

DIME COMMUNITY BANCSHARES INC  
Form 10-K  
March 14, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

For the Year Ended December 31, 2011

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

11211  
(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 NO

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

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  NO

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  NO

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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 \_\_\_\_\_ ACCELERATED FILER  NON-ACCELERATED FILER  
\_\_\_\_ SMALLER REPORTING COMPANY \_\_\_\_\_

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2011 was approximately \$408 million based upon the \$14.54 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2011.

As of March 12, 2012, there were 35,170,292 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 24, 2012 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 the Company (as defined subsequently herein) 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; or

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.

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

Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") is a Delaware corporation and parent company of the Bank, a federally-chartered stock savings bank. The Bank maintains its headquarters in the Williamsburg section of 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. On February 24, 2012, the Bank filed an application with the New York State Department of Financial Services (the "NYSDFS") to convert from a federally chartered stock savings bank to a New York State chartered savings bank.

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 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").

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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, provided that the Bank remains a qualified thrift lender ("QTL"). Pursuant to regulations of its primary regulator, the Office of the Comptroller of the Currency ("OCC") (the Office of Thrift Supervision was the Bank's primary regulator prior to July 22, 2011), the Bank qualifies as a QTL if its ratio of qualified thrift investments to portfolio assets ("QTL Ratio") was 65% or more, on a monthly average basis, in nine of the previous twelve months. At December 31, 2011, the Bank's QTL Ratio was 71.2%, and the Bank maintained more than 65% of its portfolio assets in qualified thrift investments throughout the year ended December 31, 2011.

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](http://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 80% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2011.

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 95% of the Bank's loan portfolio at December 31, 2011.

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 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, the 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, 2009, 2010, and 2011, and remain so currently. 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 2011 and 2010, often result in lower short-

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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 corporations

**Loan Portfolio Composition.** At December 31, 2011, the Bank's loan portfolio totaled \$3.46 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, \$2.60 billion, or 75.2%, were classified as multifamily residential loans; \$751.6 million, or 21.7%, were classified as commercial real estate loans; \$100.7 million, or 2.9%, were classified as one- to four-family residential, including condominium or cooperative apartments; and \$5.78 million, or 0.2%, 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, 2011, \$2.72 billion, or 75.9%, were adjustable-rate loans ("ARMs") and \$832.7 million, or 24.1%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 70% were ARMs at December 31, 2011, 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, 2011, 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, 2011, \$2.66 billion, or 77.8% 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 loans (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 federal laws and regulations (See "Item 1. Business - Regulation – Regulation of Federal Savings Associations").

At December 31, 2011, the Bank had \$50.0 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2012. At December 31, 2010, the Bank had \$72.9 million of loan commitments that were accepted by the borrowers. All of these closed during the year ended December 31, 2011.

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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,									
	2011	Percent of Total	2010	Percent of Total	2009	Percent of Total	2008	Percent of Total	2007	
Dollars in Thousands										
Real Estate loans:										
Multifamily residential	\$2,599,821	75.13 %	\$2,499,980	72.08 %	\$2,376,756	70.08 %	\$2,241,800	68.18 %	\$1,948,765	
Commercial real estate	751,586	21.72	833,168	24.02	834,724	24.61	848,208	25.80	728,129	
One- to four-family	91,981	2.66	107,800	3.11	121,091	3.57	130,663	3.97	139,541	
Cooperative apartment units	8,731	0.25	9,468	0.27	10,800	0.32	11,632	0.35	6,172	
Federal Housing Association ("FHA") / Veteran's Association ("VA") insured	29	-	285	0.01	522	0.02	742	0.02	1,029	
Construction and land acquisition	5,827	0.17	15,238	0.44	44,544	1.31	52,982	1.61	49,387	
Total real estate loans	3,457,975	99.93	3,465,939	99.93	3,388,437	99.91	3,286,027	99.93	2,873,023	
Consumer loans:										
Depositor loans	483	0.01	530	0.02	830	0.02	1,059	0.03	1,122	
Consumer installment and other	1,966	0.06	2,010	0.05	2,391	0.07	1,132	0.04	1,047	
Total consumer loans	2,449	0.07	2,540	0.07	3,221	0.09	2,191	0.07	2,169	
Gross loans	3,460,424	100.00 %	3,468,479	100.00 %	3,391,658	100.00 %	3,288,218	100.00 %	2,875,192	
Net unearned costs	3,463		5,013		4,017		3,287		1,833	
Allowance for loan losses	(20,254 )		(19,166 )		(21,505 )		(17,454 )		(15,387 )	
Loans, net	\$3,443,633		\$3,454,326		\$3,374,170		\$3,274,051		\$2,861,638	

Loans  
serviced for  
others:

One- to four-family and cooperative apartment	\$10,841	\$12,559	\$15,657	\$19,181	\$21,515
Multifamily residential	475,673	583,751	654,452	640,200	541,868
Total loans serviced for others	\$486,514	\$596,310	\$670,109	\$659,381	\$563,383

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**Loan Originations, Purchases, Sales and Servicing.** For the year ended December 31, 2011, total loan originations were \$680.3 million. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. ARMs were 89% 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 may be 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, 2011, the Bank had recorded mortgage servicing rights ("MSR") of \$1.6 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 \$18.4 million and \$100.0 million to third party financial institutions during the years ended December 31, 2010, and 2009, 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 \$5.6 million, \$6.9 million, and \$16.1 million, respectively, during the years ended December 31, 2011, 2010, and 2009, 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 portfolio the loan or sell it to PHH. PHH retains full servicing of all loans, regardless of the Bank's ownership election.

At December 31, 2011, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained totaled \$486.5 million. \$178.4 million were sold without recourse. The remaining \$308.1 million were whole loans sold to FNMA subject to a recourse exposure totaling \$16.4 million at December 31, 2011.

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,				
	2011	2010	2009	2008	2007
Dollars in Thousands					
Gross loans:					
At beginning of period	\$3,468,479	\$3,391,658	\$3,288,218	\$2,875,192	\$2,702,625
Real estate loans originated:					
Multifamily residential	563,696	467,160	369,424	786,918	391,882
Commercial real estate	98,607	58,687	49,827	226,605	124,262
One- to four-family (1)	7,094	7,431	25,399	36,962	27,425
Cooperative apartment units	-	-	-	7,178	-

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Equity lines of credit on multifamily residential or commercial properties	7,685	6,540	8,808	10,843	5,777
Construction and land acquisition	1,712	1,901	10,944	18,215	25,180
Total mortgage loans originated	678,794	541,719	464,402	1,086,721	574,526
Other loans originated	1,552	1,756	1,639	2,640	1,772
Total loans originated	680,346	543,475	466,041	1,089,361	576,298
Loans purchased (2)	54,364	45,096	90,648	-	-
Less:					
Principal repayments	698,928	427,307	327,433	523,788	326,103
Loans sold (3)	38,320	75,221	119,350	150,983	77,628
Write down of principal balance for expected loss	5,517	8,902	5,515	-	-
Loans transferred to other real estate owned	-	320	951	1,564	-
Gross loans at end of period	\$3,460,424	\$3,468,479	\$3,391,658	\$3,288,218	\$2,875,192

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

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- (2) Includes \$26.4 million, \$22.3 million and \$31.5 million of loans re-acquired from FNMA during the years ended December 31, 2011, 2010 and 2009, respectively, that were previously sold to FNMA with recourse.
- (3) Includes \$29.8 million and \$47.0 million of note sales on problem loans from portfolio during the years ended December 31, 2011 and 2010, respectively. Problem loan note sales were immaterial during the years ended December 31, 2009, 2008, and 2007.

**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, 2011, by the earlier of the maturity or repricing period. 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)			
<b>Amount due to Mature or Reprice During the Year Ending:</b>			
December 31, 2012	\$316,612	\$2,449	\$319,061
December 31, 2013	689,645	-	689,645
December 31, 2014	445,591	-	445,591
December 31, 2015	498,620	-	498,620
December 31, 2016	739,107	-	739,107
Sub-total (within 5 years)	2,689,575	2,449	2,692,024
December 31, 2017 and beyond	768,400	-	768,400
<b>TOTAL</b>	<b>\$3,457,975</b>	<b>\$2,449</b>	<b>\$3,460,424</b>

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, 2011 that is due to mature or reprice after December 31, 2012, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2012		
	Fixed	Adjustable	Total
(Dollars in Thousands)			
Real estate loans	\$839,602	\$2,301,761	\$3,141,363
Consumer loans	-	-	-
<b>Total loans</b>	<b>\$839,602</b>	<b>\$2,301,761</b>	<b>\$3,141,363</b>

**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 (i.e., 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, 2011, \$2.60 billion, or 75.1% of the Bank's gross loan portfolio, were multifamily residential loans. Of the multifamily residential loans, \$2.34 billion, or 90.0%, were secured by apartment buildings and \$259.2 million, or 10.0%, were secured by buildings organized under a cooperative form of ownership. The Bank also had \$751.6 million of commercial real estate loans in its portfolio at December 31, 2011, representing 21.7% of its total loan portfolio. Of the \$751.6 million, approximately \$414.2 million were secured by collateral containing strictly commercial tenants, while the remaining \$337.4 million had a portion of the underlying collateral composed of residential units.

The Bank originated multifamily residential and commercial real estate loans totaling \$662.3 million during the year ended December 31, 2011 and \$525.8 million during the year ended December 31, 2010. At December 31, 2011, the Bank had commitments accepted by borrowers to originate \$50.0 million of multifamily residential and commercial

real estate loans, compared to \$69.6 million outstanding at December 31, 2010.

At December 31, 2011, 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

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was classified as commercial real estate. At December 31, 2011, mixed-use properties classified as multifamily residential or commercial real estate loans totaled \$1.25 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, 2011, had an average loan size of approximately \$1.6 million. Multifamily residential loans in this range are generally secured by buildings that contain between 5 and 100 apartments. As of December 31, 2011, the Bank had a total of \$2.41 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units, representing approximately 70% of its real estate loan portfolio.

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 New York City 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% for multifamily residential loans and 70% for commercial loans 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 average loan-to-value and debt service ratios approximated 51% and 224%, respectively, on all multifamily real estate loans originated during the year ended December 31, 2011, while the average loan-to-value and debt service ratios approximated 43% and 273%, respectively, on commercial loans originated during the year ended December 31, 2011. The Bank additionally requires all multifamily and commercial real estate borrowers to represent that they are unaware of any environmental concerns 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.

At December 31, 2011, the Bank had 99 multifamily residential or commercial real estate loans in portfolio with principal balances greater than \$5.0 million, totaling \$818.0 million. Within this total were twenty loans totaling \$286.1 million with outstanding balances greater than \$10.0 million. These 99 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.

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 FHLB NY 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 the 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

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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, 2011, approximately \$337.4 million, or 45.2%, of the Bank's commercial real estate loans were secured in this manner. The average size of commercial real estate loans was \$1.6 million at December 31, 2011.

The Bank's three largest multifamily residential loans at December 31, 2011 were: (i) a \$27.7 million loan originated in September 2008 secured by seventeen mixed-use buildings located in Manhattan, New York, containing, in aggregate, 401 residential units and 11 commercial units; (ii) a \$22.1 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; and (iii) a \$17.8 million loan originated in December 2010 secured by a five story mixed-use residential building located in Manhattan, New York containing 82 apartment units and 6 retail stores. Each of these loans made all contractual payments during the year ended December 31, 2011.

The Bank's three largest commercial real estate loans at December 31, 2011 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 \$13.5 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 \$13.4 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 \$104.6 million at December 31, 2011, of which \$65.6 million were secured by office buildings and \$39.0 million were secured by retail stores. Of these 10 loans, \$36.8 million were located in Manhattan, New York, \$17.4 million in New Jersey, \$13.3 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 \$1.4 million at December 31, 2011.

Regulatory restrictions imposed on the Bank's lending activities limit the amount of credit that may be extended to any one borrower to 15% of unimpaired capital and unimpaired surplus. A single borrower may exceed the initial 15% limit, up to a final limit of 25%, if he or she secures the full amount of the outstanding loan balance in excess of the initial 15% limit with collateral in the form of cash or readily marketable securities that have a reliable and continuously available price quotation. (See "Item 1. Business - Regulation - Regulation of Federal Savings Associations - Loans to One Borrower"). The Bank's largest aggregate amount of loans to one borrower was \$39.7 million at December 31, 2011, within the regulatory limit of \$55.2 million. 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. The Bank's second largest individual borrower had outstanding loans totaling \$38.2 million at December 31, 2011. These loans were secured by three mixed-use buildings located in Queens, New York, containing, in aggregate, 204 residential and 6 commercial units. All loans to these borrowers were fully performing in accordance with their contractual terms at December 31, 2011.

