 secured by a professional office building with 12 office rental units located in White Plains, New York. The ten largest real estate loans containing only commercial tenants totaled $103.3 million at December 31, 2012, of which $72.6 million were secured by office buildings and $30.7 million were secured by retail stores. Of these 10 loans, $44.0 million were located in Manhattan, New York, $17.2 million in New Jersey, $13.1 million in Queens, New York, and the remainder in other locations in and around the NYC metropolitan area. Excluding the 10 largest loans, the remaining loan portfolio containing only commercial tenants totaled 212 loans, consisting primarily of office and retail space, and had an average loan size approximating $1.5 million at December 31, 2012. All of the above loans made all contractual payments during the year ended December 31, 2012.

Regulatory restrictions imposed on the Bank's lending activities generally limit the amount of credit that may be extended to any one borrower to 15% of the bank's net worth or up to 25% for loans secured by collateral having an ascertainable market value at least equal to the excess of such loans over the bank's net worth. (See "Item 1. Business - Regulation - Regulation of New York State Chartered Savings Banks - Loans to One Borrower"). The Bank's largest aggregate amount of loans to one borrower was $38.7 million at December 31, 2012, within the regulatory limit of $58.5 million. The loans to this borrower were secured by several residential or mixed-use buildings located throughout NYC, containing, in aggregate, 593 residential and 11 commercial units. The Bank's second largest individual borrower had outstanding loans totaling $38.0 million at December 31, 2012. The loans to this borrower were secured by several mixed-use buildings located in Manhattan, New York, containing, in aggregate, 505 residential and 12 commercial units. All loans to these borrowers were fully performing in accordance with their contractual terms at December 31, 2012.

Small Mixed-Use Lending (Small Investment Property Loans). In 2003, the Bank began originating small investment property loans. This program was discontinued in 2008 since, in the opinion of management, the loan's small average size combined with market rates that were deemed insufficient for this asset class, made the program unattractive. Small investment property loans were typically sourced through loan brokers. Generally, small investment properties include owner and non-owner occupied one- to four-family residential, multifamily, or mixed-use properties under $1.0 million in value. Small investment property loans were underwritten to a maximum loan-to-value ratio of 80%, and required to be personally guaranteed by the borrowers or their principals. The appraised value of small investment properties was generally based upon a "comparable sales" methodology rather than the income methodology used in underwriting commercial and multifamily real estate loans. However, the appraisal methodology chosen varied depending upon the attributes of the underlying collateral and/or the availability of comparable sales data. In cases where the comparable sales method of appraisal was used, loans with debt service coverage ratios below 100% were not uncommon. In such circumstances, the Bank looked to the borrower's financial capacity to service the debt. In the minority of cases where the income approach was used to appraise value, small investment property loans were underwritten to a minimum debt service ratio of 110%. Small investment property loans typically carried higher rates of interest in order to compensate the Bank for the assumed increased risk of default. Because these loans were required to be personally guaranteed, the Bank relied heavily on both the financial and credit information of borrowers in its underwriting. At December 31, 2012, the Bank held $47.0 million of loans in portfolio classified as small investment property, or approximately 1.3% of the gross loan portfolio, with, at the time of origination, a weighted average borrower FICO score of 684 and a weighted average loan-to-value ratio of 60%.

One- to Four-Family Residential and Cooperative Apartment Lending. The Bank offers residential first and second mortgage loans secured primarily by owner-occupied, one- to four-family residences, including condominium and cooperative apartments. The majority of one- to four-family residential loans in the Bank's loan portfolio were obtained through its acquisitions of Financial Federal Savings Bank in 1999 and Pioneer Savings Bank, F.S.B. in 1996. The Bank originated and held in its portfolio $3.9 million of one- to four-family mortgages during the year ended December 31, 2012, including home equity and home improvement loans. At December 31, 2012, $91.9 million, or 2.6%, of the Bank's loans consisted of one- to four-family residential and cooperative apartment loans. The Bank currently sells all long-term one- to four-family loans that it originates to PHH.

Prior to entering into an origination assistance agreement with PHH in 2008, the Bank was a participating seller/servicer with FNMA, and generally underwrote its one- to four-family residential mortgage loans to conform with FNMA standards.
Although the collateral securing cooperative apartment loans is composed of shares in a cooperative corporation (i.e., a corporation whose primary asset is the underlying building) and a proprietary lease in the borrower's apartment, cooperative apartment loans are treated as one- to four-family loans. The Bank's portfolio of cooperative apartment loans was $8.1 million, or 0.2% of total loans, as of December 31, 2012. The Bank did not originate any cooperative unit loans during the year ended December 31, 2012.

For all one- to four-family loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower: (1) a credit report is reviewed; (2) income, assets, indebtedness and certain other information are reviewed; (3) if necessary, additional financial information is required of the borrower; and (4) an appraisal of the real estate intended to secure the proposed loan is obtained from an independent appraiser approved by the Board of Directors. Loans underwritten by PHH similarly utilize these underwriting criteria (with the exception that the appraisals are completed by an appraiser who is part of a rotating group certified by PHH). The Bank generally sells its newly originated conforming fixed-rate one- to four-family mortgage loans. One to four-family loans sold to PHH totaled $8.3 million during the year ended December 31, 2012. As of December 31, 2012, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled $8.8 million. The Bank does not retain servicing on loans sold to PHH.

Home Equity and Home Improvement Loans. Home equity loans and home improvement loans, the great majority of which are included in one- to four-family loans, are originated to a maximum of $500,000. The combined balance of the first mortgage and home equity or home improvement loan may not exceed 75% of the appraised value of the collateral property at the time of origination of the home equity or home improvement loan. Interest on home equity and home improvement loans is initially the "prime lending" rate at the time of origination. After six months, the interest rate adjusts and ranges from the prime interest rate to 100 basis points above the prime interest rate in effect at the time. The interest rate on the loan can never fall below the rate at origination. The combined outstanding balance of the Bank's home equity and home improvement loans was $11.8 million at December 31, 2012.

Equity Lines of Credit on Multifamily Residential and Commercial Real Estate Loans. Equity credit lines are available on multifamily residential and commercial real estate loans. These loans are underwritten in the same manner as first mortgage loans on these properties, except that the combined first mortgage amount and equity line are used to determine the loan-to-value ratio and minimum debt service coverage ratio. The interest rate on multifamily residential and commercial real estate equity lines of credit adjusts regularly. The outstanding balance of loans advanced under equity lines of credit (which are included in the $20.5 million of total outstanding home equity and home improvement loans discussed in the previous paragraph) was $8.1 million at December 31, 2012, on outstanding total lines of $40.9 million.

Construction Lending. The Bank had no unfunded construction loan commitments, and the last new construction loan commitment issued by the Bank occurred in September 2008. Previously, the Bank participated in various real estate construction loans. All of these construction projects were located in the NYC metropolitan area, and in most instances, involved multifamily residential properties that were underwritten to support the permanent debt with rental units. Although it had assumed up to 90% participation on some construction loan commitments, the Bank generally did not act as primary underwriting agent for these loans. The Bank did, however, carefully review the underwriting of construction loans and received confirmation of the construction progress and engineering reports from the loan servicer prior to advancing funds. The Bank did not fund any new construction loans during the year ended December 31, 2012. During the years ended December 31, 2011 and 2010, respectively, the Bank funded $1.7 million and $1.9 million of construction advances on previously approved construction loans. Outstanding construction loans totaled $476,000 at December 31, 2012.

Land Development and Acquisition Loans. In rare instances, the Bank funds the purchase of land by a borrower for either rehabilitation or development. These loans require that the loan to value ratio not exceed 65% at origination for land development loans, defined as loans to develop an undeveloped parcel of land into lots upon which homes can be built. Land development loans are only made after all required municipal approvals are in place. For land acquisition loans where all required approvals and/or variances have not been secured by the borrower, the loan to value ratio may not exceed 50%. All land development and acquisition loans require a separate construction or permanent loan for any future development activity. There were no outstanding land development or acquisition loans at December 31, 2012 and 2011.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authority levels for the various loan products offered by the Bank. For larger loans, generally those in excess of $500,000, the Bank maintains a Loan Operating Committee entrusted with loan approval authority. The Chief Executive Officer, President, Chief Financial Officer, Chief Accounting Officer, Chief Lending Officer and Chief Retail Officer are members of the Loan Operating Committee.

The Loan Operating Committee has authority to approve all portfolio loan originations and loans originated and sold to PHH. All loans approved by the Loan Operating Committee are presented to the Bank's Board of Directors for its review.

Asset Quality

General

At both December 31, 2012 and December 31, 2011, the Company had neither whole loans nor loans underlying MBS that would be considered subprime at origination, 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 Notes 3 and 4 to the 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 a loan that meets any of the following three criteria: (i) full payment of principal or interest is not expected; (ii) principal or interest has been in default for a period of 90 days or more (unless the loan is deemed to be both well secured and in the process of collection); or (iii) an election has otherwise been made to maintain the loan on a cash basis due to deterioration in the financial condition of the borrower. Such non-accrual determination practices are applied consistently to all loans regardless of their internal classification or designation. Upon entering non-accrual status, the Bank reverses all outstanding accrued interest receivable.

The Bank generally initiates foreclosure proceedings when a delinquent loan enters non-accrual status based upon non-payment, and typically does not accept partial payments once 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 Other Real Estate Owned ("OREO") status. The Bank generally utilizes all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans and 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.

Non-accrual Loans

Within the Bank's permanent portfolio, non-accrual loans totaled $8.9 million and $26.0 million at December 31, 2012 and December 31, 2011, respectively, representing 0.25% and 0.75% of total loans at December 31, 2012 and December 31, 2011, respectively. During the year ended December 31, 2012, thirty non-accrual loans totaling $20.8 million were either satisfied or disposed of at a value at or below their recorded balance, $2.8 million of principal charge-offs were recognized on fourteen non-accrual loans, five non-accrual loans totaling $3.6 million were returned to accrual status and two non-accrual loans were transferred to held for sale pending the execution of note sale agreements. Partially offsetting these declines were twenty-two loans totaling $10.7 million that were added to non-accrual status during the year ended December 31, 2012.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. 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.
Generally, the Bank considers troubled debt restructurings ("TDR") and non-accrual multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans in excess of the FNMA conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") to be impaired. Non-accrual one-to four-family loans equal to or less than the FNMA Limits, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment.

Impairment is typically measured using the difference between the outstanding loan principal balance and 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. If a TDR is substantially performing in accordance with its restructured terms, management will look to either the present value of the expected cash flows from the debt service or the potential net liquidation proceeds of the underlying collateral property in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, generally the likely realizable net proceeds from either a note sale or the liquidation of the collateral is considered when measuring impairment. Measured impairment is either charged off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses.