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, 2011, the Bank held \$60.3 million of loans in portfolio classified as small investment property, or approximately 1.7% of the gross loan portfolio, with a weighted average borrower FICO score of 684 and a weighted average loan-to-value ratio of 63%.

**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 \$7.1 million of one- to four-family mortgages during the year ended December 31, 2011, including home equity and home improvement loans. At December 31, 2011, \$100.7 million, or 2.9%, 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 \$8.7 million, or 0.3% of total loans, as of December 31, 2011. The Bank did not originate any cooperative unit loans during the year ended December 31, 2011.

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 \$5.6 million during the year ended December 31, 2011. As of December 31, 2011, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled \$10.8 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 majority of which are included in either one- to four-family or multifamily 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 \$26.3 million at December 31, 2011.

**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 these equity loans (which are included in the \$26.3 million of total outstanding home equity and home improvement loans discussed in the previous paragraph) was \$12.8 million at December 31, 2011, on outstanding total lines of \$45.4 million.

**Construction Lending.** The Bank participates in various real estate construction loans. All of these construction projects are located in the NYC metropolitan area, and in most instances, involve multifamily residential properties that are underwritten to support the permanent debt with rental units. Although it has assumed up to 90% participation on some construction loan commitments, the Bank generally does not act as primary underwriting agent for these loans. The Bank does, however, carefully review the underwriting of construction loans and receives

confirmation of the construction progress and engineering reports from the loan servicer prior to advancing funds. 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. At December 31, 2011, the Bank had no unfunded construction loan commitments. The last new construction loan commitment issued by the Bank occurred in September 2008. Outstanding construction loans totaled \$5.8 million at December 31, 2011, of which one \$2.6 million loan was designated as held for sale and sold on January 3, 2012 for an amount approximating its recorded balance.

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 was one land development loan with a balance of \$1.0 million outstanding at December 31, 2010, which was satisfied

during the year ended December 31, 2011. There were no outstanding land development or acquisition loans at December 31, 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, and Chief Lending 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, 2011 and December 31, 2010, the Company had neither whole loans nor loans underlying MBS that would be considered subprime loans 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 and the loan is not both deemed to be 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.

Management may elect to continue the accrual of interest when a loan that otherwise meets the criteria for non-accrual status is in the process of collection and the estimated fair value and cash flows of the underlying collateral property are sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Management may also elect to continue the accrual of interest on a loan that would otherwise meet the criteria for non-accrual status when its delinquency relates solely to principal amounts due, it is well secured and refinancing activities have commenced on the loan. Such elections have not been commonplace.

The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status, 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.

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### Non-accrual Loans

Within the Bank's permanent portfolio, non-accrual loans totaled \$26.0 million and \$20.2 million at December 31, 2011 and December 31, 2010, respectively, representing 0.75% and 0.51% of total loans at December 31, 2011 and December 31, 2010. In addition at December 31, 2011, there were two non-accrual loans totaling \$3.0 million that were designated as held for sale. During the year ended December 31, 2011, thirty loans totaling \$25.0 million were added to non-accrual status. Partially offsetting this increase were twenty-five loans totaling \$12.3 million that were satisfied during the period and removed from non-accrual status, and \$3.9 million of principal charge-offs that were recognized on eighteen non-accrual loans, thus reducing their recorded balance from December 31, 2010 to December 31, 2011. The difficulties experienced in both the national real estate and financial services marketplaces adversely impact multifamily and commercial real estate, albeit to a lesser extent locally, during the year ended December 31, 2011.

### 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 non-accrual and troubled-debt restructured 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 (the "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 troubled debt restructured loan ("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 collateral is considered when measuring impairment. While measured impairment on TDRs is typically charged off immediately, allocated reserves within the allowance for loan losses can be recognized in limited instances.

The recorded investment in loans deemed impaired was approximately \$73.4 million, consisting of fifty-two loans, at December 31, 2011, compared to \$44.1 million, consisting of fifty-seven loans, at December 31, 2010. During the year ended December 31, 2011, forty-one loans totaling \$70.5 million were added to impaired status, while forty-six loans totaling \$33.0 million that were impaired at December 31, 2010 were either sold or removed from impaired status, and \$5.1 million of principal was charged-off on impaired loans during the year ended December 31, 2011.

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

	(Dollars in Thousands)
Non-accrual loans	\$ 25,952
Impaired loans held for sale	3,021
Non-accrual one- to four-family and consumer loans deemed homogeneous loans	(75 )
Troubled debt restructured loans retained on accrual status	40,688
Other loans deemed impaired but retained on accrual status	3,820 (a)
Impaired loans	\$ 73,406

(a) Amount comprised of loans 90 days or more past due on their contractual maturity and retained on accrual status.

TDRs

Under ASC 310-40-15, the Bank is required to account for certain loan modifications or restructurings as TDRs. A loan modification is determined to meet the criteria for classification as a TDR in the event that any of the following criteria are 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

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 the TDR is agreed to between the Bank and the borrower, 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 restructuring period, unless three consecutive payments are not made under the restructuring agreement, and the loan thus becomes non-performing in accordance with either the Bank's policy, as disclosed on page F-12, and/or the criteria related to accrual of interest established by federal agency regulations.

The Bank never accepts receivables or equity interests in satisfaction of TDRs.

At both December 31, 2011 and 2010, all 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 are 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 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 table summarizes outstanding TDRs as of the dates indicated:

	As of December 31, 2011		As of December 31, 2010	
	No. of Loans	Balance	No. of Loans	Balance
	(Dollars in Thousands)			

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Outstanding principal balance at period end	22	\$48,753	19	\$22,558
TDRs that re-defaulted subsequent to being modified (at period end):	4	7,853	7	10,136
TDRs on accrual status at period end	17	40,688	12	12,422
TDRs on non-accrual status at period end	5	8,065	7	10,136

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The Company has not restructured troubled consumer loans, as its consumer loan portfolio has not had any problem issues warranting restructuring. Therefore, all TDRs have been made on real estate loans. The following table summarizes activity related to TDRs as of and for the periods indicated:

For the Year Ended December 31, 2011			
	Number of Loans	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
(Dollars in Thousands)			
Loans modifications identified during the period that met the definition of a TDR:			
Multifamily residential and residential mixed use	2	\$573	\$573
Commercial real estate	6	\$30,095	\$30,095
Concessions granted:			
Temporary deferral of principal payments	5	20,523	20,523
Temporary deferral of interest payments	1	212	212
Reduction in interest rate for the remainder of the term of the loan	2	9,933	9,933
Extension of maturity	-	-	-
<b>TOTAL</b>	<b>8</b>	<b>\$30,668</b>	<b>\$30,668</b>

As of December 31, 2011, the Bank had no loan commitments to borrowers with outstanding TDRs.

A TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The following table presents, as of December 31, 2011, TDRs by collateral type for which there was a payment default within twelve months following their respective modification date:

TDRs that Subsequently Defaulted Within 12 Months of Modification:	At or for the Year Ended December 31, 2011	
	No. of Loans	Recorded Investment
(Dollars in Thousands)		
Mixed use commercial real estate	1	\$508
Commercial real estate	2	6,310
Total real estate (including loans held for sale)	3	\$6,818

The TDRs that subsequently defaulted were evaluated post-default for impairment based upon the likely realizable net proceeds from either a note sale or liquidation of the collateral property. As a result of these evaluations, aggregate principal charge-offs of \$1.1 million were recognized against the allowance for loan losses on loans described in the above table during the year ended December 31, 2011. In addition, at December 31, 2011, allocated reserves totaling \$132,000 were recognized on TDRs that defaulted for future losses deemed probable to occur on these loans, that were not specifically measured from the likely realizable net proceeds from either a note sale or the liquidation of collateral property. No such allocated reserves were maintained as of December 31, 2010.

OREO

Property acquired by the Bank, or a subsidiary, as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses the likely realizable value of the property quarterly thereafter. Only either contractual or formal marketed values that fall below the appraised value are used when determining the likely realizable value of OREO at each reporting period. The Bank typically seeks to dispose of OREO properties in a timely manner. As a result, OREO properties have generally not warranted a subsequent independent appraisal.

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

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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,									
	2011	2010	2009	2008	2007					
Non-accrual Loans and Non-Performing Assets	(Dollars in Thousands)									
One- to four-family residential and cooperative apartment	\$2,205	\$223	\$397	\$592	\$38					
Multifamily residential and residential mixed use	7,069	5,010	7,820	3,366	2,236					
Commercial real estate and mixed use commercial real estate	16,674	11,992	3,070	3,439	577					
Consumer	4	17	7	5	5					
Sub-total	25,952	17,242	11,294	7,402	2,856					
Non-accrual loans held for sale	3,021	2,926	-	-	-					
Total non-accrual loans	28,973	20,168	11,294	7,402	2,856					
Non-performing pooled bank trust preferred securities ("TRUPs")	1,012	564	688							
OREO	-	-	755	300	-					
Total non-performing assets	29,985	20,732	12,737	7,702	2,856					
Ratios:										
Total non-accrual loans to total loans	0.84	%	0.58	%	0.33	%	0.22	%	0.10	%
Total non-performing assets to total assets	0.75		0.51		0.32		0.19		0.08	

#### TDRs and Impaired Loans

TDRs	\$48,753	\$22,558	\$5,317	-	-
Impaired loans (1)	73,406	44,097	15,049	\$8,900	\$2,814

(1) Amount includes the entire \$48.8 million of TDRs. 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 In Excess of 90 Days Past Due

At December 31, 2011, the Bank owned five real estate loans totaling \$3.8 million that were in excess of 90 days 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. The weighted average loan-to-value ratios of three of these loans was estimated to be below 40% at December 31, 2011, and the loan-to-value ratio on the remaining two loans was estimated to be below 60% as of December 31, 2011. Management expects that each of these five loans will either be satisfied or formally modified in the future. As a result, these loans remained on accrual status at December 31, 2011 and were deemed performing assets.

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

The Bank had 12 real estate loans, totaling \$9.3 million, that were delinquent between 30 and 89 days at December 31, 2011, a net reduction of \$11.9 million compared to 22 such loans totaling \$21.2 million at December 31, 2010. 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.

(ii) Temporary Loan Modifications

At December 31, 2011, the Bank had 7 loans totaling \$9.3 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. 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) the modifications were temporary in nature; 2) they permitted only minor reductions in the cash flow requirements of debt service; and 3) there was no forgiveness of contractual principal and interest amounts due to the Bank. Specific terms of modification were 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) either 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 stabilized loan-to-value and debt service coverage ratios; and 2) the borrower could have received from another financial institution at the time of modification. To date, 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 these temporarily modified loans at December 31, 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, 2011. Any adjustments to interest rates for loans experiencing sub-optimal underwriting conditions would be authorized under the loan approval and underwriting policies that are summarized commencing on page F-8.

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

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

The following table summarizes temporary modifications entered into for the periods indicated:

	At or for the Year Ended December 31, 2011		At or for the Year Ended December 31, 2010	
	# Loans	Balance	# Loans	Balance
	(Dollars in Thousands)			
Number of loans modified in a manner that did not meet the definition of a TDR	5	\$5,599	7	\$26,231
Concessions granted:				
Reduction of outstanding principal due	-	-	-	-
Deferral of principal amounts due	5	5,599	7	26,231
Temporary reduction in interest rate	-	-	1	1,662
Below market interest rate granted	-	-	-	-
Outstanding principal balance immediately before and after modification	5	5,599	7	26,231

#### 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 \$308.1 million at December 31, 2011. 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, 2011. Against this contingent liability, the Bank has charged through earnings a recorded liability (reserve for First Loss Position) of \$3.0 million as of December 31, 2011, leaving approximately \$13.4 million of potential charges to earnings for future losses (if any). 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. At December 31, 2010, within the pool of multifamily loans sold to FNMA, three loans totaling \$3.7 million were 30 to 89 days delinquent, and no loans were 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.

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## 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 in carrying out its assigned duties, the Loan Loss Reserve Committee annually engages the services of an experienced third-party loan review firm to perform a loan review of approximately 35% of the combined multifamily and commercial real estate loan portfolio. The review program covers 100% of construction and land development loans, 30% of multifamily residential loans, 50% of commercial real estate loans, and 35% of the trailing 12-month combined average balance of multifamily residential and commercial real estate loans. The review sample also is designed to include: 1) the twenty largest loans in the entire 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 loans; (7) all internally criticized loans; (8) all loans that have been upgraded since the date of its prior review; (9) all loans greater than 60 days delinquent; and (10) a sampling of other loans sufficient to attain the penetration percentages referenced above. At least annually, the same 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,				
	2011	2010	2009	2008	2007
	(Dollars in Thousands)				
Total loans outstanding at end of period					
(1)	\$3,463,887	\$3,473,492	\$3,395,675	\$3,291,505	\$2,877,025
Average total loans outstanding (1)	\$3,447,035	\$3,455,659	\$3,287,445	\$3,090,032	\$2,777,220
Allowance for loan losses:					
Balance at beginning of period	\$19,166	\$21,505	\$17,454	\$15,387	\$15,514
Provision for loan losses	6,846	11,210	13,152	2,006	240
Charge-offs					
Multifamily residential	(2,750 )	(10,865 )	(7,266 )	(501 )	-
Commercial real estate	(2,307 )	(2,760 )	(1,220 )	(85 )	-
One- to four-family and cooperative apartment	(89 )	(257 )	(498 )	-	-
Construction	(962 )	-	-	-	-
Consumer	(29 )	(3 )	(28 )	(26 )	(28 )
Total charge-offs	(6,137 )	(13,885 )	(9,012 )	(612 )	(28 )
Recoveries	212	64	19	29	19
Reserve for loan commitments transferred from (to) other liabilities	167	272	(108 )	644	(358 )
Balance at end of period	\$20,254	\$19,166	\$21,505	\$17,454	\$15,387
Allowance for loan losses to total loans at end of period	0.58 %	0.55 %	0.63 %	0.53 %	0.53 %
Allowance for loan losses to total non-performing loans at end of period	78.04	95.03	190.41	235.80	538.76
	29.08	58.81	174.36	235.80	538.76

Allowance for loan losses to total  
non-performing  
loans and TDRs at end of period

Ratio of net charge-offs to average loans  
outstanding

during the period	0.17	%	0.40	%	0.27	%	0.02	%	-
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(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 OCC, as an integral part of its examination processes, periodically reviews the Bank's allowance for loan losses. Such agency 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 three primary components. The first two components relate to problem loans and are divided between loans deemed impaired and loans designated as special mention. The final component relates to pass graded loans.

#### Impaired Loan Component

In determining the periodic allowance for loan losses, all loans that are deemed to meet the definition of impaired are individually evaluated for impairment. Please refer to page F-13 for the definition of impaired loans and a discussion of the Bank's procedures for determining whether a loan is impaired. Please also refer to the discussion of the protocol utilized to measure impairment on TDRs that commences on page F-14.

At December 31, 2011, there were \$2.2 million of allocated reserves within the allowance for loan losses associated with impaired loans. There were no allocated reserves associated with impaired loans at December 31, 2010. Charge-offs recognized on impaired loans totaled \$5.8 million and \$13.5 million during the years ended December 31, 2011 and 2010, respectively.

Large groups of smaller balance homogeneous real estate loans, such as cooperative unit and one-to four-family residential real estate loans with balances equal to or less than the FNMA Limits are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

#### Special Mention Component

At both December 31, 2011 and 2010, the reserve allocated within the allowance for loan losses associated with loans internally classified as Special Mention (as defined in Note 5 to the consolidated financial statements) reflected an expected loss percentage on the Bank's pool of such loans that was derived based upon an analysis of historical losses. At December 31, 2010, the loss percentage approximated 4.1%, and represented a loss history analysis on the Bank's pool of such loans from January 1, 2010 through December 31, 2010. The loss percentage resulting from this analysis was then applied to the aggregate pool of Special Mention loans at December 31, 2010. At December 31, 2011, the loss percentage approximated 4.2%, and represented a loss history analysis on the pool of Special Mention loans from July 1, 2010 through June 30, 2011. The loss percentage resulting from this analysis was then applied to the aggregate pool of Special Mention loans at December 31, 2011. Based upon this methodology, increases or decreases in the amount of Special Mention loans will impact the estimated portion of the allowance for loan losses associated with such loans. As a result, the allowance for loan losses associated with Special Mention loans is subject to volatility. Should management elect to change its 12-month loss measurement timeframe from the currently utilized July 1, 2010 through June 30, 2011 period, the magnitude of charge-offs recognized within the 12 months prior to the assessment date would also impact the level of reserves determined on Special Mention loans, subjecting it to greater volatility.

The portion of the allowance for loan losses attributable to Special Mention loans (excluding impaired loans internally designated as Special Mention) declined from \$1.9 million at December 31, 2010 to \$845,000 at December 31, 2011, primarily reflecting a reduction of \$14.8 million in Special Mention loans from December 31, 2010 to December 31, 2011.

#### Pass Graded Loans

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

the allowance for loan losses for performing loans:

- i. Charge-off experience
- ii. Economic conditions
- iii. Underwriting standards or experience
- iv. Loan concentrations
- v. Loan Seasoning

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

(i) Charge-off experience – Loans within the performing loan portfolio are segmented by significant common characteristics, against which historical loss rates are applied. In late 2010, the Bank updated the historical period used in this methodology.

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Previously, 1992 to 1996 experience factors were used, since that period represented the most recent complete loss cycle experienced by the Bank for its geography and type of collateral. During the final quarter of 2010, the Bank updated its experience factors to include only the current credit cycle, which began for the Bank in 2009.

(ii) Economic conditions - At both December 31, 2011 and December 31, 2010, the Bank assigned an expected loss rate to its entire performing mortgage loan portfolio based, in part, upon a review of economic conditions affecting the local real estate market. Specifically, the Bank considered both the level of, and recent trends in: 1) the local unemployment rate, 2) residential and commercial vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank's loan portfolio. Based upon its analysis, the Bank derived the same expected loss rate for performing loans at both December 31 2011 and 2010.

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

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

(v) Loan Seasoning – The Bank analyzes its charge-off history in order to determine whether loans that are over three years past their origination date (referred to as seasoned loans) have experienced lower loss levels, and would thus warrant a lower expected loss percentage. This element was given minimal consideration in the December 31, 2011 and December 31, 2010 evaluations. The minimal consideration resulted from an analysis of the loss experience recognized during the 2009 to 2011 recessionary period (to which the Company migrated late in 2010), which concluded that the age or seasoning of a loan did not inversely correlate to the Bank's loss experience.

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,											
	2011		2010		2009		2008		2007			
	Percent of Loans in Each Category	Allocated to Total Loans(1)	Percent of Loans in Each Category	Allocated to Total Loans(1)	Percent of Loans in Each Category	Allocated to Total Loans(1)	Percent of Loans in Each Category	Allocated to Total Loans(1)	Percent of Loans in Each Category	Allocated to Total Loans(1)	Percent of Loans in Each Category	Allocated to Total Loans(1)
	(Dollars in Thousands)											
Impaired loans	\$2,175	2.12 %	\$-	1.27 %	\$1,943	0.44 %	\$900	0.27 %	\$348	0.10 %		
Special Mention loans	800	0.56	1,880	1.31	2,411	1.67	156	0.08	-	0.04		
Performing loans:												
Multifamily residential	14,057	74.67	13,797	71.35	11,999	69.66	10,583	68.03	9,381	67.69		

Commercial real estate	2,893	19.67	2,945	22.53	3,774	23.49	4,695	25.63	4,449	25.31
One-to four-family and cooperative apartment	303	2.82	404	3.32	1,040	3.78	401	4.31	380	5.06
Construction and land acquisition	-	0.09	106	0.14	308	0.87	680	1.61	764	1.72
Consumer	26	0.07	34	0.08	30	0.09	39	0.07	65	0.08
<b>Total</b>	<b>\$20,254</b>	<b>100.00%</b>	<b>\$19,166</b>	<b>100.00%</b>	<b>\$21,505</b>	<b>100.00%</b>	<b>\$17,454</b>	<b>100.00%</b>	<b>\$15,387</b>	<b>100.00%</b>

(1) Total loans represent gross loans less FHA and VA 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 the estimate of losses that are deemed probable related to this pool of loans at each period end. In determining the estimate of probable losses, the Bank utilizes the following methodology: For all performing loans within the FNMA serviced pool, the reserve recognized is the present value of the estimated losses calculated based upon the historical loss experience for comparable multifamily loans owned by the Bank. For problem loans within the pool, the estimated losses are determined in a manner consistent with impaired 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,		
	2011	2010	2009
(Dollars in Thousands)			
Outstanding balance of multifamily loans serviced for FNMA at period end	\$308,104	\$371,887	\$437,805
Total First Loss Position at end of period	16,356	16,789	20,246
Reserve Liability on the First Loss Position			
Balance at beginning of period	\$2,993	\$4,373	\$5,573
Additions for loans sold to FNMA during the period 1	-	-	15
Transfer to reduction of Bank loan balance for serviced loans re-acquired by the Bank	-	(1,123 )	(3,545 )
Provision for losses on problem loans <sup>1</sup>	-	-	3,303
Charge-offs	-	(257 )	(973 )
Balance at period end	\$2,993	\$2,993	\$4,373

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

During the years ended December 31, 2011, 2010 and 2009, the Bank received approval from FNMA to reduce the total First Loss Position by \$433,000, \$3.5 million and \$1.6 million, respectively, for losses incurred.

#### Reserve for Loan Commitments

At December 31, 2011, the Bank maintained a reserve of \$241,000 associated with unfunded loan commitments accepted by the borrower at December 31, 2011. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve are achieved via a transfer of reserves from the Bank's allowance for loan losses, with any subsequent resulting shortfall in the allowance for loan losses satisfied through the quarterly provision for loan losses. Any decreases in the loan commitment reserve are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

#### 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 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. At December 31, 2011, the Holding Company's principal asset was its \$405.3 million investment in the Bank's common stock. Other Holding Company investments are 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 Holding Company cannot assure that it will engage in any of these activities in the future.

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, 2011 and 2010, the Holding Company did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

Equity Investments. The Company's consolidated investment in mutual funds (primarily equity mutual funds) totaled \$6.3 million at December 31, 2011. All were held by the Holding Company, \$4.5 million was classified as available for sale, and \$1.8 million was classified as trading. At December 31, 2011, the aggregate fair value of the available for sale mutual fund

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investments was \$935,000 above their cost basis, and the aggregate fair value of mutual fund investments classified as trading was \$38,000 above their cost basis. As of December 31, 2011, an aggregate other-than-temporary impairment ("OTTI") charge of \$1.4 million 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.

**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 whom 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 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, 2011 and 2010. The Bank may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2011 and 2010, the Bank did not hold held any derivative instruments or embedded derivative instruments that required bifurcation.

**Federal Agency Obligations.** In 2009, the Bank commenced utilizing a portion of its liquidity for the purchase federal agency obligations. The federal agency obligations purchased during the years ended December 31, 2011, 2010 and 2009 have been relatively short term in nature, with contractual maturities of two years or less from the date of acquisition, and all feature 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 been less than 12 months. These securities provide the Bank a favorable yield in comparison to overnight investments, possess sound credit ratings, and have been readily accepted as collateral for the Bank's REPO borrowings. Federal agency obligation investments totaled \$169.9 million at December 31, 2011.

**MBS.** Consistent with the Holding Company, 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 both the prepayment speed and 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, 2011 and 2010, 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, 2011 totaling \$1.6 million and \$1.5 million, 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 \$93.9 million, or 2.3% of total assets, at December 31, 2011, the great majority of which was owned by the Bank. Approximately 80.5% of the MBS portfolio at December 31, 2011 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 on these securities was estimated to be 1.7 years as of December 31, 2011 and 2.1 years at December 31, 2010.

At December 31, 2011, included in the MBS portfolio were \$16.8 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 was rated in the highest rating category by at least one nationally recognized rating agency. None of the CMOs and 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 greater 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 \$6.2 million above their amortized cost at December 31, 2011. Within this total, the aggregate fair value of the agency guaranteed CMOs and REMICs exceeded their cost basis by \$261,000 and the fair value of the private financial institution-issued CMO exceeded its cost basis by approximately \$22,000.

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

	For the Year Ended December 31,		
	2011	2010	2009
Dollars in Thousands			
Amortized cost at beginning of period	\$ 138,283	\$ 217,076	\$ 299,728
Purchases, net	-	-	-
Principal repayments	(48,911 )	(78,389 )	(82,128 )
Premium amortization, net	(223 )	(404 )	(524 )
Amortized cost at end of period	\$89,149	\$ 138,283	\$ 217,076

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, 2011, the Bank's investment in corporate debt obligations was comprised solely of eight securities with an aggregate remaining amortized cost of \$17.9 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) ("TRUPs"). All eight securities were designated as held-to-maturity at December 31, 2011.

At December 31, 2011, in management's judgment, the credit quality of the collateral pool underlying six of the eight securities had deteriorated to the point that full recovery of the Bank's initial investment was considered uncertain, thus resulting in recognition of OTTI charges. The aggregate OTTI charge recognized on these securities was \$9.9 million at December 31, 2011, of which \$9.0 million was determined to be attributable to credit related factors and \$930,000 was determined to be attributable to non-credit related factors. At December 31, 2011, these six securities had credit ratings ranging from "D" to "Caa3." The remaining two securities, which were not subject to OTTI charges as of December 31, 2011, had credit ratings ranging from "CC" to "Ba1" on that date. During the year ended December 31, 2011, the Bank added pre-tax OTTI charges totaling \$752,000 on TRUPs, of which \$727,000 was credit related and \$25,000 was non-credit related, and reduced non-credit OTTI by \$1.3 million for various adjustment items. In accordance with GAAP, the credit-related OTTI was recognized in the Bank's consolidated results of operations, while the non-credit OTTI was recognized as a component of other comprehensive income.