The recorded investment in loans deemed impaired was approximately $53.1 million, consisting of twenty-six loans, at December 31, 2012, compared to $70.4 million, consisting of fifty loans, at December 31, 2011. The Bank disposed of twenty-nine impaired loans with a recorded balance totaling $21.0 million during the year ended December 31, 2012, transferred two impaired loans totaling $560,000 to held for sale pending execution of note sale agreements, and received full repayment on three additional impaired loans totaling $1.1 million. Additionally during the year ended December 31, 2012, four impaired loans with an aggregate recorded balance of $2.0 million remained current on all contractual amounts owed for a time period deemed sufficient to warrant their removal from impaired status. Principal charge-offs totaling $2.6 million and principal amortization totaling $425,000 were also recognized on impaired loans during the year ended December 31, 2012. Partially offsetting these declines were fourteen loans totaling $9.1 million that were added to impaired status during the year ended December 31, 2012.

The following is a reconciliation of non-accrual and impaired loans at December 31, 2012:

	(Dollars in Thousands)
Non-accrual loans	$ 8,888
Non-accrual one- to four-family and consumer loans deemed homogeneous loans	(602)
TDRs retained on accrual status	44,858
Impaired loans	$ 53,144

TDRs

Under ASC 310-40-15, the Bank is required to recognize loans for which certain modifications or concessions have been made as TDRs. A TDR has been created in the event that any of the following criteria is met:

- 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 without the loan being fully re-underwritten under current market terms
- 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

· The outstanding principal amount and/or accrued interest have been reduced

In instances in which the interest rate has been reduced, management would not deem the modification a TDR in the event that 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 current market interest rate, and the terms of the restructured loan are comparable to the terms offered by the Bank to non-troubled debtors.

Accrual status for TDRs is determined separately for each TDR in accordance with the policies for determining accrual or non-accrual status that are outlined on page F-12. At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be either on accrual or non-accrual status. 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 restructured period unless the loan meets any of the criteria for non-accrual status under either the Bank's policy, as disclosed on page F-12 and/or the criteria related to accrual of interest established by agency regulations.
The Bank never accepts receivables or equity interests in satisfaction of TDRs.

At both December 31, 2012 and 2011, the great majority of TDRs were collateralized by real estate that generated rental income. For TDRs that demonstrated conditions sufficient to warrant accrual status, the present value of the net cash flows of the underlying property was utilized as the primary means of determining impairment. Any shortfall in the present value of the expected cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected cash flows at the time of the original loan agreement was recognized as either an allocated reserve (in the event that it related to lower expected interest payments) or a charge-off (if related to lower expected principal payments). For TDRs on non-accrual status, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment, and any shortfall in valuation from the recorded balance is accounted for through a charge-off. In the event that either an allocated reserve or a charge-off is recognized on TDRs, the periodic loan loss provision is impacted.

The following is a summary of TDRs by type of underlying collateral:

	At December 31, 2012		At December 31, 2011	
	# loans	Aggregate Recorded Balance	# loans	Aggregate Recorded Balance
(Dollars in Thousands)				
Loan secured by:				
One- to four-family residential real estate (1)	3	$ 948	2	$ 625
Multifamily residential and residential mixed use real estate	5	1,953	5	2,013
Mixed use commercial real estate	1	729	3	1,657
Commercial real estate	13	47,493	12	44,458
Total	22	$ 51,123	22	$ 48,753

(1) With the exception of one TDR at December 31, 2012 with an outstanding balance of $330,000, these TDRs were secured by properties containing either residential or commercial rental units.

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. The lower of the appraisal or the formal marketed value is used when determining the likely realizable value of OREO at each reporting period. Any declines in likely realizable value are recognized immediately through earnings. 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 December 31, 2012 or 2011.

The following table sets forth information regarding non-accrual loans, other non-performing assets, OREO, TDRs, and impaired loans at the dates indicated:

	At December 31,				
	2012	2011	2010	2009	2008
Non-accrual Loans and Non-Performing Assets	(Dollars in Thousands)				
One- to four-family residential and cooperative apartment	$938	$2,205	$223	$397	$592
Multifamily residential and residential mixed use	507	7,069	5,010	7,820	3,366
Commercial real estate and mixed use commercial real estate	7,435	16,674	11,992	3,070	3,439
Consumer	8	4	17	7	5
Sub-total	8,888	25,952	17,242	11,294	7,402
Non-accrual loans held for sale	560	3,022	2,926	-	-
Total non-accrual loans	9,448	28,974	20,168	11,294	7,402
Non-performing pooled bank trust preferred securities ("TRUPS")	892	1,012	564	688	
OREO				755	300
Total non-performing assets	10,340	29,986	20,732	12,737	7,702
Ratios:					
Total non-accrual loans to total loans	0.25 %	0.84 %	0.58 %	0.33 %	0.22 %
Total non-performing assets to total assets	0.26	0.75	0.51	0.32	0.19
TDRs and Impaired Loans					
TDRs	$51,123	$48,753	$22,558	$5,317	$
Impaired loans (1)	53,144	73,406	44,097	15,049	8,900

(1) Amount includes the entire $51.1 million of TDRs at December 31, 2012. See the discussion entitled "Impaired Loans" commencing on page F-13 for a reconciliation of non-accrual and impaired loans.

Other Potential Problem Loans

(i) Accruing Loans 90 Days or More Past Due

At December 31, 2012, the Bank owned a $190,000 loan that was 90 days or more past due on its contractual balloon principal payment and continued to make monthly payments consistent with its initial contractual amortization schedule exclusive of the balloon payment. This loan, which is both well secured and expected to be refinanced during the year ending December 31, 2013, remained on accrual status at December 31, 2012 and was deemed a performing asset. At December 31, 2011, the Bank owned five real estate loans totaling $3.8 million that were 90 days or more past due on their contractual balloon principal payment but continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payment. Each of the five loans was either fully re-financed or satisfied during the year ended December 31, 2012.

(ii) Loans Delinquent 30 to 89 Days

The Bank had 13 real estate loans, totaling $7.1 million, that were delinquent between 30 and 89 days at December 31, 2012, a net reduction of $2.2 million compared to 12 such loans totaling $9.3 million at December 31, 2011. The 30 to 89 day delinquent levels fluctuate monthly, and are generally considered a less accurate indicator of near-term credit quality trends than non-accrual loans.

(iii) Temporary Loan Modifications

At December 31, 2012, the Bank had 4 loans totaling $2.4 million that were either current or less than 30 days delinquent, and were mutually modified with the borrowers in a manner that: (i) did not involve a full re-underwriting of the loan; and (ii) did not meet the criteria for TDR. At December 31, 2011, there were 7 such loans totaling $9.3 million. 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 these modified loans were: 1) they permitted only minor reductions in the cash flow requirements of debt service; and 2) there was no forgiveness of contractual principal and interest amounts due to the Bank. The terms of modification were generally in the form of either: (1) temporary suspension of monthly principal amortization, which, given the balloon repayment feature of these loans, typically constitutes a minor concession; or (2) a temporary reduction in 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 on these temporary modifications was consistent with a "market rate" that: 1) the Bank would have offered a different borrower with comparable 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, none of these temporarily modified loans have had their maturities extended, nor would this be a typical negotiable item for the Bank. Although all of the temporarily modified loans at December 31, 2012 and 2011 were secured by real estate, none of them were reliant upon liquidation of the underlying collateral for repayment of the outstanding loan. In the rare instance in which the Bank also held a second lien on a first mortgage that was temporarily 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 eliminated.
Any temporary modification that either: 1) reduced the contractual rate below market as defined in the previous paragraph; 2) forgave principal owed; or 3) satisfied any of the other criteria designated in ASC 310-40-15 was deemed a TDR at December 31, 2012 and 2011. Any adjustments to interest rates for loans experiencing sub-optimal underwriting conditions would be authorized under the loan approval and underwriting polices that are summarized beginning on page F-8.

The Bank's lending function performs a formal review process that serves as an effective re-underwriting of all temporarily modified loans.

Based upon the criteria established by the Bank to review its potential problem loans for impairment, designation of these temporarily 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 at either December 31, 2012 or 2011.

During the year ended December 31, 2012, the Bank offered temporary assistance in the form of a three-month deferral of principal and interest payments on three of its real estate loans that were adversely impacted by Hurricane Sandy. Otherwise, there were no temporary modifications entered into during the year ended December 31, 2012. The following table summarizes temporary modifications entered into during the periods indicated:

	At or for the Year Ended December 31, 2012		At or for the Year Ended December 31, 2011	
	# Loans	Balance	# Loans	Balance
(Dollars in Thousands)				
Loans modified in a manner that did not meet the definition of a TDR	3	$ 3,815	5	$ 5,599
Concessions granted:				
Deferral of principal and interest amounts due	3	3,815	-	-
Deferral of principal amounts due	-	-	5	5,599
Below market interest rate granted	-	-	-	-
Outstanding principal balance immediately before and after modification	3	3,815	5	5,599

Problem Loans Serviced for FNMA Subject to the First Loss Position

The Bank services a pool of multifamily loans sold to FNMA which had an outstanding principal balance of $256.7 million at December 31, 2012. Pursuant to the sale agreement with FNMA, the Bank retained an obligation (off-balance sheet contingent liability) to absorb a portion of any losses (as defined in the agreement) incurred by FNMA in connection with the loans sold (the "First Loss Position"). The First Loss Position totaled $16.4 million at December 31, 2012. Against this contingent liability, the Bank has charged through earnings a recorded liability (reserve for First Loss Position) of $1.4 million as of December 31, 2012, leaving approximately $15.0 million of potential charges to earnings for future losses (if any). At December 31, 2012, within the pool of multifamily loans sold to FNMA, a $229,000 loan was delinquent between 30 and 89 days, and one $474,000 loan was 90 days or more delinquent. At December 31, 2011, within the pool of multifamily loans sold to FNMA, one $1.3 million loan was delinquent between 30 and 89 days, and one $757,000 loan was 90 days or more delinquent. The Bank manages the collection of these loans in the same manner as it does for portfolio loans. Under the terms of the servicing agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans, and to indemnify FNMA for any further losses (as defined in the sale agreement) until the earlier of the following events: (i) the Bank re-acquires the loan from FNMA; or (ii) the entire pool of loans sold to FNMA have either been fully satisfied or enter OREO status. However, the aggregate losses incurred by the Bank on this pool of serviced loans cannot exceed the total First Loss Position. The Bank has previously repurchased, and may opt to continue to repurchase, loans sold to FNMA with recourse exposure that become 90 or more days delinquent. Such repurchased loans are reported as non-performing portfolio loans and are typically purchased from FNMA in order to control losses and expedite resolution of the loan via restructure, note sale or enforcement of legal remedies.

Allowance for Loan Losses

Accounting Principles Generally Accepted in the United States ("GAAP") require the Bank to maintain an appropriate allowance for loan losses. The Bank maintains a Loan Loss Reserve Committee charged with, among other functions, responsibility for monitoring the appropriateness of the loan loss reserve.

To assist the Loan Loss Reserve Committee in carrying out its assigned duties, the Bank annually engages the services of an experienced third-party loan review firm to perform a review of the loan portfolio. Annually, the review program covers 100% of construction and land development loans and 65% of the non-one- to four-family and consumer loan portfolio. Included within the annual 65% target are: (1) the twenty largest loans in the multifamily and commercial real estate loan portfolio; (2) the ten largest pure commercial real estate loans; (3) the ten largest commercial mixed use real estate loans; (4) the ten largest multifamily residential real estate loans; (5) the ten largest residential mixed use real estate loans; (6) 30% of all new loan originations during the year; (7) 100% of the internally criticized and classified loans; and (8) all individual loans exceeding $5.0 million. In addition to these segments, beginning in mid-2012 the third party loan review firm began covering all loan relationships in excess of $10 million. At least annually, the loan review firm reviews a sampling of one- to four-family residential, cooperative apartment and consumer loans, all of which represent relatively small segments of the Bank's total loan portfolio.

The Loan Loss Reserve Committee's findings, along with recommendations for changes to loan loss reserve provisions, if any, are reported directly to the Bank's executive management and approved by the Mortgage Review Committee of the Board of Directors. The following table sets forth activity in the Bank's allowance for loan losses at or for the dates indicated:

	At or for the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Total loans outstanding at end of period [1]	$3,506,368	$3,463,887	$3,473,492	$3,395,675	$3,291,505
Average total loans outstanding during the period[1]	$3,443,136	$3,447,035	$3,455,659	$3,287,445	$3,090,032
Allowance for loan losses:					
Balance at beginning of period	$20,254	$19,166	$21,505	$17,454	$15,387
Provision for loan losses	3,921	6,846	11,209	13,152	2,006
Charge-offs					
Multifamily residential	(2,478)	(2,750)	(10,864)	(7,266)	(501)
Commercial real estate	(1,342)	(2,307)	(2,760)	(1,220)	(85)
One- to four-family and cooperative apartment	(777)	(89)	(257)	(498)	-
Construction	(3)	(962)	-	-	-
Consumer	(10)	(29)	(3)	(28)	(26)
Total charge-offs	(4,610)	(6,137)	(13,884)	(9,012)	(612)
Recoveries	903	212	64	19	29
Reserve for loan commitments transferred from (to) other liabilities	82	167	272	(108)	644
Balance at end of period	$20,550	$20,254	$19,166	$21,505	$17,454
Allowance for loan losses to total loans at end of period	0.59%	0.58%	0.55%	0.63%	0.53%
Allowance for loan losses to total non-performing loans at end of period	231.21	78.04	95.03	190.41	235.80
Allowance for loan losses to total non-performing	42.58	29.08	58.81	174.36	235.80

loans and TDRs at end of period					
Ratio of net charge-offs to average loans outstanding during the period	0.11 %	0.17 %	0.40 %	0.27 %	0.02 %

(1) Total loans represent gross loans (including loans held for sale), net of deferred loan fees and discounts.

Based upon its evaluation of the loan portfolio, management believes that the Bank maintained its allowance for loan losses at a level appropriate to absorb losses inherent within the Bank's loan portfolio as of the balance sheet dates. Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect a borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. Although management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions or other factors beyond management's control. In addition, the Bank's regulators, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses, and may require the Bank to recognize additions to, or reductions in, the allowance based upon judgments different from those of management.

The Bank's periodic evaluation of its allowance for loan losses has traditionally been comprised of different components, each of which is discussed in Note 6 to the Company's consolidated audited financial statements.

The following table sets forth the Bank's allowance for loan losses allocated by underlying collateral type and the percent of each to total loans at the dates indicated. Any allocated allowance associated with loans both deemed impaired and internally graded as Special Mention is reflected on the impaired loan line.

	At December 31, 2012		2011		2010		2009		2008	
	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)
	(Dollars in Thousands)									
Impaired loans	$520	1.52 %	$2,175	2.12 %	$-	1.27 %	$1,943	0.44 %	$900	0.27 %
Substandard loan not deemed impaired	795	0.44	-	-	-	-	-	-	-	-
Special Mention loans	145	0.54	800	0.56	1,880	1.31	2,411	1.67	156	0.08
Performing loans:										
Multifamily residential	14,118	75.99	14,057	74.67	13,797	71.35	11,999	69.66	10,583	68.03
Commercial real estate	4,750	19.08	2,893	19.67	2,945	22.53	3,774	23.49	4,695	25.63
One-to four-family and cooperative apartment	195	2.36	303	2.82	404	3.32	1,040	3.78	401	4.31
Construction and land acquisition	-	-	-	0.09	106	0.14	308	0.87	680	1.61
Consumer	27	0.07	26	0.07	34	0.08	30	0.09	39	0.07
Total	$20,550	100.00%	$20,254	100.00%	$19,166	100.00%	$21,505	100.00%	$17,454	100.00%

(1) Total loans represent gross loans less Federal Housing Authority and Veteran's Administration guaranteed loans.

Reserve Liability on the First Loss Position

The Bank has recourse exposure under the First Loss Position associated with multifamily loans that it sold to FNMA between December 2002 and February 2009, and maintains an actual reserve liability related to this contingent First Loss Position. The reserve liability reflects estimated probable losses on this loan pool at each period end. For performing loans within the FNMA serviced pool, the reserve recognized is based upon the historical loss experience on this loan pool. For problem loans within the pool, the estimated losses are determined in a manner consistent with impaired 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 Year Ended December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
Outstanding balance of multifamily loans serviced for FNMA at period end	$256,731	$308,104	$371,887
Total First Loss Position at end of period	15,428	16,356	16,789
Reserve Liability on the First Loss Position			
Balance at beginning of period	$2,993	$2,993	$4,373
Transfer of specific reserve for serviced loans re-acquired by the Bank	-	-	(1,123)
Credit to reduce the liability for the First Loss Position[1]	(1,268)	-	
Charge-offs and other net reductions in balance	(342)	-	(257)
Balance at period end	$1,383	$2,993	$2,993

[1] Amount recognized as a portion of mortgage banking income during the period.

During the year ended December 31, 2012, the Bank was contractually permitted to reduce the total First Loss Position by $928,000 due to the satisfaction of certain loans within the FNMA pool. During the years ended December 31, 2011 and 2010, the Bank received approval from FNMA to reduce the total First Loss Position by $433,000 and $3.5 million, respectively, for losses incurred. No such approval was received during the year ended December 31, 2012.

Reserve for Loan Commitments

At December 31, 2012, the Bank maintained a reserve of $103,000 associated with unfunded loan commitments accepted by the borrower at December 31, 2012. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases or reductions in this reserve are recognized in periodic non-interest expense.

Investment Activities

Investment strategies are implemented by the Asset and Liability Committee ("ALCO"), which is comprised of the Chief Financial Officer, Chief Risk Officer, Treasurer and other senior officers. The strategies take into account the overall composition of the Bank's balance sheet, including loans and deposits, and are intended to protect and enhance the Bank's earnings and market value, and effectively manage both interest rate risk and liquidity. The strategies are reviewed periodically by the ALCO and reported to the Board of Directors.

Investment Policy of the Bank. The investment policy of the Bank, which is adopted by its Board of Directors, is designed to help achieve the Bank's overall asset/liability management objectives while complying with applicable federal regulations. Generally, when selecting investments for the Bank's portfolio, the policy emphasizes principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment. The policy permits investments in various types of liquid assets, including obligations of the U.S. Treasury and federal agencies, investment grade corporate debt, various types of MBS, commercial paper, certificates of deposit ("CDs") and overnight federal funds sold to financial institutions. The Bank's Board of Directors periodically approves all financial institutions to which the Bank sells federal funds.

The Bank's investment policy limits a combined investment in securities issued by any one entity, with the exception of obligations of the U.S. Federal Government, federal agencies and GSEs, to an amount not exceeding the lesser of either 2% of its total assets or 15% of its total tangible capital (20% of core capital in the event all securities of the obligor maintain a "AAA" credit rating). The Bank was in compliance with this policy limit at both December 31, 2012 and 2011. The Bank may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2012 and 2011, the Bank did not hold held any derivative instruments or embedded derivative instruments that required bifurcation.

Federal Agency Obligations. Federal agency obligations purchased during the years ended December 31, 2012, 2011 and 2010 possessed contractual maturities ranging between two and five years from the date of acquisition, and all featured call dates ranging between 3 and 12 months from their date of acquisition. As a result of these call features, the average duration of these investments has typically been less than 12 months. These securities provide the Bank a favorable yield in comparison to overnight investments, possess sound credit ratings, and had been readily accepted as collateral for the Bank's REPOS prior to their full repayment in October 2012. Federal agency obligation investments totaled $29.9 million at December 31, 2012.

MBS. The Bank's investment policy calls for the purchase of only priority tranches when investing in MBS. MBS provide the portfolio with investments offering desirable repricing, cash flow and credit quality characteristics. MBS yield less than the loans that underlie the securities as a result of the cost of payment guarantees and credit enhancements which reduce credit risk to the investor. Although MBS guaranteed by federally sponsored agencies carry a reduced credit risk compared to whole loans, such securities remain subject to the risk that fluctuating interest rates, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such loans and thus affect the value of such securities. MBS, however, are more liquid than individual mortgage loans and may readily be used to collateralize borrowings. MBS also provide the Company with important interest rate risk management features, as the entire portfolio provides monthly cash flow for re-investment at current market interest rates. At both December 31, 2012 and 2011, all MBS owned by the Company possessed the highest credit rating from at least one nationally recognized rating agency, with the exception of one privately issued

MBS in the Bank's portfolio with book and market values at December 31, 2012 totaling $961,000 and $954,000, respectively. This security was downgraded to sub-investment grade by the rating agencies during 2009 due to deteriorating conditions in the national real estate market. Current credit ratings on this security range from CC to Caa1. Despite the downgrade, this security continues to perform in accordance with its contractual terms.

The Company's consolidated investment in MBS totaled $49.0 million, or 1.3% of total assets, at December 31, 2012, the great majority of which was owned by the Bank. Approximately 91.1% of the MBS portfolio at December 31, 2012 was comprised of pass-through securities guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Association ("GNMA") or FNMA. The average duration of these securities was estimated to be 1.4 years as of December 31, 2012 and 1.7 years at December 31, 2011.

At December 31, 2012, included in the MBS portfolio were $3.4 million in Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs") owned by the Bank. All of the CMOs and REMICs were U.S agency guaranteed obligations, with the exception of one CMO issued by a highly rated private financial institution, and were rated in the highest rating category by at least one nationally recognized rating agency. None of the CMOs or REMICs had stripped principal and interest components and all occupied priority tranches within their respective issues.