At December 31, 2011, the remaining aggregate amortized cost of TRUPs that could be subject to future OTTI charges through earnings was \$8.9 million. Of this total, unrealized losses of \$2.4 million have already been recognized as a component of accumulated other comprehensive loss.

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The following table sets forth the amortized/historical cost and fair value of the total portfolio of the Company's investment securities and MBS by accounting classification and type of security, at the dates indicated:

	At December 31,					
	2011		2010		2009	
	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value
<b>MBS</b>	Dollars in Thousands					
<b>Available-for-Sale:</b>						
FHLMC pass through certificates	\$53,662	\$57,048	\$77,020	\$81,068	\$112,033	\$117,033
FNMA pass through certificates	16,583	17,727	22,994	24,158	40,105	41,615
GNMA pass through certificates	763	787	833	857	917	941
Private issuer MBS	1,613	1,504	2,363	2,298	3,267	2,784
Agency issued CMOs and REMICs	15,128	15,389	32,953	33,965	57,418	59,070
Private issuer CMOs and REMICs	1,400	1,422	2,122	2,172	3,336	3,330
<b>Total MBS available-for-sale</b>	<b>89,149</b>	<b>93,877</b>	<b>138,285</b>	<b>144,518</b>	<b>217,076</b>	<b>224,773</b>
<b>INVESTMENT SECURITIES</b>						
TRUPs Held-to-Maturity:	\$8,910	\$4,924	\$10,760	\$4,408	\$13,765	\$5,330
Total investment securities held-to-maturity	8,910	4,924	10,760	4,408	13,765	5,330
<b>Available-for-Sale:</b>						
Federal agency obligations	170,362	170,309	81,388	81,152	36,900	36,732
Mutual funds	3,624	4,559	3,537	4,490	5,107	6,430
Total investment securities Available-for-Sale	173,986	174,888	84,925	85,642	42,007	43,162
<b>Trading:</b>						
Mutual funds	1,736	1,774	1,425	1,490	-	-
Total trading securities	1,736	1,774	1,425	1,490	-	-
<b>Total investment securities</b>	<b>\$184,632</b>	<b>\$181,586</b>	<b>\$97,110</b>	<b>\$91,540</b>	<b>\$55,772</b>	<b>\$48,492</b>

(1) Amount is net of cumulative credit related OTTI totaling \$9.0 million on TRUPs held-to-maturity and \$1.4 million on mutual funds available-for-sale at December 31, 2011, \$8.2 million on TRUPs held-to-maturity and \$1.4 million on mutual funds available-for-sale at December 31, 2010, and \$5.8 million on TRUPs held-to-maturity and \$3.1 million on mutual funds available-for-sale at December 31, 2009.

The following table presents the amortized cost, fair value and weighted average yield of available-for-sale investment securities and MBS (exclusive of equity investments) at December 31, 2011, categorized by remaining period to contractual maturity.

	Amortized Cost	Fair Value	Weighted Average Tax Equivalent Yield	
(Dollars in Thousands)				
<b>MBS:</b>				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	\$1,054	\$1,112	3.65	%
Due after 5 years but within 10 years	29,296	30,331	4.34	
Due after ten years	58,799	62,434	4.70	
Total	89,149	93,877	4.57	
<b>Federal Agency obligations:</b>				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	169,972	169,917	0.58	
Due after 5 years but within 10 years	390	392	7.91	
Due after ten years	-	-	-	
Total	170,362	170,309	0.60	
<b>Total:</b>				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	171,026	171,029	0.60	
Due after 5 years but within 10 years	29,686	30,723	4.39	
Due after ten years	58,799	62,434	4.70	
Total	\$259,511	\$264,186	1.96	%

With respect to the federal agency obligations, all such securities have a call date occurring during 2012. Based upon current interest rates, a significant portion of these securities could be expected to be called prior to contractual maturity. In the event such securities are not called, the contractual maturities on such securities range from February 2013 to December 2013, and, if not pledged under borrowing agreements, 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, 2011 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 1.7 years as of December 31, 2011 when giving consideration to anticipated repayments or possible prepayments, which is significantly less than their average maturity as presented in the table above.

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, 2011, the Company owned, on a consolidated basis, \$268.7 million of securities classified as available-for-sale, which represented 6.7% 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 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, 2011, the Bank offered, and presently offers, savings, money market, interest bearing and non-interest bearing checking

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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, 2011, the Bank had deposit liabilities of \$2.34 billion, down \$6.9 million from December 31, 2010 (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, 2011, individual Retirement Accounts totaled \$273.7 million, or 11.7%.

The Bank is authorized to accept brokered CDs up to an aggregate limit of \$120.0 million. At December 31, 2011 and 2010, the Bank had no brokered CDs.

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 to an aggregate of 10% of the Bank's average interest earning assets. As of December 31, 2011, activity through this program has been nominal.

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

DEPOSIT ACTIVITY	Year Ended December 31,		
	2011	2010	2009
	(Dollars in Thousands)		
Deposits	\$3,561,590	\$2,539,002	\$2,647,960
Withdrawals	3,594,601	2,435,248	2,733,967
(Withdrawals greater than Deposits) Deposits greater than Withdrawals	\$(33,011 )	\$103,754	\$(86,007 )
Interest credited	26,131	29,991	42,792
Total (decrease) increase in deposits	\$(6,880 )	\$133,745	\$(43,215 )

At December 31, 2011, the Bank had \$401.5 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	\$32,982	1.06 %
After three but within six months	98,191	1.62
After six but within twelve months	82,868	1.29
After 12 months	187,422	2.74
Total	\$401,463	2.15 %

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, 2011			At December 31, 2010			At December 31, 2009		
	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	\$353,708	15.09 %	0.21 %	\$329,182	14.00 %	0.26 %	\$302,340	13.64 %	0.27 %

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CDs	977,551	41.71	1.82	1,059,652	45.08	2.01	985,053	44.44	2.21
Money market accounts	772,055	32.94	0.63	727,939	30.97	0.71	708,578	31.96	0.93
Interest bearing checking accounts	99,308	4.24	0.23	108,078	4.60	0.51	114,416	5.16	0.67
Non-interest bearing checking accounts	141,079	6.02	-	125,730	5.35	-	106,449	4.80	-
Totals	\$2,343,701	100.00 %	1.01 %	\$2,350,581	100.00 %	1.18 %	\$2,216,836	100.00 %	1.35 %

The weighted average maturity of the Bank's CDs at December 31, 2011 was 17.0 months, compared to 15.7 months at December 31, 2010. 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, 2011:

Period to Maturity at December 31, 2011							
Interest Rate Range	One Year or Less	Over One	Over Three	Over Five	Total at	Total at	Total at
		Year to Three Years	Years to Five Years		December 31, 2011	December 31, 2010	December 31, 2009
(Dollars in Thousands)							
2.00% and below	\$436,506	\$121,193	\$6,284	\$2,008	\$565,991	\$543,198	\$483,324
2.01% to 3.00%	115,619	20,047	47,140	24,100	206,906	298,816	215,510
3.01% to 4.00%	5,258	97,138	46,151	16,661	165,208	178,104	234,874
4.01% to 5.00%	3,671	35,682	-	-	39,353	39,446	50,063
5.01% and above	93	-	-	-	93	88	1,282
<b>Total</b>	<b>\$561,147</b>	<b>\$274,060</b>	<b>\$99,575</b>	<b>\$42,769</b>	<b>\$977,551</b>	<b>\$1,059,652</b>	<b>\$985,053</b>

Borrowings. The Bank has been a member and shareholder of the FHLB NY since 1980. One of the privileges offered to FHLB NY shareholders is the ability to secure advances from the FHLB NY under various lending programs at competitive interest rates. The Bank's total borrowing line equaled \$1.40 billion at December 31, 2011.

The Bank had \$939.8 million and \$990.5 million of FHLB NY advances outstanding at December 31, 2011 and December 31, 2010, respectively. The Bank maintained sufficient collateral, as defined by the FHLB NY (principally in the form of real estate loans), to secure such advances.

REPOS totaled \$195.0 million at both December 31, 2011 and 2010. 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. Funds to repay the Bank's REPOS at maturity are provided primarily by cash received from the maturing securities.

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

REPOS:

	At or for the Year Ended December 31,		
	2011	2010	2009
(Dollars in Thousands)			
Balance outstanding at end of period	\$195,000	\$195,000	\$230,000
Average interest cost at end of period	4.33 %	4.33 %	4.32 %
Average balance outstanding during the period	\$195,000	\$203,055	\$230,000
Average interest cost during the period	4.33 %	4.33 %	4.32 %
Estimated fair value of underlying collateral	\$214,446	\$214,539	\$248,694
Maximum balance outstanding at month end during the year	\$195,000	\$230,000	\$230,000

FHLB NY Advances:

	At or for the Year Ended December 31,		
	2011	2010	2009
(Dollars in Thousands)			
Balance outstanding at end of period	\$939,775	\$990,525	\$1,009,675
Average interest cost at end of period	2.88 %	3.26 %	3.53 %
Weighted average balance outstanding during the period	\$945,614	\$991,063	\$958,538
Average interest cost during the period	3.17 %	3.51 %	3.89 %
Maximum balance outstanding at month end during period	\$990,525	\$1,064,675	\$1,009,675

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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, 2011:

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 \$72.2 million of capital securities and using the proceeds to acquire \$72.2 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, 2011, the Company had 363 full-time and 72 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

### Federal 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.

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 Federal Savings Associations - 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, 2011 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, 2011 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) 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

Prior to July 21, 2011, the Bank was subject to extensive regulation, examination, and supervision by the Office of Thrift Supervision (the "OTS"), as its chartering agency, and the Federal Deposit Insurance Corporation ("FDIC"), as

its deposit insurer. The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund ("DIF"). The Bank was required to file reports with the OTS 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. The OTS conducted periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision established a comprehensive framework of activities in which a savings association may engage and is intended primarily for the protection of the DIF and depositors. As a publicly-held unitary savings and loan holding company, the Holding Company was 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 OTS.

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In accordance with provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Reform Act"), the OTS was eliminated effective July 21, 2011. As a result, effective July 21, 2011, the Bank's primary regulator transitioned from the OTS to the OCC. The supervisory activities of the FDIC remained unchanged by this transition. The Bank continues to be required to file reports with the OCC 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. The OCC conducts periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision continues to establish a comprehensive framework of activities in which a savings association may engage and is intended primarily for the protection of the DIF and depositors. Much of the regulation and supervision activities performed by the OCC are often conducted in accordance with interagency regulatory guidelines that had previously been utilized by the OTS. As a result, through December 31, 2011, the level of regulation and supervision encountered by the Bank had not changed materially since the transition of its primary regulator.

As of July 21, 2011, the Holding Company's primary regulator transitioned from the OTS to the Federal Reserve Bank of Philadelphia. This transition had no impact upon the Holding Company's compliance with federal securities laws of the SEC.

The OCC and the FDIC have 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 OCC, the FDIC or the United States Congress, could have a material adverse impact on the operations of the Company.

**Planned Charter Conversion.** On February 24, 2012, the Bank filed an application with the New York State Department of Financial Services ("NYSDFS") to convert from a federally-chartered stock savings bank to a New York State-chartered stock savings bank (the "Application"). The NYSDFS was created by combining the New York State Banking and Insurance Departments to modernize regulatory oversight of the State's financial services industry. If the Application is approved, the Bank will no longer be a federal savings bank subject to the regulation and examination of the OCC and will become a New York State chartered savings bank subject to the regulation and examination of the NYSDFS (the "Conversion"). The Bank would continue to be subject to regulation and examination by the FDIC, and the Holding Company would continue to be subject to regulation and examination by the Federal Reserve Bank of Philadelphia. The Company does not expect the change in regulatory framework to have a material effect on its business or operations.

The following discussion is intended to be a summary of the material statutes and regulations applicable to savings associations and savings and loan holding companies, and does not purport to be a comprehensive description of all such statutes and regulations.