The Company typically classifies MBS as available-for-sale in recognition of the prepayment uncertainty associated with these securities, and carries them at fair market value. The fair value of MBS available-for-sale (including CMOs and REMICs) was $1.6 million above their amortized cost at December 31, 2012. Within this total, the aggregate fair value of the agency guaranteed CMOs and REMICs exceeded their cost basis by $25,000 and the fair value of the private financial institution-issued CMO exceeded its cost basis by approximately $18,000.

The following table sets forth activity in the MBS portfolio for the periods indicated:

	For the Year Ended December 31,		
	2012	2011	2010
	Dollars in Thousands		
Amortized cost at beginning of period	$89,149	$138,283	$217,076
Purchases, net	1,318		
Principal repayments	(42,822)	(48,911)	(78,389)
Premium amortization, net	(197)	(223)	(404)
Amortized cost at end of period	$47,448	$89,149	$138,283

Corporate Debt Obligations. The Bank may invest in investment-grade debt obligations of various corporations. The Bank's investment policy limits new investments in corporate debt obligations to companies rated single "A" or better by one of the nationally recognized rating agencies at the time of purchase. As mentioned previously, with certain exceptions, the Bank's investment policy also limits a combined investment in corporate securities issued by any one entity to an amount not exceeding the lesser of either 2% of its total assets or 15% of its total tangible capital (20% of core capital in the event all securities of the obligor maintain a "AAA" credit rating).

As of December 31, 2012, the Bank's investment in corporate debt obligations was comprised solely of seven TRUPS with an aggregate remaining amortized cost of $16.8 million (based upon their purchase cost basis) that were secured primarily by the preferred debt obligations of pools of U.S. banks (with a small portion secured by debt obligations of insurance companies). All seven securities were designated as held-to-maturity at December 31, 2012.

At December 31, 2012, in management's judgment, the credit quality of the collateral pool underlying five of the seven securities had deteriorated to the point that full recovery of the Bank's initial investment was considered uncertain, resulting in recognition of other than temporary impairment ("OTTI") charges. The aggregate OTTI charge recognized on these securities was $9.6 million at December 31, 2012, of which $8.9 million was determined to be attributable to credit related factors and $633,000 was determined to be attributable to non-credit related factors. At December 31, 2012, these five securities had credit ratings ranging from "D" to "Caa3." The remaining two securities, which were not subject to OTTI charges as of December 31, 2012, had credit ratings ranging from "CC" to "Ba1" on that date. During the year ended December 31, 2012, credit related OTTI declined by $29,000 primarily as a result of the satisfaction of one security for which OTTI had been recognized and non-credit related OTTI declined by $296,000 reflecting improvement in the estimated fair value of the five securities for which OTTI had previously been recognized.

At December 31, 2012, the remaining aggregate amortized cost of TRUPS that could be subject to future OTTI charges through earnings was $7.2 million. Of this total, unrealized losses of $1.9 million have already been recognized as a component of accumulated other comprehensive loss.

Investment Strategies of the Holding Company. The Holding Company's investment policy generally calls for investments in relatively short-term, liquid securities similar to those permitted by the securities investment policy of the Bank. Holding Company investments are generally intended primarily to provide future liquidity which may be utilized for general business activities. These may include, but are not limited to: (1) purchases of the Holding Company's common stock into treasury; (2) repayment of principal and interest on the Holding Company's $70.7 million trust preferred securities debt; (3) subject to applicable restrictions, the payment of dividends on the Holding Company's common stock; and/or (4) investments in the equity securities of other financial institutions and other investments not permitted to the Bank.

The investment policy of the Holding Company calls for the purchase of only priority tranches when investing in MBS, limits new investments in corporate debt obligations to companies rated single "A" or better by one of the nationally recognized rating agencies at the time of purchase, and limits investments in any one corporate entity to the lesser of 1% of total assets or 5% of the Company's total consolidated capital. The Holding Company may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2012 and 2011, the Holding Company did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

The Holding Company cannot assure that it will engage in these investment activities in the future. At December 31, 2012, the Holding Company's principal asset was its $428.8 million investment in the Bank's common stock. This investment in subsidiary is not actively managed and falls outside of the Holding Company investment policy and strategy discussed above.

Equity Investments. The Holding Company's investment in mutual funds (primarily equity mutual funds) totaled $7.9 million at December 31, 2012, of which $3.0 million was classified as available for sale, and $4.9 million was classified as trading. At December 31, 2012, the aggregate fair value of the available for sale mutual fund investments was $449,000 above their cost basis, and the aggregate fair value of mutual fund investments classified as trading was $131,000 above their cost basis. As of December 31, 2012, an aggregate OTTI charge of $348,000 remained on five actively-managed equity mutual fund investments. This OTTI charge, which was recognized during 2009, reflected both the significant deterioration in the U.S. and international equity markets at that time, as well as the extended duration of the decline.

The following table sets forth the amortized/historical cost and fair value of the total portfolio of investment securities and MBS by accounting classification and type of security, that were owned by either the Bank or Holding Company at the dates indicated:

	At December 31,					
	2012		2011		2010	
	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value
MBS	Dollars in Thousands					
Available-for-Sale:						
FHLMC pass through certificates	$32,218	$33,063	$53,662	$57,048	$77,020	$81,068
FNMA pass through certificates	10,233	10,899	16,583	17,727	22,994	24,158
GNMA pass through certificates	691	716	763	787	833	857
Private issuer MBS	962	955	1,613	1,504	2,363	2,298
Agency issued CMOs and REMICs	2,436	2,462	15,128	15,389	32,953	33,965
Private issuer CMOs and REMICs	908	926	1,400	1,422	2,122	2,172
Total MBS available-for-sale	47,448	49,021	89,149	93,877	138,285	144,518
INVESTMENT SECURITIES						
TRUPS Held-to-Maturity:	7,828	6,267	8,910	4,924	10,760	4,408
Total investment securities held-to-maturity	7,828	6,267	8,910	4,924	10,760	4,408
Available-for-Sale:						
Federal agency obligations	29,820	29,945	170,362	170,309	81,388	81,152
Mutual funds	2,556	3,005	3,624	4,559	3,537	4,490
Total investment securities Available-for-Sale	32,376	32,950	173,986	174,888	84,925	85,642
Trading:						
Mutual funds	4,743	4,874	1,736	1,774	1,425	1,490
Total trading securities	4,743	4,874	1,736	1,774	1,425	1,490

TOTAL INVESTMENT SECURITIES AND MBS	$92,395	$93,112	$184,632	$181,586	$97,110	$91,540

(1) Amount is net of cumulative credit related OTTI totaling $9.0 million on TRUPS held-to-maturity and $348,000 on mutual funds available-for-sale at December 31, 2012, $9.0 million on TRUPS held-to-maturity and $1.4 million on mutual funds available-for-sale at December 31, 2011, and $8.2 million on TRUPS held-to-maturity and $1.4 million on mutual funds available-for-sale at December 31, 2010.

The following table presents the amortized cost, fair value and weighted average yield of the Company's consolidated available-for-sale investment securities and MBS (exclusive of equity investments) at December 31, 2012, categorized by remaining period to contractual maturity.

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	Amortized Cost	Fair Value	Weighted Average Tax Equivalent Yield	
	(Dollars in Thousands)			
MBS:				
Due within 1 year	$	$		
Due after 1 year but within 5 years	568	594	3.99	%
Due after 5 years but within 10 years	12,159	12,885	4.64	
Due after ten years	34,721	35,542	4.70	
Total	47,448	49,021	4.68	
Federal Agency obligations:				
Due within 1 year				
Due after 1 year but within 5 years	29,820	29,945	0.76	
Due after 5 years but within 10 years			-	
Due after ten years				
Total	29,820	29,945	0.76	
Total:				
Due within 1 year				
Due after 1 year but within 5 years	30,388	30,539	0.82	
Due after 5 years but within 10 years	12,159	12,885	4.64	
Due after ten years	34,721	35,542	4.70	
Total	$77,268	$78,966	3.19	%

All of the federal agency obligations have call dates occurring between January 2013 and March 2014. Based upon current interest rates, a significant portion of these securities may be called prior to contractual maturity. In the event such securities are not called, the contractual maturities on the great majority of such securities occur during the year ending December 31, 2015, and, as of December 31, 2012, are readily disposable based upon their credit rating and fair value. With respect to MBS, the entire carrying amount of each security at December 31, 2012 is reflected in the above table in the maturity period that includes the final security payment date and, accordingly, no effect has been given to periodic repayments or possible prepayments. As mentioned previously, the investment policies of both the Holding Company and the Bank call for the purchase of only priority tranches when investing in MBS. As a result, the weighted average duration of the Company's MBS approximated 1.4 years as of December 31, 2012 when giving consideration to anticipated repayments or possible prepayments, which is significantly less than their weighted average maturity.

GAAP requires that investments in debt securities be classified in one of the following three categories and accounted for accordingly: trading securities, securities available-for-sale or securities held-to-maturity. GAAP requires investments in equity securities that have readily determinable fair values be classified as either trading securities or securities available-for-sale. Unrealized gains and losses on available-for-sale securities are reported as a separate component of stockholders' equity referred to as accumulated other comprehensive income, net of deferred taxes. At December 31, 2012, the Company owned, on a consolidated basis, $82.0 million of securities classified as available-for-sale, which represented 2.1% of total assets. Based upon the size of the available-for-sale portfolio, future variations in the market value of the available-for-sale portfolio could result in fluctuations in the Company's consolidated stockholders' equity.

Sources of Funds

General. 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, from time to time, 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.

Deposits. The Bank offers a variety of deposit accounts possessing a range of interest rates and terms. At December 31, 2012, the Bank offered, and presently offers, savings, money market, interest bearing and non-interest bearing checking accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. Traditionally, the Bank has relied upon direct and general marketing, customer service, convenience and long-standing relationships with customers to generate deposits. The communities in which the Bank maintains branch offices have historically provided the great majority of its deposits. At December 31, 2012, the Bank had deposit liabilities of $2.48 billion, up $135.7 million from December 31, 2011 (See "Part II - Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources"). Within total deposits at December 31, 2012, individual Retirement Accounts totaled $274.2 million, or 11.1%.

The Bank is also eligible to participate in the Certificate of Deposit Account Registry Service, through which it can either purchase or sell CDs. Purchases of CDs through this program are limited by Bank policy to an aggregate of 10% of the Bank's average interest earning assets. As of December 31, 2012, deposits taken through this program totaled $1.7 million.

The Bank is authorized to accept brokered deposits up to an aggregate limit of $120.0 million. At December 31, 2012 and 2011, total brokered deposits remained significantly below this limit.

The following table presents the deposit activity of the Bank for the periods indicated:

DEPOSIT ACTIVITY	Year Ended December 31, 2012	2011	2010
	(Dollars in Thousands)		
Deposits	$3,955,317	$3,561,590	$2,539,002
Withdrawals	3,841,368	3,594,601	2,435,248
Deposits greater than Withdrawals (Withdrawals greater than Deposits)	$113,949	$(33,011)	$103,754
Interest credited	21,779	26,131	29,991
Total increase (decrease) in deposits	$135,728	$(6,880)	$133,745

At December 31, 2012, the Bank had $371.7 million in CDs with a minimum denomination of one-hundred thousand dollars as follows:

Maturity Date	Amount	Weighted Average Rate
(Dollars in Thousands)		
Within three months	$57,265	0.93 %
After three but within six months	65,383	1.43
After six but within twelve months	83,511	1.54
After 12 months	165,538	2.56
Total	$371,697	1.88 %

The following table sets forth the distribution of the Bank's deposit accounts and the related weighted average interest rates at the dates indicated:

	At December 31, 2012			At December 31, 2011			At December 31, 2010		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in Thousands)								
Savings accounts	$371,792	15.00 %	0.15 %	$353,708	15.09 %	0.21 %	$329,182	14.00 %	0.26 %

CDs	891,975	35.98	1.66	977,551	41.71	1.85	1,059,652	45.08	2.01
Money market accounts	961,359	38.77	0.57	772,055	32.94	0.63	727,939	30.97	0.71
Interest bearing checking accounts	95,159	3.84	0.16	99,308	4.24	0.23	108,078	4.60	0.51
Non-interest bearing checking accounts	159,144	6.42		141,079	6.02		125,730	5.35	
Totals	$2,479,429	100.00 %	0.86 %	$2,343,701	100.00 %	1.02 %	$2,350,581	100.00 %	1.18 %

The weighted average maturity of the Bank's CDs at December 31, 2012 was 17.3 months, compared to 17.0 months at December 31, 2011. The following table presents, by interest rate ranges, the dollar amount of CDs outstanding at the dates indicated and the period to maturity of the CDs outstanding at December 31, 2012:

Interest Rate Range	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total at December 31, 2012	Total at December 31, 2011	Total at December 31, 2010
	Period to Maturity at December 31, 2012						
(Dollars in Thousands)							
2.00% and below	$458,294	$85,892	$12,517	$3,554	$560,257	$565,991	$543,198
2.01% to 3.00%	17,403	28,027	58,186	28,075	131,691	206,906	298,816
3.01% to 4.00%	13,062	133,290	1,462	15,344	163,158	165,208	178,104
4.01% to 5.00%	36,869	-	-	-	36,869	39,353	39,446
5.01% and above	-	-	-	-	-	93	88
Total	$525,628	$247,209	$72,165	$46,973	$891,975	$977,551	$1,059,652

Borrowings. The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges offered to FHLBNY shareholders is the ability to secure advances from the FHLBNY under various lending programs at competitive interest rates. The Bank's total borrowing line equaled at least $1.36 billion at December 31, 2012.

The Bank had $842.5 million and $939.8 million of FHLBNY advances outstanding at December 31, 2012 and December 31, 2011, respectively. The Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such advances.

The Bank had outstanding REPOS totaling $195.0 million at December 31, 2011. REPOS involve the delivery of securities to broker-dealers as collateral for borrowing transactions. The securities remain registered in the name of the Bank, and are returned upon the maturities of the agreements. Under the interest rate environment in effect during 2012 (which the Company expected to continue through the year ending December 31, 2015), the yield on the securities required to collateralize these borrowings had fallen significantly below the average cost of the borrowed funds, prompting the Company's election to prepay the REPOS during 2012. The Company incurred $28.8 million in additional interest expense in 2012 related to the prepayment of the REPOS.

Presented below is information concerning REPOS and FHLBNY advances for the periods presented:

REPOS:

	At or for the Year Ended December 31, 2012	2011	2010
	(Dollars in Thousands)		
Balance outstanding at end of period	$-	$195,000	$195,000
Average interest cost at end of period	- %	4.33 %	4.33 %
Average balance outstanding during the period	$132,910	$195,000	$203,055
Average interest cost during the period	26.24 %(1)	4.33 %	4.33 %
Estimated fair value of underlying collateral	$-	$214,446	$214,539
Maximum balance outstanding at month end during the year	$195,000	$195,000	$230,000

(1) Excluding prepayment costs of $28.8 million incurred, the average cost would have been 4.33% during the year ended December 31, 2012.

FHLBNY Advances:

	At or for the Year Ended December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
Balance outstanding at end of period	$842,500	$939,775	$990,525
Average interest cost at end of period	2.68 %	2.88 %	3.26 %
Weighted average balance outstanding during the period	$826,176	$945,614	$991,063
Average interest cost during the period	2.96 %	3.17 %	3.51 %
Maximum balance outstanding at month end during period	$939,775	$990,525	$1,064,675

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Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of eight wholly-owned corporations, two of which are directly owned by the Holding Company and six of which are directly owned by the Bank. The following table presents an overview of the Holding Company's subsidiaries, other than the Bank, as of December 31, 2012:

Subsidiary	Year/ State of Incorporation	Primary Business Activities
Direct Subsidiaries of the Holding Company:		
842 Manhattan Avenue Corp.	1995/ New York	Management and ownership of real estate. Currently inactive.
Dime Community Capital Trust I	2004/ Delaware	Statutory Trust (1)
Direct Subsidiaries of the Bank:		
Boulevard Funding Corp.	1981 / New York	Management and ownership of real estate
Dime Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.)	1997 / New York	Sale of non-FDIC insured investment products
DSBW Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in multifamily residential and commercial real estate loans
DSBW Residential Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in one- to four-family real estate loans
Dime Reinvestment Corporation	2004 / Delaware	Community Development Entity. Currently inactive.
195 Havemeyer Corp.	2008 / New York	Management and ownership of real estate

(1) Dime Community Capital Trust I was established for the exclusive purpose of issuing and selling capital securities and using the proceeds to acquire approximately $70 million of junior subordinated debt securities issued by the Holding Company. The junior subordinated debt securities (referred to in this Annual Report as "trust preferred securities payable"), bear an interest rate of 7.0%, mature on April 14, 2034 and are the sole assets of Dime Community Capital Trust I. In accordance with revised interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," Dime Community Capital Trust I is not consolidated with the Holding Company for financial reporting purposes.

Personnel

As of December 31, 2012, the Company had 359 full-time and 62 part-time employees. The employees are not represented by a collective bargaining unit, and the Holding Company and all of its subsidiaries consider their relationships with their employees to be good.

Federal, State and Local Taxation

The following is a general description of material tax matters and does not purport to be a comprehensive review of the tax rules applicable to the Company.

Federal Taxation

General. For federal income tax purposes, the Company files a consolidated income tax return on a December 31st fiscal year basis using the accrual method of accounting and is subject to federal income taxation in the same manner as other corporations with some exceptions, including, particularly, the Bank's tax reserve for bad debts, discussed below.

Tax Bad Debt Reserves. The Bank, as a "large bank" under IRS classifications (i.e., one with assets having an adjusted basis in excess of $500 million), is: (i) unable to make additions to its tax bad debt reserve, (ii) permitted to deduct bad debts only as they occur, and (iii) required to recapture (i.e., take into income) over a multi-year period a portion of the balance of its tax bad debt reserves as of June 30, 1996. At the time of enactment of the recapture requirement, the Bank had already provided a deferred income tax liability for the post 1987 increase to the tax bad debt reserve for financial reporting purposes. There was thus no adverse impact to the Bank's financial condition or results of operations as a result of the legislation.

Distributions. Capital distributions to the Bank's shareholder are considered distributions from the Bank's "base year tax bad debt reserve" (i.e., its reserve as of December 31, 1987, to the extent thereof), and then from its supplemental reserve for losses on loans. Capital distributions include distributions: (i) in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes; (ii) for redemption of stock; and (iii) for partial or complete liquidation.

An amount based on the total capital distributions paid will be included in the Bank's taxable income in the year of distribution. The amount of additional taxable income created from a capital distribution is the amount that, when reduced by the amount of the tax attributable to this income, is equal to the amount of the distribution. Thus, assuming a 35% federal corporate income tax rate, approximately one and one-half times the amount of such distribution (but not in excess of the amount of the above-mentioned reserves) would be includable in income for federal income tax purposes. The Bank does not currently intend to make distributions that would result in a recapture of any portion of its base year tax bad debt reserves. Dividends paid out of current or accumulated earnings and profits will not be included in the Bank's income. (See "Part I - Item 1 – Business - Regulation - Regulation of New York State Chartered Savings Banks - Limitation on Capital Distributions," for a discussion of limits on capital distributions by the Bank to its shareholder).

Corporate Alternative Minimum Tax. The Bank's federal tax rate for the year ended December 31, 2012 was 35% of taxable income. The Internal Revenue Code of 1986, as amended (the "Code") imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. AMTI is adjusted by determining the tax treatment of certain items in a manner that negates the deferral or deduction of income resulting from the customary tax treatment of those items. Thus, the Bank's AMTI is increased by 75% of the amount by which the Bank's adjusted current earnings exceed its AMTI (determined without regard to this adjustment and prior to reduction for net operating losses).

State and Local Taxation

State of New York. The Company is subject to New York State ("NYS") franchise tax based on one of several alternative methods, whichever results in the greatest tax. These methods are as follows: 1) entire net income, which is federal taxable income with adjustments; 2) .01% of assets; or 3) the alternative minimum tax of 3% (after the exclusion of certain preferential items).

Until 2010, NYS permitted deductions, within specified formula limits, for additions to the Bank's tax bad debt reserves for purposes of computing its entire net income. During 2010, NYS enacted a change in tax law that no longer permits the Bank to avail itself of this deduction.

In general, the Holding Company is not required to pay NYS tax on dividends and interest received from the Bank.

The statutory NYS tax rate for the year ended December 31, 2012 approximated 8.63% of taxable income. This rate included a metropolitan commuter transportation district surcharge of 17% of the tax amount.

NYC. The Holding Company and the Bank are both subject to a NYC banking corporation tax based on one of several methods, whichever results in the greatest tax. These methods are as follows: 1) 9.0% of entire net income allocated to NYC, which is federal taxable income with adjustments; 2) .01% of assets; or 3) the alternative minimum tax of 3% (after the exclusion of certain preferential items).

NYC generally conforms its tax law to NYS tax law in the determination of taxable income (including the laws relating to tax bad debt reserves). NYC tax law, however, did not allow a deduction for the carryover of a net operating loss of a banking company. However, as a result of a change to the NYC tax law, net operating losses incurred in tax years after 2008 may be carried over.

State of Delaware. As a Delaware holding company not earning income in Delaware, the Holding Company is exempt from Delaware corporate income tax, however, it is required to file an annual report and pay an annual franchise tax to the State of Delaware.