#### Regulation of Federal Savings Associations

**Business Activities.** The Bank derives its lending and investment powers from the Home Owners' Loan Act, as amended ("HOLA"), and the regulations of the OCC enacted thereunder. Pursuant thereto, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities, and certain other assets. The investment powers are subject to various limitations, including a: (i) prohibition against the acquisition of any corporate debt security not rated in one of the four highest rating categories; (ii) limit of 400% of capital on the aggregate amount of loans secured by non-residential real property; (iii) limit of 20% of assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (iv) limit of 35% of assets on the aggregate amount of consumer loans and commercial paper and corporate debt securities; (v) limit of 5% of assets on non-conforming loans (i.e., certain loans in excess of specified amounts); and (vi) limit of the greater of 5% of assets or capital on certain construction loans made for the purpose of financing property which is, or is expected to become, residential. 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 Reform Act. The Reform Act is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. Through December 31, 2011, the Reform Act did not have a material impact on the Company's core operations. There are many provisions of the Reform Act that remain to be implemented within specified time frames following the effective date of the Reform Act, which creates a risk of uncertainty as to the ultimate effect of such provisions. The Company believes that the following provisions of the Reform Act, when fully implemented, may have an impact on the Company:

Under provisions of the Reform Act, the Consumer Financial Protection Bureau ("CFPB") has been created. With respect to insured depository institutions with less than \$10 billion in assets, such as the Bank, the CFPB has rulemaking 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, although the CFPB will have no enforcement authority with respect to these matters. As a new independent Bureau within the Federal Reserve System, it is possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

In addition, the Reform Act 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) ending 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 and eliminates the applicability of preemption to subsidiaries and affiliates of national banks and federal savings associations. As a result, the Company may now be subject to state consumer protection laws in each state where the Company does business, and those laws may be interpreted and enforced differently in different states. Since the Company performs the great majority of its business within one state, such change in authority is not currently expected to significantly impact its operations.

The Reform Act also contains provisions that create minimum standards for the origination of mortgages, restrict proprietary trading by banking entities, restrict the sponsorship of and investment in hedge funds and private equity funds by banking entities and that remove certain obstacles to the conversion of savings associations to national banks. Such provisions are still being finalized. The Company will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

In addition, as required by the Reform Act, the Board of Governors of the Federal Reserve System ("FRB") has adopted a rule that places restrictions 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.

**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 other things, 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 the borrower's 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 the growing concerns facing the subprime mortgage market, particularly with respect to rapidly rising subprime default rates that may indicate borrowers do not have the ability to repay adjustable-rate subprime loans originated by financial institutions. In particular, the Agencies expressed

concern in the Subprime Mortgage Statement that current underwriting practices do not take into account that many subprime borrowers are not prepared for "payment shock" and that current subprime lending practices compound the risk for financial institutions. The Subprime Mortgage Statement described the prudent safety and soundness and consumer protection standards that financial institutions should follow 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 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 for a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to the 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 meet their contractual payment obligations on their home loans.

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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 HOLA, savings associations are generally subject to limits on loans to one borrower identical to those imposed on national banks. Generally, pursuant to these limits, a savings association may not advance a loan or extend credit to a single or related group of borrowers in excess of 15% of the association's unimpaired capital and unimpaired surplus. Additional amounts may be advanced, not in excess of 10% of unimpaired capital and unimpaired surplus, if such loans or extensions of credit are fully secured by cash or readily-marketable collateral. Such collateral is defined to include certain debt and equity securities and bullion, but generally does not include real estate. At December 31, 2011, the Bank's limit on loans to one borrower was \$55.2 million. The Bank's largest aggregate amount of loans to one borrower on that date was \$39.7 million and the second largest borrower had an aggregate loan balance of \$38.2 million.

**QTL Test.** HOLA requires savings associations to satisfy a QTL test. A savings association may satisfy the QTL test by maintaining at least 65% of its "portfolio assets" in certain "qualified thrift investments" during at least nine months of the most recent twelve-month period. "Portfolio assets" means, in general, an association'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 association'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. A savings association may additionally satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Code. At December 31, 2011, the Bank maintained 71.2% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2011, and, therefore, was a QTL.

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 OCC 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 OCC 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.** OCC regulations require savings associations to satisfy three minimum capital standards: (i) a minimum tangible capital ratio of 3.0%, (ii) a risk-based capital ratio of 8%, and (iii) a leverage capital ratio of 4%. For depository institutions that have been assigned the composite rating of one (the highest rating of the OCC 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, the OCC takes into consideration not only these numeric factors but qualitative factors as well, 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 will be 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 will 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 when it becomes subject to these consolidated capital requirements.

The Federal Deposit Insurance Corporation Improvement Act ("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

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of risk and the risks of non-traditional activities. Current OCC regulations do not include a specific IRR component of the risk-based capital requirement; however, the OCC monitors the IRR of individual institutions through a variety of methods which are discussed on the next page. The OCC, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent they are not in compliance with certain written OCC guidelines regarding IRR compliance analysis. The OCC has not imposed any such requirements on the Bank.

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

As of December 31, 2011	Actual		Minimum Capital Requirement		
	Amount	Ratio	Amount	Ratio	
	(Dollars in Thousands)				
Tangible capital	\$359,838	9.11	% \$118,561	3.0	%
Leverage capital	359,838	9.11	158,082	4.0	%
Total risk-based capital (to risk weighted assets)	368,317	12.24	240,760	8.0	%
Tier I risk-based capital (to risk weighted assets)	347,822	11.56	120,380	4.0	%

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

	At December 31, 2011		
	Tangible Capital	Leverage Capital	Total Risk-Based Capital
	(Dollars in Thousands)		
Stockholders' equity	\$405,403	\$405,403	\$405,403
Non-allowable assets:			
MSR	(162 )	(162 )	(162 )
Accumulated other comprehensive loss	10,235	10,235	10,235
Goodwill	(55,638 )	(55,638 )	(55,638 )
Tier 1 risk-based capital	359,838	359,838	359,838
Adjustment for First Loss Position on loans sold with recourse	-	-	(12,016 )
General regulatory valuation allowance	-	-	20,495
Total (Tier 2) risk based capital	359,838	359,838	368,317
Minimum capital requirement	118,561	158,082	240,760
Regulatory capital excess	\$241,277	\$201,756	\$127,557

**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.

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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 this 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.** OCC and FRB regulations impose limitations upon capital distributions by savings associations, 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.

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. Whether an application is required is based on a number of factors including whether the institution qualifies for expedited treatment under OCC rules and regulations or if the total amount of all capital distributions (including each proposed capital distribution) for the applicable calendar year exceeds net income for that year plus the retained net income for the preceding two years, the Bank must file an application for FRB approval of a proposed capital distribution. The FRB assumes the responsibility for notifying the OCC of such request. The FRB or OCC can prohibit a proposed capital distribution otherwise permissible under the regulation if it determines that the association is in need of greater than customary supervision or that a proposed distribution would constitute an unsafe or unsound practice. Further, under OCC 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 Federal Savings Associations - Prompt Corrective Regulatory Action"). In addition, pursuant to the Federal Deposit Insurance Act ("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 OCC 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, 2011, the Bank satisfied all such liquidity requirements.

**Assessments.** Savings associations are required by OCC regulation to pay semi-annual assessments to the to fund its operations. The regulations base the assessment for individual savings associations, other than those with total assets never exceeding \$100.0 million, on three components: the size of the association (on which the basic assessment is based); the association's supervisory condition, which results in percentage increases for any savings institution with a composite rating of 3, 4 or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which results in percentage increases for a savings association that managed over \$1 billion in trust assets, serviced loans for other institutions aggregating more than \$1 billion, or had certain off-balance sheet assets aggregating more than \$1 billion. Savings and loan holding companies are also required to pay semi-annual assessments to the OCC.

**Branching.** Subject to certain limitations, HOLA and OCC regulations permit federally chartered savings associations to establish branches in any state of the United States. The authority to establish such a branch is available: (i) in states that expressly authorize branches of savings associations located in another state, and (ii) to an association that either satisfies the QTL test or qualifies as a "domestic building and loan association" under the Code, which imposes qualification requirements similar to those for a QTL under HOLA (See "Part I - Item 1 – Business - Regulation - Regulation of Federal Savings Associations - QTL Test"). HOLA and federal agency regulations preempt any state law purporting to regulate branching by federal savings associations.

**Community Reinvestment.** Under the Community Reinvestment Act ("CRA"), as implemented by OCC regulations, a savings association 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 OCC, in connection with its examination of a savings association, to assess the association's record of satisfying the credit needs of its community and consider such record in its evaluation of certain applications by the association. 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 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.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by OCC regulations, Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act ("FRA"), and Regulation W issued by the FRB. OCC regulations regarding transactions with affiliates conform to Regulation W. These provisions, among other matters, prohibit, limit or place restrictions upon a savings institution extending credit to, or entering into certain transactions with, its affiliates, which, for the Bank, would include the Holding Company, principal shareholders, directors and executive officers.

OCC regulations include additional restrictions on savings associations under Section 11 of HOLA, including 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. OCC regulations also include certain exemptions from these prohibitions. The FRB and the OCC 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 OCC regulations regarding transactions with affiliates.

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 shareholders 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 association's capital. Regulation O additionally requires that extensions of credit in excess of certain limits be approved in advance by the association's board of directors. The Holding Company and Bank both presently prohibit loans to Directors and executive management.

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

Enforcement. Under FDICIA, the OCC possesses primary enforcement responsibility over federally-chartered savings associations 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 or other significant adverse effect on an insured savings association. 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 person 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 savings association. If action is not taken by the Director, the FDIC possesses authority to take such action under certain circumstances.

Standards for Safety and Soundness. Pursuant to FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the OCC, 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 OCC has adopted regulations pursuant to FDICIA that authorize, but do not require, the OCC to order an institution that has been given notice by the OCC that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance

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plan, the OCC 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 association is subject under the "prompt corrective action" provisions of FDICIA (See "Part I - Item 1 – Business - Regulation - Regulation of Savings Associations – Prompt Corrective Regulatory Action"). If an institution fails to comply with such an order, the OCC 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 who are 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 OCC prompt corrective action regulations, the OCC is required to take certain, and authorized to take other, supervisory actions against undercapitalized savings associations. For this purpose, a savings association 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 OCC within 45 days of the date an association 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 OCC regulations, a federally chartered savings association 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 OCC to meet a specific capital level. As of December 31, 2011, the Bank satisfied all criteria necessary to be categorized "well capitalized" under the prompt corrective action regulatory framework.

When appropriate, the OCC can require corrective action by a savings association 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 provide for temporary unlimited insurance coverage of certain non-interest bearing transactions accounts. Such coverage began on December 31, 2010 and terminates on December 31, 2012. Beginning January 1, 2013, such accounts will be insured under the general deposit insurance coverage rules of the FDIC.

Savings associations 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 risk-based 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 ("CAMEL

Component Ratings") of either 1 or 2. Risk Category II contains all institutions that are adequately capitalized and possess CAMEL Component Ratings of either 1, 2 or 3. Risk Category III contains either undercapitalized institutions that have CAMEL Composite Ratings of 1, 2 or 3 or adequately capitalized institutions that have CAMEL Composite Ratings of 4 or 5. Risk Category IV contains all institutions that are undercapitalized and have a CAMEL 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 CAMEL 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 set 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 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, of which a \$7.2 million prepayment balance remained at December 31, 2011.

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 will range from five to nine basis points for Risk Category I institutions and are fourteen basis points for Risk Category II institutions, twenty-three basis points for Risk Category III institutions and thirty-five basis points for Risk Category IV institutions. Total base assessment rates, after applying the unsecured debt and brokered deposit adjustments, will range from two and one-half to forty-five basis points. This new assessment rate schedule is expected to result in reduced deposit insurance expenses for the Company.

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 increasing the reserve

ratio to 1.35% on institutions with more than \$10 billion in assets.

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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 payments of Financing Corporation ("FICO") bonds. FICO bonds were sold by the federal government in order to finance the recapitalization of the SAIF and BIF insurance funds 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 2011 for the FICO bonds 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 terminates on December 31, 2012. Beginning January 1, 2013, such accounts will be insured under the general deposit insurance coverage rules of the FDIC. Unlike under the TLGP, the new rules do not cover NOW accounts and the FDIC will not charge a separate assessment for the insurance of non-interest bearing transaction accounts. Instead, the FDIC will take into account the cost of this additional insurance coverage in determining the amount of the assessment it charges under its new risk-based assessment system.

**Privacy and Security Protection.** The OCC 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 receiving of any 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.

**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 federal bank regulatory agencies will not adopt new regulations that will materially affect or restrict the Bank's Internet operations.

Insurance Activities. As a federal savings association, the Bank is generally permitted to engage in certain insurance activities through subsidiaries. Federal agency regulations prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity or an agreement by the consumer not to purchase an insurance product or annuity from an entity not affiliated with the depository institution. The regulations additionally require prior disclosure of this prohibition if such products are offered to credit applicants.

Federal Home Loan Bank ("FHLB") System. The Bank is a member of the FHLB NY, which is one of the twelve regional FHLBs composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. Any advances from the FHLB NY must be secured by specified types of collateral, and long-term advances may be obtained only for the purpose of providing funds for residential housing finance. The Bank, as a member of the FHLB NY, is currently required to

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acquire and hold shares of FHLB NY Class B stock. The Class B stock has a par value of \$100 per share and is redeemable upon five years notice, subject to certain conditions. The Class B stock has two subclasses, one for membership stock purchase requirements and the other for activity-based stock purchase requirements. The minimum stock investment requirement in the FHLB NY Class B stock is the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For the Bank, the membership stock purchase requirement is 0.2% of "mortgage-related assets," as defined by the FHLB NY, which consist primarily of residential mortgage loans and MBS held by the Bank. The activity-based stock purchase requirement for the Bank is equal to the sum of: (i) 4.5% of outstanding borrowings from the FHLB NY; (ii) 4.5% of the outstanding principal balance of the "acquired member assets," as defined by the FHLB NY, and delivery commitments for acquired member assets; (iii) a specified dollar amount related to certain off-balance sheet items, which for the Bank is zero; and (iv) a specific percentage range from 0% to 5% of the carrying value on the FHLB NY's balance sheet of derivative contracts between the FHLB NY and its members, which is also zero for the Bank. The Bank was in compliance with these requirements with an investment in FHLB NY Class B stock of \$49.5 million at December 31, 2011. The FHLB NY can adjust the specific percentages and dollar amount periodically within the ranges established by the FHLB NY capital plan.

Federal Reserve System. The Bank is subject to provisions of the FRA and FRB regulations pursuant to which savings associations are required to maintain non-interest-earning cash reserves against their transaction accounts (primarily NOW and regular checking accounts). FRB regulations generally require that reserves be maintained in the amount of 3% of the aggregate of transaction accounts in excess of \$11.5 million through \$71.0 million (subject to adjustment by the FRB) plus a reserve of 10% against the portion of total transaction accounts in excess of \$71.0 million. The initial \$11.0 million of otherwise reservable balances are currently exempt from the reserve requirements, however, the exemption is adjusted by the FRB at the end of each year. The Bank is in compliance with the foregoing reserve requirements.

Because required reserves must be maintained in the form of either vault cash, a non-interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to satisfy the FRB reserve requirements may be used to satisfy liquidity requirements imposed by the OCC.

Pursuant to the Emergency Economic Stabilization Act of 2008, the Federal Reserve Banks pay interest on depository institutions' required and excess reserve balances. The interest rate paid on required reserve balances is currently the average target federal funds rate over the reserve maintenance period. The rate on excess balances will be set equal to the lowest FOMC target rate in effect during the reserve maintenance period.

Depository institutions are additionally authorized to borrow from the Federal Reserve "discount window," however, FRB regulations require such institutions to hold reserves in the form of vault cash or deposits with Federal Reserve Banks in order to borrow.

Anti-Money Laundering and Customer Identification. The Company is subject to Bank Secrecy Act amendments and specific federal agency guidance in relation to implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("PATRIOT Act"). The PATRIOT Act provides the federal government with powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the PATRIOT Act enacted measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of Title III and the OCC guidance impose affirmative obligations on a broad range of financial institutions, including banks and thrifts. Title III imposes the following requirements, among others, with respect to financial institutions: (i) establishment of anti-money laundering programs; (ii) establishment of procedures for obtaining identifying information from customers opening new accounts, including verifying their identity within a reasonable

period of time; (iii) establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and (iv) prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks.

In addition, bank regulators are directed to consider a holding company's effectiveness in preventing money laundering when ruling on FRA and Bank Merger Act applications.

#### Regulation of Holding Company

The Holding Company is a non-diversified unitary savings and loan holding company within the meaning of HOLA. As discussed previously, prior to July 21, 2011, the Holding Company was under the primary regulation and supervision of the OTS. Effective July 21, 2011, the FRB assumed the role of the Holding Company's primary regulator. The Holding Company is thus

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currently subject to FRB regulations, examinations, supervision and reporting requirements. In addition, the FRB has enforcement authority over the Holding Company's non-savings association subsidiaries. Among other effects, this authority permits the OCC to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness, or stability of a subsidiary savings association.

HOLA prohibits a savings association holding company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings association or holding company thereof, without prior written approval of the FRB or OCC; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings association, non-subsidiary holding company, or non-subsidiary company engaged in activities other than those permitted by HOLA; or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating an application by a holding company to acquire a savings association, the FRB and OCC must consider the financial and managerial resources and future prospects of the company and savings association involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, and competitive factors.

Gramm-Leach additionally restricts the powers of new unitary savings and loan association holding companies. A unitary savings and loan holding company that is "grandfathered," i.e., became a unitary savings and loan holding company pursuant to an application filed with the OTS prior to May 4, 1999, such as the Holding Company, retains the authority it possessed under the law in existence as of May 4, 1999. All other savings and loan holding companies are limited to financially related activities permissible for bank holding companies, as defined under Gramm-Leach. Gramm-Leach also prohibits non-financial companies from acquiring grandfathered savings and loan association holding companies.

Upon any non-supervisory acquisition by the Holding Company of another savings association or a savings bank that satisfies the QTL test and is deemed to be a savings association by the OCC and that will be held as a separate subsidiary, the Holding Company will become a multiple savings association holding company and will be subject to limitations on the types of business activities in which it may engage. HOLA currently limits the activities of a multiple savings association holding company and its non-insured association subsidiaries primarily to activities permissible under Section 4(c)(8) of the BHCA, subject to prior approval of the FRB, and to other activities authorized by federal agency regulations. Effective in April 2008, however, all savings and loan association holding companies became permitted, with the prior approval of the appropriate regulatory agency, to engage in all activities in which bank holding companies may engage under any regulation the FRB has promulgated under Section 4(c) of the BHCA.

Federal agency regulations prohibit regulatory approval of any acquisition that would result in a multiple savings association holding company controlling savings associations in more than one state, subject to two exceptions: an acquisition of a savings association in another state (i) in a supervisory transaction, or (ii) pursuant to authority under the laws of the state of the association to be acquired that specifically permit such acquisitions. The conditions imposed upon interstate acquisitions by those states that have enacted authorizing legislation vary.

The Bank must file a notice with the FRB prior to the payment of any dividends or other capital distributions to the Holding Company (See "Part I - Item 1 – Business - Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions"). The FRB assumes responsibility for notifying the OCC of such request. Either the FRB or the OCC have the authority to deny such payment request.

#### Federal Securities Laws

The Holding Company's common stock is registered with the SEC under Section 12(g) of the Exchange Act. It is subject to the periodic reporting, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Delaware Corporation Law

The Holding Company is incorporated under the laws of the State of Delaware, and, therefore, is subject to regulation by the State of Delaware, and the rights of its shareholders are governed by the Delaware General Corporation Law.

Item 1A. Risk Factors

The Company's business may be adversely affected by conditions in the financial markets and economic conditions generally.

The United States economy has undergone a severe recession and remains in a period of limited growth and historically high unemployment. Business activity across a wide range of industries and regions has been challenged and individuals, local governments and many businesses are experiencing financial difficulties.

The Company has been adversely affected by declines in the values of several asset classes. Declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to decrease the availability of liquidity. Some banks and other lenders have suffered significant losses. The foregoing has significantly weakened the strength and liquidity of many financial institutions worldwide.

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The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in the New York metropolitan area and in the United States as a whole. Conditions in these marketplaces remain historically weak, and there can be no assurance that they will improve in the near term. Should such conditions worsen or continue to remain weak, they may continue to adversely affect the credit quality of the Bank's loans, results of operations and financial condition.

The Bank's commercial real estate lending may subject it to greater risk of an adverse impact on operations from a decline in the economy.

The credit quality of the Bank's portfolio can have a significant impact on the Company's earnings, results of operations and financial condition. As part of the Company's strategic plan, it increased its emphasis on commercial real estate loans from 2002 through 2007. 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 the rentability, among other commercial factors.

The performance of Bank's multifamily and mixed-use loans could be adversely impacted by regulation or a weakened economy

Multifamily and mixed use loans involve a greater risk than one- to four- family residential mortgage loans because government regulations such as rent control and rent stabilization laws, which are outside the control of the borrower or the Bank, could impair the value of the security for the loan or the future cash flow of such properties. As a result, rental income might not rise sufficiently over time to satisfy increases in the loan rate at repricing or increases in overhead expenses (e.g., utilities, taxes, etc.). Impaired loans are thus difficult to identify before they become problematic. In addition, if the cash flow from a collateral property is reduced (e.g., if leases are not obtained or renewed), the borrower's ability to repay the loan and the value of the security for the loan may be impaired.

Extension of credit on multifamily, mixed-use or commercial real estate loans may result from reliance upon inaccurate or misleading information received from the borrower

In deciding whether to extend credit on multifamily, mixed-use or commercial real estate loans, the Bank may rely on information furnished by or on behalf of a customer and counterparties, including financial statements, credit reports and other financial information. In the event such information is inaccurate or misleading, reliance on it could have a material adverse impact on the Company's business and, in turn, its financial condition and results of operations.

Geographic and borrower concentrations could adversely impact financial performance

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans, as well as the value of collateral securing those loans, is highly dependent upon business and economic conditions in the United States, particularly in the local New York metropolitan area where the Company conducts substantially all of its business. Conditions in these marketplaces have begun to rebound in recent months after several years of deterioration. Should such conditions fail to continue to improve, they may adversely affect the credit quality of the Bank's loans, its results of operations and its financial condition.

Conditions in the real estate markets in which the collateral for the Bank's mortgage loans are located strongly influence the level of the Bank's non-performing loans and the value of its collateral. Real estate values are affected by, among other items, fluctuations in general or local economic conditions, supply and demand, changes in governmental rules or policies, the availability of loans to potential purchasers and acts of nature. Declines in real estate markets have in the past, and may in the future, negatively impact the Company's results of operations, cash flows, business, financial condition and prospects. In addition, at December 31, 2011 the Bank had five borrowers for which its total lending exposure equaled or exceeded 10% of its capital. Total default by these borrowers could adversely impact the Bank's financial condition and results of operations.

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The Bank's allowance for loan losses may be insufficient.

The Bank's allowance for loan losses is maintained at a level considered adequate by management to absorb losses inherent in its loan portfolio. The amount of inherent loan losses which could be ultimately realized is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that could be beyond the Bank's control. Such losses could exceed current estimates. Although management believes that the Bank's allowance for loan losses is adequate, there can be no assurance that the allowance will be sufficient to satisfy actual loan losses should such losses be realized. Any increases in the allowance for loan losses will result in a decrease in net income and capital, and may have a material adverse effect on the Bank's financial condition and results of operations.

Increases in interest rates may reduce the Company's profitability.

The Bank's primary source of income is its net interest income, which is the difference between the interest income earned on its interest earning assets and the interest expense incurred on its interest bearing liabilities. The Bank's one-year interest rate sensitivity gap is the difference between interest rate sensitive assets maturing or repricing within one year and its interest rate sensitive liabilities maturing or repricing within one year, expressed as both a total amount and as a percentage of total assets. At December 31, 2011, the Bank's one year interest rate gap was negative 3%, indicating that the overall level of its interest rate sensitive liabilities maturing or repricing within one year exceeded that of its interest rate sensitive assets maturing or repricing within one year. In a rising interest rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in its cost of liabilities relative to its yield on assets, and thus a decline in net interest income from its existing investments and funding sources.

Based upon historical experience, if interest rates were to rise, the Bank would expect the demand for multifamily loans to decline. Decreased loan origination volume would likely negatively impact the Bank's interest income. In addition, if interest rates were to rise rapidly and result in an economic decline, the Bank would expect its level of non-performing loans to increase. Such an increase in non-performing loans may result in an increase to the provision/allowance for loan losses and possible increased charge-offs, which would negatively impact the Company's net income.

Further, the actual amount of time before mortgage loans and MBS are repaid can be significantly impacted by changes in mortgage redemption rates and market interest rates. Mortgage prepayment, satisfaction and refinancing rates will vary due to several factors, including the regional economy in the area where the underlying mortgages were originated, seasonal factors, and other demographic variables. However, the most significant factors affecting prepayment, satisfaction and refinancing rates are prevailing interest rates, related mortgage refinancing opportunities and competition. The level of mortgage and MBS prepayment, satisfaction and refinancing activity impacts the Company's earnings due to its effect on fee income earned on prepayment and refinancing activities, along with liquidity levels the Company will experience to fund new investments or ongoing operations.

As a federally-chartered savings bank, the Bank is required to monitor changes in its Economic Value of Equity ("EVE"), which is the difference between the estimated market value of its assets and liabilities. In addition, the Bank monitors its EVE ratio, which is the EVE divided by the estimated market value of total assets and net interest income. To monitor its overall sensitivity to changes in interest rates, the Bank simulates the effect of instantaneous changes in net interest income of up to 400 basis points on its assets and liabilities. Interest rates do and will continue to fluctuate, and the Bank cannot predict future FOMC actions or other factors that will cause interest rates to vary.