Regulation

General

The Bank's conversion from a federally-chartered stock savings bank to a New York State-chartered stock savings bank (the "Charter Conversion") became effective as of the close of business on June 29, 2012. As a result of the Charter Conversion, the New York State Department of Financial Services ("NYSDFS") has become the Bank's primary regulator and the Bank is no longer regulated by the Office of the Comptroller of the Currency ("OCC") as a federal savings association. The Bank remains subject to regulation and examination by the Federal Deposit Insurance Corporation ("FDIC")as the federal safety and soundness regulator for state-chartered banks that are not members of the Federal Reserve System ("State Nonmember Banks"). The FDIC also administers laws and regulations applicable to all FDIC-insured depository institutions. The Holding Company continues to be subject to regulation and examination by the Board of Governors of the Federal Reserve System ("FRB") and, more specifically, the Federal Reserve Bank of Philadelphia. Te Bank elected to be treated as a "savings association" under Section 10(l) of the Home Owners' Loan Act, as amended ("HOLA"), for purposes of the regulation of the Holding Company. The Holding Company will thus continue to be regulated as a savings and loan holding company by the FRB

as long as the Bank continues to satisfy the requirements to remain a "qualified thrift lender" ("QTL") under HOLA. If the Bank fails to remain a QTL, the Holding Company must register with the FRB, and be treated as, a bank holding company. The Holding Company does not expect that regulation as a bank holding company rather than a savings and loan holding company would be a significant change. The Charter Conversion has not had, nor does the Company expect it to have, a material effect on its business or operations.
The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund ("DIF"). The Bank is required to file reports with both the NYSDFS and the FDIC concerning its activities and financial condition, and to obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. Both the NYSDFS and the FDIC conduct periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a state-chartered savings bank may engage and is intended primarily for the protection of the DIF and depositors. As a publicly-held unitary savings bank holding company, the Holding Company is also required to file certain reports with, and otherwise comply with the rules and regulations of, both the SEC, under the federal securities laws, and the Federal Reserve Bank of Philadelphia.

The NYSDFS and the FDIC possess significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the NYSDFS, the FDIC or through legislation, could have a material adverse impact on the operations of the Company.

The following discussion is intended to be a summary of the material statutes and regulations applicable to New York State chartered savings banks and savings and loan holding companies, and does not purport to be a comprehensive description of all such statutes and regulations. For a description of the material statutes and regulations that were applicable to the Bank and the Holding Company prior to the Charter Conversion, see the Company's Form 10-K for the year ended December 31, 2011.

Regulation of New York State Chartered Savings Banks

Business Activities. The Bank derives its lending, investment, and other authority primarily from the New York Banking Law ("NYBL") and the regulations of the NYSDFS, subject to limitations under applicable FDIC laws and regulations. Pursuant to the NYBL, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities (including certain corporate debt securities and obligations of federal, state, and local governments and agencies), and certain other assets. The lending powers of New York State-chartered savings banks and commercial banks are not generally subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers. (See "Part I - Item 1 – Business - Regulation - Regulation of New York State-Chartered Savings Banks – Loans to One Borrower"). The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage activities.

Recent Financial Regulatory Reforms. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"), intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. Through December 31, 2012, the Reform Act did not have a material impact on the Company's core operations. Many provisions of the Reform Act remain to be implemented within specified time frames following the effective date of the Reform Act, creating a risk of uncertainty as to the ultimate effect of such provisions. The Company believes that the following provisions of the Reform Act, when fully implemented, may have an impact on the Company:

The Reform Act created the Consumer Financial Protection Bureau ("CFPB"). With respect to insured depository institutions with less than $10 billion in assets, such as the Bank, the CFPB has rulemaking, but not enforcement, authority for federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, and the Truth in Savings Act, among others, and may participate in examinations conducted by the federal bank regulatory agencies to determine compliance with consumer protection laws and regulations. As a new independent Bureau within the FRB, it is possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

The Reform Act creates minimum standards for the origination of mortgages, and in January, 2013, the CFPB issued final regulations governing consumer mortgage lending (including mortgage servicing, certain mortgage origination standards and "qualified mortgages"), some of which become effective in June,2013 and most of which become effective in January,2014. Management is evaluating these regulations to determine their potential impact on the Bank.

The Reform Act contains provisions that restrict proprietary trading and the sponsorship of, and investment in, hedge and private equity funds by banking entities. Such provisions are being finalized. The Company is unable to determine the impact of these provisions until final implementing rules are promulgated and other regulatory guidance is provided interpreting the provisions.

In addition, as required by the Reform Act, the FRB has adopted a rule restricting on interchange fees applicable to debit card transactions. Effective October 1, 2011, interchange fees on debit card transactions are limited to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. A debit card issuer may recover an additional one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements prescribed by the FRB. The fee restrictions do not apply to debit card issuers that, together with their affiliates, have assets of less than $10 billion.

The Reform Act also significantly repealed the federal preemption of state consumer protection laws that had been provided to federal savings associations and national banks by: (i) requiring that a state consumer financial law prevent or significantly interfere with the exercise of a federal savings association's or national bank's powers before it can be preempted, (ii) mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and (iii) eliminating the applicability of preemption to subsidiaries and affiliates of national banks and federal savings associations. The Reform Act provides that the same standards for federal preemption of laws apply to both national banks and federal savings associations. The significant repeal of federal preemption was one of several factors considered by the Company in determining to conduct the Charter Conversion. As a New York State-chartered savings bank, the Bank will not benefit from federal preemption of state consumer protection laws. However, had the Bank had remained a federal savings association, the benefits of federal preemption would have been significantly reduced. Since the Company performs the great majority of its business within one state, the Bank's loss of federal preemption as a result of the Charter Conversion is not currently expected to significantly impact its operations.

Basel III. On June 7, 2012, the FDIC, FRB and OCC issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements reached by the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and certain provisions of the Reform Act. The proposed rules would apply to depository institutions and ultimate parent savings and loan holding companies, such as the Bank and Holding Company, respectively. The proposed rules indicated that the final rules would become effective January 1, 2013, and that changes in the final rules would be phased in from January 1, 2013 through January 1, 2019. On November 9, 2012, however, the agencies stated that, due to the volume of public comments, the final rules would not take effect on January 1, 2013. The enactment of the Basel III rules could increase the required capital levels of the Bank, and the Holding Company will become subject to consolidated capital rules.

Interagency Guidance on Nontraditional Mortgage Product Risks. On October 4, 2006, the federal bank regulatory authorities (collectively the "Agencies") published the Interagency Guidance on Nontraditional Mortgage Product Risks (the "Nontraditional Mortgage Product Guidance"). The Nontraditional Mortgage Product Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among others, interest only loans. The Nontraditional Mortgage Product Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Nontraditional Mortgage Product Guidance indicates that originating interest only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Nontraditional Mortgage Product Guidance indicates that a lender may accept a borrower's statement as to its income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

Statement on Subprime Lending. On June 29, 2007, the Agencies issued a final Statement on Subprime Mortgage Lending (the "Subprime Mortgage Statement") to address growing concerns regarding the subprime mortgage market, particularly with respect to rapidly rising subprime default rates. In particular, the Subprime Mortgage Statement indicated concern that many subprime borrowers were not prepared for "payment shock" and that subprime lending practices compounded the risk for financial institutions. The Subprime Mortgage Statement described the prudent safety and soundness and consumer protection standards that financial institutions should adopt to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to expiration of the initial fixed interest rate period without penalty. The Subprime Mortgage Statement also reinforced the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the Agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to satisfy the contractual payment obligations on their home loans.

The Company has never originated subprime loans. The Company has evaluated the Nontraditional Mortgage Product Guidance and the Subprime Mortgage Statement and determined its risk management practices, underwriting guidelines and consumer protection standards to be in compliance.

Loans to One Borrower. Under the NYBL, New York State-chartered savings banks are generally subject to limits on loans to one borrower. Generally, pursuant to these limits, a New York State-chartered savings bank may not make loans or extend credit for commercial, corporate or business purposes (including lease financing) to a single borrower, the aggregate amount of which would exceed of 15% of the bank's capital stock, surplus fund and undivided profits. Additional amounts may be advanced, not in excess of 10% of unimpaired capital stock, surplus fund and undivided profits, if such loans or extensions of credit are secured by collateral having an ascertained market value at least equal to the excess of such loans over 15% of the bank's capital stock, surplus fund and undivided profits. At December 31, 2012, the Bank's limit on loans to one borrower was $58.5 million. The Bank's largest aggregate amount of loans to one borrower on that date was $38.7 million and the second largest borrower had an aggregate loan balance of $38.0 million.

QTL Test. In order for the Holding Company to be regulated by the FRB as a savings and loan holding company rather than a bank holding company, the Bank must remain a QTL. To satisfy this requirement, the Bank must maintain at least 65% of its "portfolio assets" in certain "qualified thrift investments" during at least nine of the most recent twelve months. "Portfolio assets" mean, in general, the Bank's total assets less the sum of: (i) specified liquid assets up to 20% of total assets, (ii) certain intangibles, including goodwill, credit card relationships and purchased MSR, and (iii) the value of property used to conduct the Bank's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes; investments related to such purposes, including certain mortgage-backed and related securities; and small business, education, and credit card loans. The Bank may additionally satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Code. At December 31, 2012, the Bank maintained 75.2% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2012, and, therefore, was a QTL. If the Bank fails to remain a QTL, the Holding Company must register with the FRB as a bank holding company.

A savings association that fails the QTL test will generally be prohibited from (i) engaging in any new activity not permissible for a national bank, (ii) paying dividends, unless the payment would be permissible for a national bank, is necessary to meet obligations of a company that controls the savings bank, and is specifically approved by the FDIC and the FRB, and (iii) establishing any new branch office in a location not permissible for a national bank in the association's home state. A savings association that fails to satisfy the QTL test may be subject to FDIC enforcement action. In addition, within one year of the date a savings association ceases to satisfy the QTL test, any company controlling the association must register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended ("BHCA"). A savings association that has failed the QTL test may requalify under the QTL test and be relieved of the limitations; however, it may do so only once. If the savings association does not requalify under the QTL test within three years after failing the QTL test, it will be required to terminate any activity, and dispose of any investment, not permissible for a national bank. These provisions remain in effect under the Reform Act.

Capital Requirements. FDIC regulations require State Nonmember Banks, such as the Bank, to satisfy three minimum capital standards: (i) a minimum Tier 1 risk-based capital ratio of 4%, (ii) a total risk-based capital ratio of 8%, and (iii) a leverage capital ratio of 4%. For depository institutions that have been assigned a composite rating of one (the highest rating of the FDIC under the Uniform Financial Institutions Rating System), the minimum required leverage capital ratio is 3%. For any other depository institution, the minimum required leverage capital ratio is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution. In assessing an institution's capital adequacy, in addition to these numeric factors, the FDIC considers qualitative factors, and possesses the authority to establish increased capital requirements for individual institutions when necessary.