The Company operates in a highly regulated industry and is subject to uncertain risks related to changes in laws, government regulation and monetary policy.

The Holding Company and the Bank are subject to extensive supervision, regulation and examination by the OCC (the Bank's primary regulator), the FRB (the Holding Company's primary regulator) and the FDIC, as its deposit insurer. Such regulation limits the manner in which the Holding Company and Bank conduct business, undertake new investments and activities and obtain financing. This regulation is designed primarily for the protection of the deposit insurance funds and the Bank's depositors, and not to benefit the Bank or its creditors. The regulatory structure also provides the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Failure to comply with applicable laws and regulations could subject the Holding Company and Bank to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Holding Company and Bank. For further information regarding the laws and regulations that affect the Holding Company and the Bank, see

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"Item 1. Business - Regulation - Regulation of Federal Savings Associations," and "Item 1. Business - Regulation - Regulation of Holding Company."

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on the Company's results of operations. The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in significant part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the Company's net interest margin. Government action can materially decrease the value of the Company's financial assets, such as debt securities, mortgages and MSR. Governmental policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board or governmental policies are beyond the Company's control and difficult to predict; consequently, the impact of these changes on the Company's activities and results of operations is difficult to predict.

Financial institution regulation has been the subject of significant legislation in recent years, and may be the subject of further significant legislation in the future, none of which is within the control of the Holding Company or the Bank. Significant new laws or changes in, or repeals of, existing laws may cause the Company's results of operations to differ materially. Further, federal monetary policy significantly affects credit conditions for the Company, primarily through open market operations in United States government securities, the discount rate for bank borrowings and reserve requirements for liquid assets. A material change in any of these conditions would have a material impact on the Bank, and therefore, on the Company's results of operations.

In addition, the Company expects to face increased regulation and supervision of the Bank's industry as a result of the financial crisis in the banking and financial markets, and there will be additional requirements and conditions imposed to the extent that it participates in any of the programs established or to be established by the U.S. Department of the Treasury ("Treasury") or by the federal bank regulatory agencies. Such additional regulation and supervision may increase costs and limit the Company's ability to pursue business opportunities.

Competition from other financial institutions in originating loans and attracting deposits may adversely affect profitability.

The Bank operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes, and continued consolidation.

The Bank's retail banking and a significant portion of its lending business are concentrated in the NYC metropolitan area. The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from 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. Management anticipates that the current level of competition for multifamily residential and commercial real estate loans will continue for the foreseeable future, and this competition may inhibit the Bank's ability to maintain its current level and pricing of such loans.

Other financial institutions that participated in the TARP Capital Purchase Program and the TLGP may have a source of funding that costs less than market-rate funding available to the Company. The Company has declined to participate in both the TARP Capital Purchase Program and the TLGP. The Bank's cost of borrowing may be higher than competitors with weaker balance sheets but with TARP and TLGP funding. The Bank's cost of funding may make it difficult for it to compete with its government-backed competitors.

Clients could pursue alternatives to the Bank's deposits, causing the Bank to lose a historically less expensive source of funding. The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. In addition, it must also compete for deposit monies against the stock

markets, mutual funds, and other securities. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has altered the deposit gathering landscape and may increase competitive pressures on the Bank.

The Bank may not be able to meet the cash flow requirements of its depositors and borrowers or meet its operating cash needs.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the Bank is used to make loans and repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits are established by the board of directors. The Holding Company's overall liquidity position and the liquidity position of the Bank are regularly monitored to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Funding sources include deposits, repayments of loans and MBS, investment security maturities and redemptions, advances from the FHLBNY and REPOS. The Bank maintains a portfolio of securities that can be used as a secondary source of liquidity. The Bank also can borrow through the Federal Reserve Bank's discount window. If the Bank was unable to access any of these

funding sources when needed, it might be unable to meet customers' needs, which could adversely impact the Company's financial condition, results of operations, cash flows, and level of regulatory capital.

The soundness of other financial institutions could adversely affect the Company.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. The Company has exposure to many different industries and counterparties. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by the Company or by other institutions. There is no assurance that any such losses would not materially and adversely affect the Company's results of operations.

Negative public opinion could damage the Company's reputation and adversely impact its business and revenues.

As a financial institution, the Bank's earnings and capital are subject to risks associated with negative public opinion. Negative public opinion could result from the Company's actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold by the Bank to meet customers' expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect the Company's ability to attract and/or retain clients and can expose the Company to litigation and regulatory action. Actual or alleged conduct by one of the Company's businesses can result in negative public opinion about its other businesses. Negative public opinion could also affect the Company's credit ratings, which are important to its access to unsecured wholesale borrowings. Significant changes in these ratings could change the cost and availability of these sources of funding.

The impact of recently enacted and proposed legislation and government programs to stabilize the financial markets cannot be predicted at this time.

During 2008 and 2009, there was unprecedented government intervention in response to the financial crises affecting the banking system and financial markets, including:

The enactment of the Emergency Economic Stabilization Act of 2008 ("EESA") in October 2008, which gave the Treasury the authority, among others, to purchase up to \$700 billion of troubled assets from financial institutions;

The announcements shortly thereafter by the Treasury, the FDIC and the FRB, respectively, of (i) the Capital Purchase Program ("CPP"), a \$250 billion voluntary capital purchase program under which qualifying financial institutions were given the ability to sell preferred shares to the Treasury, (ii) the TLGP, and (iii) further details of the Commercial Paper Funding Facility ("CPFF"), which provides a broad backstop for the commercial paper market;

The announcement by the Treasury in February 2009 of the Capital Assistance Program ("CAP") under which qualifying financial institutions were provided access to contingent common equity provided by the U.S. government as a bridge to private capital in the future;

The announcement by the federal banking regulators of the Supervisory Capital Assessment Program, under which the federal banking regulators measured the amount of additional capital, if any, each of the 19 largest U.S. bank holding companies would require in order to ensure that it would comfortably exceed minimum regulatory capital requirements at December 31, 2010 (as a result of which many of the nineteen institutions underwent capital raising or restructuring transactions to improve their capital base); and

The March 2009 announcement by the Treasury, in conjunction with the FDIC and the FRB, of the Public-Private Investment Program ("PPIP"), which consists of two discrete components: (1) the Legacy Loan Program, which was designed to facilitate the sale of commercial and residential whole loans and "other assets" currently held by U.S. banks, and (2) the Legacy Securities Program, which was designed to facilitate the sale of legacy residential MBS

and commercial MBS initially rated AAA and currently held by Financial Institutions (as defined under the EESA).

The Company did not participate in the TLGP, CPP, CPFF or CAP, and has not participated in either PPIP program.

Although it appears that there has been some stabilization of the U.S. financial markets as a result of the foregoing programs and other actions taken by the U.S. government, there can be no assurance as to the actual impact that such programs or any other governmental program will have on the financial markets and the economy in the future. The financial market and economic conditions that existed during the years 2008 through 2011 had, and to the extent that such conditions continue or worsen, will continue to have, an adverse affect on the Company's financial condition and results of operations, and could also materially and adversely affect the Company's business, access to credit or the trading price of the Holding

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Company's common stock. In addition, the Company expects to face increased regulation and supervision of the Bank's industry as a result of the financial crisis in the banking and financial markets, and there will be additional requirements and conditions imposed to the extent that it participates in any of the programs established or to be established by the Treasury or by the federal bank regulatory agencies. Such additional regulation and supervision may increase costs and limit the Company's ability to pursue business opportunities.

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

In February 2009, the FDIC adopted a final rule which set the initial base assessment rates beginning April 1, 2009 and provided for the following adjustments to an institution's assessment rate: (1) a decrease for long-term unsecured debt, including most senior and subordinated debt; (2) an increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, an increase for brokered deposits above a threshold amount. The Bank's deposit insurance assessments totaled \$2.6 million for the year ended December 31, 2011, compared to \$4.1 million for the year ended December 31, 2010.

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

On September 29, 2009, the FDIC adopted an amendment to the restoration plan that increased the deposit insurance assessment rate uniformly across all four risk categories by nine basis points (annualized) of insured deposits beginning January 1, 2011. In addition, on November 17, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay their quarterly deposit insurance assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 on December 30, 2009, together with their regular deposit insurance assessment for the third quarter of 2009. The Bank's payment on December 30, 2009 totaled approximately \$13.4 million, and was \$7.2 million as of December 31, 2011.

On October 19, 2010, the Board of Directors of the FDIC adopted 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 provides that the FDIC will forego the uniform nine basis point increase in initial assessment rates that was previously scheduled to take effect on January 1, 2011 and will maintain the current assessment rate schedule for all insured depository institutions until the reserve ratio reaches 1.15%.

On February 7, 2011, the FDIC adopted a final rule that re-defines the assessment base for deposit insurance assessments as average consolidated total assets minus average tangible equity, rather than on deposit bases, as required by the Reform Act, and revises the risk-based assessment system for all large insured depository institutions by introducing a scoring system. This system involves the FDIC establishing a score for each such institution which then translates into an assessment rate. See "Part 1. Item 1- Business Regulation - Regulation of Federal Savings Association - Insurance of Deposit Accounts" for a further discussion of the impact of this final rule.

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

adjustment will result in a downward adjustment.

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

The Reform Act includes provisions that restrict proprietary trading by banking entities, restrict the sponsorship of and investment in hedge funds and private equity funds by banking entities and that remove certain obstacles to the conversion of savings associations to national banks. Such provisions are still being finalized. The Company will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

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The Reform Act also includes provisions that create minimum standards for the origination of mortgage loans. Pursuant to the Reform Act, on April 19, 2011, the FRB requested public comment on a proposed rule under Regulation Z that would impose extensive regulations governing an institution's obligation to evaluate a borrower's ability to repay a mortgage loan. The rule would apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages or temporary loans). Consistent with the Reform Act, the proposal provides four options for complying with the ability-to-repay requirement. The proposal would also implement the Reform Act's limits on prepayment fees. This rulemaking will be finalized by the Bureau of Consumer Financial Protection. It is possible this rule may require the Bank to modify its underwriting practices and may cause an increase in compliance costs.

Recent OCC guidance regarding mortgage foreclosure processes and an OCC mandated self-assessment may increase the Bank's compliance costs and could impact its foreclosure process.

Several of the nation's largest mortgage loan servicers have experienced highly publicized issues with respect to their foreclosure processes. In light of these issues, on June 30, 2011, the OCC issued supervisory guidance regarding its expectations for the oversight and management of mortgage foreclosure activities by banks engaged in mortgage servicing, such as the Bank, to ensure that mortgage servicers comply with foreclosure laws, conduct foreclosure processing in a safe and sound manner and establish responsible business practices that provide accountability and appropriate treatment of borrowers in the foreclosure process. The OCC's supervisory guidance requires that all banks supervised by the OCC conduct a self-assessment of foreclosure management policies, including compliance with legal requirements, testing and file reviews and to take immediate corrective action with respect to any identified weaknesses in their foreclosure processes. As part of the self-assessment, the Bank is additionally required to determine if such weaknesses resulted in any financial harm to borrowers and provide remediation where appropriate. Compliance with the OCC's supervisory guidance and the mandated self-assessment is likely to increase the Company's non-interest expense. In addition, while the Bank does not believe that there are any material weaknesses in its foreclosure process or that its borrowers experienced any financial harm, the Bank may be required to enhance its policies and procedures to meet heightened standards and restrictions not currently set forth in any statutory laws or regulations.

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

The Reform Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and systemically important nonbank financial companies. These requirements must be no less than those to which insured depository institutions are currently subject, and the new requirements will effectively eliminate the use of trust preferred securities as a component of Tier 1 capital for depository institution holding companies of \$15 billion or greater. As a result, in July 2015, the Company will become subject to consolidated capital requirements to which it has not been previously subject. In addition, in December 2010, the Basel Committee on Banking Supervision announced the new "Basel III" capital rules, which set new standards for common equity, Tier 1 and total capital, determined on a risk-weighted basis. It is not yet known how these standards, which will be phased in over a period of years, will be implemented by U.S. regulators generally or the manner in which they will be applied to financial institutions of the Company's size.

Pursuant to the Reform Act, the FRB became responsible for the supervision of savings and loan holding companies on July 21, 2011. In accordance with this authority, on April 15, 2011, the FRB requested comment on proposed supervisory guidance pursuant to which the FRB is seeking to apply certain elements of its consolidated supervisory program for bank holding companies, including consolidated capital requirements, to savings and loan holding companies. Pursuant to the proposed supervisory guidance, the FRB is considering applying to savings and loan holding companies the same consolidated risk-based and leverage capital requirements currently applicable to bank holding companies. The FRB, together with the other federal banking agencies, expects to issue a notice of proposed

rulemaking that will outline how Basel III-based requirements will be implemented for all institutions, including savings and loan holding companies. The FRB expects that final rules establishing Basel III-based capital requirements would be finalized in 2012 and implementation would start in 2013.