Under the Reform Act federal bank regulatory agencies are required 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. The new requirements eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital for depository institution holding companies of the Holding Company's size. However, since the Holding Company had less than $15 billion of consolidated assets as of December 31, 2009, it is permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 capital. As a result of the foregoing, in July 2015, the Holding Company would become subject to consolidated capital requirements to which it has not been previously subject, and the Holding Company will not be permitted to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. However, Basel III proposes to treat trust preferred securities differently than the Reform Act, and it is possible that when the Basel III regulations are finalized, the Holding Company will not be permitted to include any trust preferred

securities, including those issued before May 19, 2010, as a component of Tier 1 capital. (See "Part I - Item 1 – Business - Regulation - Regulation of the Holding Company – Basel Committee on Banking Supervision Capital Rules").
The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires that the Agencies revise their risk-based capital standards, with appropriate transition rules, to ensure that they take into account interest rate risk ("IRR"), concentration of risk and the risks of non-traditional activities. Current FDIC regulations do not include a specific IRR component of the risk-based capital requirement; however, the FDIC monitors the IRR of individual institutions through a variety of methods which are discussed on the following page. The FDIC, through its general oversight of the safety and soundness of insured depository institutions, retains the right to impose minimum capital requirements on individual institutions to the extent they are not in compliance with certain written FDIC guidelines regarding IRR compliance analysis. The FDIC has not imposed any such requirements on the Bank.

The table below presents the Bank's regulatory capital compared to FDIC regulatory capital requirements:

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
As of December 31, 2012	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	$383,042	9.98 %	$153,493	4.0 %	$191,866	5.00 %
Leverage capital	383,042	9.98	153,493	4.0	191,866	5.00
Tier I risk-based capital (to risk weighted assets)	383,042	12.98	114,191	4.0	171,286	6.00
Total risk-based capital (to risk weighted assets)	405,077	13.72	228,232	8.0	285,477	10.00

The following is a reconciliation of stockholders' equity to regulatory capital for the Bank:

	At December 31, 2012		
	Tangible Capital	Leverage and Tier 1 Risk Based Capital	Total Risk-Based Capital
	(Dollars in Thousands)		
Stockholders' equity	$428,892	$428,892	$ 428,892
Non-allowable assets:			
MSR	(111)	(111)	(111)
Accumulated other comprehensive loss	9,899	9,899	9,899
Goodwill	(55,638)	(55,638)	(55,638)
Tier 1 risk-based capital	383,042	383,042	383,042
General regulatory valuation allowance	-	-	22,035
Total (Tier 2) risk based capital	383,042	383,042	405,077
Minimum capital requirement	153,493	153,493	228,232
Regulatory capital excess	$229,549	$229,549	$ 176,845

Advisory on Interest Rate Risk Management. In January 2010, the Agencies released an Advisory on Interest Rate Risk Management (the "IRR Advisory") to remind institutions of the supervisory expectations regarding sound practices for managing IRR. While some degree of IRR is inherent in the business of banking, the Agencies expect institutions to have sound risk management practices in place to measure, monitor and control IRR exposures, and IRR management should be an integral component of an institution's risk management infrastructure. The Agencies expect all institutions to manage their IRR exposures using processes and systems commensurate with their earnings and capital levels, complexity, business model, risk profile and scope of operations, and the IRR Advisory reiterates the importance of effective corporate governance, policies and procedures, risk measuring and monitoring systems, stress testing, and internal controls related to the IRR exposures of institutions.

The IRR Advisory encourages institutions to use a variety of techniques to measure IRR exposure, which include simple maturity gap analysis, income measurement and valuation measurement for assessing the impact of changes in market rates as well as simulation modeling to measure IRR exposure. Institutions are encouraged to use the full complement of analytical capabilities of their IRR simulation models. The IRR Advisory also reminds institutions that stress testing, which includes both scenario and sensitivity analysis, is an integral component of IRR management. The IRR Advisory indicates that institutions

should regularly assess IRR exposures beyond typical industry conventions, including changes in rates of greater magnitude (e.g., up and down 300 and 400 basis points as compared to the generally used up and down 200 basis points) across different tenors to reflect changing slopes and twists of the yield curve.
The IRR Advisory emphasizes that effective IRR management not only involves the identification and measurement of IRR, but also provides for appropriate actions to control the risk. The adequacy and effectiveness of an institution's IRR management process and the level of its IRR exposure are critical factors in the Agencies' evaluation of an institution's sensitivity to changes in interest rates and capital adequacy.

Limitation on Capital Distributions. The NYBL and the New York banking regulations, as well as FDIC and FRB regulations impose limitations upon capital distributions by state-chartered savings banks, such as cash dividends, payments to purchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital.

Under the NYBL and the New York banking regulations, New York State-chartered stock savings banks may declare and pay dividends out of net profits, unless there is an impairment of capital, however, approval of the New York State Superintendent of Financial Services ("Superintendent") is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

As the subsidiary of a savings and loan holding company, the Bank is required to file a notice with the FRB at least 30 days prior to each capital distribution. The FRB can prohibit a proposed capital distribution if it determines that the bank would be "undercapitalized", as defined in the Federal Deposit Insurance Act, as amended ("FDIA"), following the distribution or that a proposed distribution would constitute an unsafe or unsound practice. Further, under FDIC prompt corrective action regulations, the Bank would be prohibited from making a capital distribution if, after the distribution, the Bank would fail to satisfy its minimum capital requirements, as described above (See "Part I - Item 1 – Business - Regulation - Regulation of New York State Chartered Savings Banks - Prompt Corrective Regulatory Action"). In addition, pursuant to the FDIA, an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" as defined in the FDIA.

Liquidity. Pursuant to FDIC regulations, the Bank is required to maintain sufficient liquidity to ensure its safe and sound operation (See "Part II - Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for further discussion). At December 31, 2012, the Bank satisfied all such liquidity requirements.

Assessments. New York State-chartered savings banks are required by the NYBL to pay annual assessments to the NYSDFS in connection with its regulation and supervision (including examination) of the Bank. This annual assessment is based primarily on the asset size of the Bank, among other factors determined by the NYSDFS. The Bank is not required to pay additional assessments to the FDIC for its regulation and supervision (including examination) of the Bank as a state nonmember bank, however, the Bank is required to pay assessments to the FDIC as an insured depository institution. (See "Part I - Item 1 – Business - Regulation - Regulation of New York State Chartered Savings Banks – Insurance of Deposit Accounts").

Branching. Subject to certain limitations, NYBL and FDIC regulations permit New York State chartered savings banks to establish branches in any state of the United States. Federal law allows the FDIC, and the NYBL allows the Superintendent, to approve an application by a state banking institution to acquire interstate branches by merger, unless, in the case of the FDIC, the state of the target institution has opted out of interstate branching. The NYBL authorizes New York State-chartered savings banks to open and occupy de novo branches outside the State of New York. Pursuant to the Reform Act, the FDIC is authorized to approve the establishment by a state bank of a de novo interstate branch if the intended host state allows de novo branching by banks chartered by that state.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, an insured depository institution possesses a continuing and affirmative obligation, consistent with its safe and sound operation, to help satisfy the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services it believes are most appropriate to its particular community. The CRA requires the FDIC, in connection with its examination of a State Nonmember Bank, to assess the bank's record of satisfying the credit needs of its community and consider such record in its evaluation of certain applications by the bank. The assessment is composed of three tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or

moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, automated teller machines ("ATMs") and other offices. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received an "Outstanding" CRA rating in its most recent examination. Regulations additionally require that the Bank publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements.
The Bank is also subject to provisions of the NYBL that impose continuing and affirmative obligations upon a New York State-chartered savings bank to serve the credit needs of its local community (the "NYCRA"). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYSDFS to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. The Bank became subject to the NYCRA at the Charter Conversion, and has not yet received an NYCRA rating.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by FDIC regulations, Sections 23A and 23B of the Federal Reserve Act ("FRA"), and Regulation W issued by the FRB. FDIC regulations regarding transactions with affiliates generally conform to Regulation W. These provisions, among other matters, prohibit, limit or place restrictions upon a depository institution extending credit to, or entering into certain transactions with, its affiliates, which, for the Bank, would include the Holding Company and any subsidiary of the Bank or the Holding Company. The FRB and the FDIC require each depository institution that is subject to Sections 23A and 23B to implement policies and procedures to ensure compliance with Regulation W and the FDIC regulations regarding transactions with affiliates.

As a "savings association" under Section 10(l) of the HOLA, the Bank is additionally subject to the rules governing transactions with affiliates for savings associations under HOLA Section 11. These rules include provisions prohibiting a savings association from: (i) advancing a loan to an affiliate engaged in non-bank holding company activities; and (ii) purchasing or investing in securities issued by an affiliate that is not a subsidiary. The rules also include certain exemptions from these prohibitions.

Section 402 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") prohibits the extension of personal loans to directors and executive officers of issuers (as defined in Sarbanes-Oxley). The prohibition, however, does not apply to any loan by an insured depository institution, such as the Bank, if the loan is subject to the insider lending restrictions of Section 22(h) of the FRA, as implemented by Regulation O (12 CFR 215).

The Bank's authority to extend credit to its directors, executive officers, and stockholders owning 10% or more of the Holding Company's outstanding common stock, as well as to entities controlled by such persons, is additionally governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB enacted thereunder. Among other matters, these provisions require that extensions of credit to insiders: (i) be made on terms substantially the same as, and follow credit underwriting procedures not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain amount limitations individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. Regulation O additionally requires that extensions of credit in excess of certain limits be approved in advance by the bank's board of directors. .

New York banking regulations impose certain limits and requirements on various transactions with "insiders," as defined in the New York banking regulations to include certain executive officers, directors and principal stockholders.

The Reform Act imposes further restrictions on transactions with affiliates and extensions of credit to executive officers, directors and principal stockholders, by, among other practices, expanding covered transactions to include securities lending, repurchase agreements and derivatives activities with affiliates. These changes were effective July 21, 2012.

The Holding Company and Bank both presently prohibit loans to Directors and executive management

Enforcement. Under the NYBL, the Superintendent possesses enforcement power over New York State-chartered savings banks. The NYBL gives the Superintendent authority to order a New York State-chartered savings bank to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to maintain prescribed books and accounts. Upon a finding by the Superintendent that a director, trustee or officer of a savings bank has violated any law, or has continued unauthorized or unsafe practices in conducting its business after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard.

The Superintendent also has authority to appoint a conservator or receiver, such as the FDIC, for a savings bank under certain circumstances.
Under FDICIA, the FDIC possesses enforcement authority for FDIC insured depository institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including any controlling stockholder or any shareholder, attorney, appraiser or accountant who knowingly or recklessly participates in any violation of applicable law or regulation, breach of fiduciary duty or certain other wrongful actions that cause, or are likely to cause, more than minimal loss to or other significant adverse effect on an insured depository institution. Civil penalties cover a wide series of violations and actions and range from $5,000 for each day during which violations of law, regulations, orders, and certain written agreements and conditions continue, up to $1 million per day if the "institution-affiliated party" obtained a substantial pecuniary gain as a result of such violation or knowingly or recklessly caused a substantial loss to the institution. Criminal penalties for certain financial institution crimes include fines of up to $1 million and imprisonment for up to 30 years. In addition, regulators possess substantial discretion to take enforcement action against an institution that fails to comply with regulatory structure, particularly with respect to capital requirements. Possible enforcement actions range from the imposition of a capital plan and capital directive to receivership, conservatorship, or the termination of deposit insurance. Under FDICIA, the FDIC has the authority to recommend that enforcement action be taken with respect to a particular insured depository institution.

Standards for Safety and Soundness. Pursuant to FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the FDIC, together with the other federal bank regulatory agencies, has adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other features, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the FDIC has adopted regulations pursuant to FDICIA that authorize, but do not require, the FDIC to order an institution that has been given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so ordered, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized bank is subject under the "prompt corrective action" provisions of FDICIA (See "Part I - Item 1 – Business - Regulation - Regulation of New York State Chartered Savings Banks – Prompt Corrective Regulatory Action"). If an institution fails to comply with such an order, the FDIC may seek enforcement in judicial proceedings and the imposition of civil money penalties.

Real Estate Lending Standards. On October 30, 2009, the Agencies adopted a policy statement supporting prudent commercial real estate loan workouts (the "Policy Statement"). The Policy Statement provides guidance for examiners, and for financial institutions that are working with commercial real estate borrowers experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. Financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers' financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing an institution's risk-management practices for loan workout activities.

Prompt Corrective Regulatory Action. Under the FDIC prompt corrective action regulations, the FDIC is required to take certain, and authorized to take other, supervisory actions against undercapitalized savings insured depository institutions. For this purpose, a savings depository institution is placed in one of five categories based on its capital: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Generally, a capital restoration plan must be filed with the FDIC within 45 days of the date a bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, the institution becomes subject to various mandatory supervisory actions, including restrictions on growth of assets and other forms of expansion. Generally, under the FDIC regulations, a federally chartered savings depository institution is treated as well capitalized if its total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 6% or greater, its leverage ratio is 5% or greater, and it is not subject to any order or directive by the FDIC to meet a specific capital level. As of December 31, 2012, the Bank satisfied all criteria necessary to be categorized "well capitalized" under the prompt corrective action regulatory framework.

When appropriate, the FDIC can require corrective action by a savings and loan holding company under the "prompt corrective action" provisions of FDICIA.

Insurance of Deposit Accounts. As a result of the Reform Act, the standard maximum deposit insurance amount has been permanently increased to $250,000 per depositor. The FDIC adopted final rules conforming its regulations to the provisions of the Reform Act relating to the new permanent standard maximum deposit insurance amount. In accordance with the Reform Act, the FDIC adopted rules which provided for temporary unlimited insurance coverage of certain non-interest bearing transaction accounts. Such coverage began on December 31, 2010 and terminated on December 31, 2012. Beginning January 1, 2013, such accounts were insured under the general deposit insurance coverage rules of the FDIC.

Insured depository institutions are required to pay quarterly deposit insurance assessments to the DIF. The amount of the assessment is determined based upon a risk-based assessment system. Under this system, the FDIC assigns an institution to one of four risk categories entitled Risk Category I, II, III and IV, with Risk Category I considered most favorable and Risk Category IV considered least favorable. Risk Category I contains all well capitalized institutions with capital adequacy, asset quality, management, earnings, and liquidity component ratings ("CAMELS Component Ratings") of either 1 or 2. Risk Category II contains all institutions that are adequately capitalized and possess CAMELS Component Ratings of either 1, 2 or 3. Risk Category III contains undercapitalized institutions that have CAMELS Composite Ratings of 1, 2 or 3 andadequately capitalized institutions that have CAMELS Composite Ratings of 4 or 5. Risk Category IV contains all institutions that are undercapitalized and have CAMELS Composite Ratings of 4 or 5. The Bank currently falls within Risk Category I. Base assessment rates for institutions within Risk Category I range from 12 to 16 basis points, depending upon a combination of the institution's CAMELS Component Ratings and financial ratios. The base assessment rates are fixed at 22 basis points, 32 basis points and 45 basis points for institutions within Risk Categories II, III and IV, respectively. Total base assessment rates, after applying all possible adjustments, as described below, currently range from 7 to 77.5 basis points of deposits.

As a result of the recent failures of a number of banks and thrifts, there has been a significant increase in the loss provisions of the DIF. This resulted in a decline in the DIF reserve ratio during 2008 below the then minimum designated reserve ratio of 1.15%. As a result, the FDIC was required to establish a restoration plan in October, 2008 to restore the reserve ratio to 1.15% within five years, which was subsequently extended to 8 years. In order to restore the reserve ratio to 1.15%, on February 27, 2009, the FDIC adopted a final rule which established the initial base assessment rates beginning April 1, 2009 and provided for the following adjustments to an institution's assessment rate: (i) a decrease for long-term unsecured debt, including most senior and subordinated debt (specifically, an institution's base assessment rate will be reduced from the initial rate using the institution's ratio of long-term unsecured debt to domestic deposits, although any such decrease will be limited to 5 basis points); (ii) an increase for secured liabilities above a threshold amount (specifically, if an institution's ratio of secured liabilities to domestic deposits is greater than 25 percent, the institution's assessment rate will increase, but the resulting base assessment rate will be no more than 50 percent greater than it was before the adjustment); and (iii) for non-Risk Category I institutions, an increase for brokered deposits above a threshold amount (specifically, if an institution has a ratio of brokered deposits to domestic deposits that is greater than 10 percent, the institution's assessment rate will be increased, although never by more than 10 basis points).

The FDIC is authorized to change the assessment rates as necessary, subject to the previously discussed limitations, to maintain the designated reserve ratio.

On November 17, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay their estimated 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. Since actual assessments during the years ended December 31, 2010, 2011 and 2012 fell below the amount estimated at the time of prepayment, a prepaid balance of $5.4 million remained at December 31, 2012 which will be applied towards future assessments.

In accordance with the Reform Act, 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 were used to calculate the Bank's assessments commencing with the quarterly period ended June 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 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 has resulted, and is expected to continue to result, in reduced deposit insurance expenses for the Company.

The Reform Act also increased the minimum designated reserve ratio for the DIF from 1.15% to 1.35% of insured deposits, which must be achieved by September 30, 2020, and provides that in establishing the assessments necessary to satisfy the new requirement, the FDIC shall offset the effect of this provision on insured depository institutions with total consolidated assets of less than $10 billion, so that the cost of increasing the reserve ratio will be borne in greater proportion by institutions with more than $10 billion in assets. On October 19, 2010, the Board of Directors of the FDIC adopted a new Restoration Plan (the "Restoration Plan") to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Reform Act. Among other matters, the Restoration Plan provided that the FDIC forego the uniform three basis point increase in initial assessment rates that was previously scheduled to take effect on January 1, 2011. The FDIC intends to pursue further rulemaking regarding the method that will be used to achieve the reserve ratio of 1.35% in a manner that places a greater proportion of the cost of the increase on institutions with more than $10 billion in assets.

The Deposit Insurance Funds Act of 1996 amended the FDIA to recapitalize the Savings Association Insurance Fund ("SAIF") [which was merged with the Bank Insurance Fund ("BIF") into the newly-formed DIF on March 31, 2006] and expand the assessment base for the payment of Financing Corporation ("FICO") bonds. FICO bonds were sold by the federal government in order to finance the recapitalization of the SAIF and BIF that was necessitated following payments from the funds to compensate depositors of federally-insured depository institutions that experienced bankruptcy and dissolution during the 1980's and 1990's. The Bank's total expense in 2012 for the FICO bond assessment was $255,000. These payments will continue until the FICO bonds mature in 2017 through 2019.

In November 2008, the FDIC adopted the Temporary Liquidity Guarantee Program ("TLGP"), pursuant to its authority to prevent "systemic risk" in the U.S. banking system, which included a debt guarantee program and a transaction account guarantee program. The Company elected not to participate in either program under the TLGP, and both of such programs have now expired. In place of the transaction account guarantee program, which expired on December 31, 2010, and in accordance with certain provisions of the Reform Act, the FDIC adopted further rules in November and December 2010 which provide for temporary unlimited insurance coverage of certain non-interest bearing transaction accounts. Such coverage began on December 31, 2010 and terminated on December 31, 2012. Beginning January 1, 2013, such accounts became insured under the general deposit insurance coverage rules of the FDIC.

Privacy and Security Protection. The FDIC has adopted regulations implementing the privacy protection provisions of The Gramm- Leach-Bliley Act of 1999 ("Gramm-Leach"). The regulations require financial institutions to adopt procedures to protect customers and their "non-public personal information." The regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers the ability to "opt-out" of: (1) the sharing of their personal information with unaffiliated third parties if the sharing of such information does not satisfy any of the permitted exceptions; and (2) the receipt of marketing solicitations from Bank affiliates.

The Bank is additionally subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the federal banking agencies' expectations for the creation, implementation and maintenance of an information security program, including administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, and protect against anticipated threats or hazards to the security or integrity of such records and unauthorized access to or use of such records or information that could result in substantial customer harm or inconvenience.

Gramm-Leach additionally permits each state to enact legislation that is more protective of consumers' personal information. Currently, there are a number of privacy bills pending in the New York legislature. Management of the Company cannot predict the impact, if any, of these bills if enacted.

Consumer Protection and Compliance Provisions. The Bank is subject to various consumer protection laws and regulations. The Bank may be subject to potential liability for material violations of these laws and regulations, in the form of litigation by governmental and consumer groups, the FDIC and other federal regulatory agencies including the Department of Justice. Moreover, the CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all depository institutions, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices.

Internet Banking. Technological developments are dramatically altering the methods by which most companies, including financial institutions, conduct their business. The growth of the Internet is prompting banks to reconsider business strategies and adopt alternative distribution and marketing systems. The federal banking regulatory agencies have conducted seminars and published materials targeted at various aspects of Internet banking and have indicated their intention to re-evaluate their regulations to ensure they encourage bank efficiency and competitiveness consistent with safe and sound banking practices. The Company cannot assure that New York State or federal bank regulatory agencies will not adopt new regulations that will materially affect or restrict the Bank's Internet operations.

Insurance Activities. As a New Yor