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

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

Downgrades of the current "AAA" credit rating assigned to the U.S. Government could adversely affect the Bank and/or Holding Company.

On August 5, 2011, Standard & Poor's lowered the long-term sovereign credit rating assigned to the United States from "AAA" to "AA+" with a negative outlook, indicating a further rating downgrade is possible in the future. On August 2, 2011, Moody's Investors Service confirmed its "Aaa" rating for the United States, however, issued a negative outlook. On August 16, 2011, Fitch Ratings confirmed its AAA rating for the United States.

On August 5, 2011, the FDIC, Federal Reserve, OCC and National Credit Union Administration issued a joint press release stating that for risk-based capital purposes, the risk weights assigned to securities issued or guaranteed by the U.S. Government, its agencies and U.S. Government-sponsored entities will not change. However, a downgrade of the U.S. Government's sovereign credit rating below "AA" could cause a higher risk weight to be assigned to securities issued or guaranteed by the U.S. Government or its agencies that the Company holds in its portfolio and increase the Bank's and/or the Holding Company's risk-based capital requirements. In addition, a ratings downgrade of securities issued or guaranteed by the U.S. Government or its agencies held in the Company's portfolio could adversely affect the carrying value of such securities. At this time, the Company cannot assess the likelihood or severity of such a downgrade or the potential consequences it may have on either the capital position or investment portfolio of the Bank and/or Holding Company.

#### Item 1B. Unresolved Staff Comments

Not applicable.

#### Item 2. Properties

The headquarters of both the Holding Company and the Bank are located at 209 Havemeyer Street, Brooklyn, New York 11211. The headquarters building is fully owned by the Bank. The Bank conducts its business through twenty-six full-service retail banking offices located throughout Brooklyn, Queens, the Bronx and Nassau County, New York.

#### Item 3. Legal Proceedings

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

#### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

#### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Holding Company's common stock is traded on the Nasdaq National Market and quoted under the symbol "DCOM." Prior to June 15, 1998, the Holding Company's common stock was quoted under the symbol "DIME."

The following table indicates the high and low sales price for the Holding Company's common stock, and dividends declared, during the periods indicated. The Holding Company's common stock began trading on June 26, 1996, the date of the initial public offering.

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Quarter Ended	Twelve Months Ended December 31, 2011			Twelve Months Ended December 31, 2010		
	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
March 31st	\$0.14	\$15.89	\$14.02	\$0.14	\$14.06	\$11.21
June 30th	0.14	15.60	13.00	0.14	14.12	11.18
September 30th	0.14	15.17	9.61	0.14	14.32	11.78
December 31st	0.14	13.28	9.70	0.14	15.62	13.33

On December 30, 2011, the final trading date in the fiscal year, the Holding Company's common stock closed at \$12.60.

Management estimates that the Holding Company had approximately 8,100 shareholders of record as of March 1, 2012, including persons or entities holding stock in nominee or street name through various brokers and banks. There were 35,109,045 shares of Holding Company common stock outstanding at December 31, 2011.

During the year ended December 31, 2011, the Holding Company paid cash dividends totaling \$18.9 million, representing \$0.56 per outstanding common share. During the year ended December 31, 2010, the Holding Company paid cash dividends totaling \$18.6 million, representing \$0.56 per outstanding common share.

On January 26, 2012, the Board of Directors declared a cash dividend of \$0.14 per common share to all shareholders of record as of February 6, 2012. This dividend was paid on February 13, 2012.

The Holding Company is subject to the requirements of Delaware law, which generally limits dividends to an amount equal to the excess of net assets (i.e., the amount by which total assets exceed total liabilities) over statutory capital, or if no such excess exists, to net profits for the current and/or immediately preceding fiscal year.

As the principal asset of the Holding Company, the Bank could be called upon to provide funds for the Holding Company's payment of dividends (See "Item 1 – Business - Regulation – Regulation of Federal Savings Associations – Limitation on Capital Distributions"). (See also Note 2 to the Company's Audited Consolidated Financial Statements for a discussion of limitations on distributions from the Bank to the Holding Company).

In March 2004, the Holding Company issued \$72.2 million in trust preferred debt, with a stated annual coupon rate of 7.0%. The Holding Company re-acquired and retired \$1.5 million of this outstanding debt during 2009. Pursuant to the provisions of the debt, the Holding Company is required to first satisfy the interest obligation on the debt, which currently approximates \$4.9 million annually, prior to the authorization and payment of common stock cash dividends. Management of the Holding Company does not believe that this requirement will materially affect its ability to pay dividends to its common shareholders.

The Holding Company did not purchase any shares of its common stock into treasury during the three months ended December 31, 2011.

A summary of the shares repurchased by month is as follows:

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number	Average Price Paid Per	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that May Yet be
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	of Shares Purchased	Share	Announced Programs (1)	Purchased Under the Programs (1)
October 2011	-	-	-	1,124,549
N o v e m b e r 2011	-	-	-	1,124,549
D e c e m b e r 2011	-	-	-	1,124,549

(1) No existing repurchase programs expired during the three months ended December 31, 2011, nor did the Company terminate any repurchase programs prior to expiration during the quarter. The 1,124,549 shares that remained eligible for repurchase at December 31, 2011 are available under the Company's twelfth stock repurchase program, which was publicly announced in June 2007. The twelfth stock repurchase program authorized the purchase of up to 1,787,665 shares of the Holding Company's common stock, and has no expiration.

## Performance Graph

Pursuant to regulations of the SEC, the graph below compares the Company's stock performance with that of the total return for the U.S. Nasdaq Stock Market and an index of all thrift stocks as reported by SNL Securities L.C. from January 1, 2007 through December 31, 2011. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.

Index	Period Ending December 31,					
	2006	2007	2008	2009	2010	2011
Dime Community Bancshares, Inc.	100.00	95.14	102.57	95.50	123.82	111.37
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL Thrift	100.00	59.99	38.18	35.60	37.20	31.30

## Item 6. Selected Financial Data

## Financial Highlights

(Dollars in Thousands, except per share data)

The consolidated financial and other data of the Company as of and for the years ended December 31, 2011, 2010, 2009, 2008, and 2007 set forth below is derived in part from, and should be read in conjunction with, the Company's audited Consolidated Financial Statements and Notes thereto. Certain amounts as of and for the years ended December 31, 2010, 2009, 2008 and 2007 have been reclassified to conform to the December 31, 2011 presentation. These reclassifications were not material.

	At or for the Year Ended December 31,				
	2011	2010	2009	2008	2007
<b>Selected Financial Condition Data:</b>					
Total assets	\$4,021,180	\$4,040,295	\$3,952,274	\$4,055,598	\$3,501,175
Loans and loans held for sale (net of deferred costs or fees and the allowance for loan losses)	3,443,633	3,454,326	3,374,170	3,274,051	2,861,638
MBS	93,877	144,518	224,773	301,351	162,764
Investment securities (including FHLB NY capital stock)	232,642	145,491	104,485	80,898	73,204
Federal funds sold and other short-term investments	951	4,536	3,785	-	128,014
Goodwill	55,638	55,638	55,638	55,638	55,638
Deposits	2,343,701	2,350,581	2,216,836	2,260,051	2,179,998
Borrowings	1,205,455	1,256,205	1,335,355	1,346,840	958,745
Stockholders' equity	361,034	328,734	294,773	276,964	268,852
<b>Selected Operating Data:</b>					
Interest income	\$209,216	\$214,794	\$209,168	\$202,654	\$182,160
Interest expense	69,714	79,413	97,685	111,302	111,147
Net interest income	139,502	135,381	111,483	91,352	71,013
Provision for loan losses	6,846	11,209	13,152	2,006	240
Net interest income after provision for loan losses	132,656	124,172	98,331	89,346	70,773
Non-interest (loss) income	7,929	8,055	(745 )	2,814	10,420
Non-interest expense	61,688	61,977	57,310	49,973	45,502
Income before income tax	78,897	70,250	40,276	42,187	35,691
Income tax expense	31,588	28,861	14,087	14,159	13,248
Net income	\$47,309	\$41,389	\$26,189	\$28,028	\$22,443

	At or for the Year Ended December 31,									
	2011		2010		2009		2008		2007	
<b>SELECTED FINANCIAL RATIOS AND OTHER DATA (1):</b>										
Return on average assets	1.16	%	1.01	%	0.66	%	0.76	%	0.69	%
Return on average stockholders' equity	13.65		13.15		9.20		10.29		8.11	
Stockholders' equity to total assets at end of period	8.98		8.14		7.46		6.83		7.68	
Loans to deposits at end of period	147.80		147.77		153.18		145.64		131.97	
Loans to interest-earning assets at end of period	91.36		92.18		91.07		89.60		88.77	
Net interest spread (2)	3.38		3.34		2.73		2.34		1.88	
Net interest margin (3)	3.60		3.53		2.96		2.60		2.29	
Average interest-earning assets to average interest-bearing liabilities	112.07		109.32		108.99		108.35		111.48	
Non-interest expense to average assets	1.51		1.52		1.44		1.35		1.39	
Efficiency ratio (4)	41.64		42.74		48.65		51.25		55.88	
Effective tax rate	40.04		41.08		34.98		33.56		37.12	
Dividend payout ratio	30.00		45.16		70.89		65.88		83.58	
<b>Per Share Data:</b>										
Diluted earnings per share	\$ 1.40		\$ 1.24		\$ 0.79		\$ 0.85		\$ 0.67	
Cash dividends paid per share	0.56		0.56		0.56		0.56		0.56	
Book value per share (5)	10.28		9.50		8.57		8.10		7.93	
<b>Asset Quality Ratios and Other Data(1):</b>										
Net charge-offs	\$5,925		\$13,821		\$8,993		\$583		\$9	
Total non-performing loans (6)	28,973		20,168		11,294		7,402		2,856	
OREO	-		-		755		300		-	
Non-performing TRUPs	1,012		564		688		-		-	
Total non-performing assets	29,985		20,732		12,737		7,702		2,856	
Non-performing loans to total loans	0.84	%	0.58	%	0.33	%	0.22	%	0.10	%
Non-performing assets to total assets	0.75		0.51		0.32		0.19		0.08	
<b>Allowance for Loan Losses to:</b>										
Non-performing loans	78.04	%	95.03	%	190.41	%	235.80	%	538.76	%
Total loans (7)	0.58		0.55		0.63		0.53		0.53	
<b>Regulatory Capital Ratios: (Bank only)</b>										
<b>(1)</b>										
Tangible capital	9.11	%	8.23	%	7.60	%	7.63	%	7.88	%
Leverage capital	11.56		8.23		7.60		7.63		7.88	
Total risk-based capital	12.24		11.95		11.22		11.43		11.92	
<b>Earnings to Fixed Charges Ratios (8)</b>										
<b>(9):</b>										
Including interest on deposits	2.12	x	1.87	x	1.41	x	1.38	x	1.32	x
Excluding interest on deposits	2.78		3.24		1.72		1.80		1.98	
Full Service Branches	26		25		23		23		21	

(1) With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods. Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.

- (2) The net interest spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.
- (3) The net interest margin represents net interest income as a percentage of average interest-earning assets.
- (4) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income, excluding any gains or losses on sales of assets.
- (5) Book value per share equals total stockholders' equity divided by shares outstanding at each period end.
- (6) Includes non-performing loans designated as held for sale at period end.
- (7) Total loans represent loans and loans held for sale, net of deferred fees and costs, and excluding (thus not reducing the aggregate balance by) the allowance for loan losses.
- (8) For purposes of computing the ratios of earnings to fixed charges, earnings represent income before taxes, extraordinary items and the cumulative effect of accounting changes plus fixed charges. Fixed charges represent total interest expense, including and excluding interest on deposits.
- (9) Interest on unrecognized tax benefits totaling \$677,000, \$555,000, \$480,000 and \$509,000 is included in the calculation of fixed charges for the years ended December 31, 2010, 2009, 2008 and 2007, respectively.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Executive Summary

The Holding Company's primary business is the ownership of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, as well as income associated with Bank Owned Life Insurance. Non-interest expense primarily consists of employee compensation and benefits, federal deposit insurance premiums, data processing costs, and occupancy and equipment, marketing and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

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

The Company believes that multifamily residential and mixed-use loans in and around NYC provide advantages as investment assets. Initially, they offer a higher yield than investment securities of comparable maturities or terms to repricing. In addition, origination and processing costs for the Bank's multifamily residential and mixed use loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. Further, the Bank's market area has generally provided a stable flow of new and refinanced multifamily residential and mixed-use loan originations. In order to address the credit risk associated with multifamily residential and mixed use lending, the Bank has developed underwriting standards that it believes are reliable in order to maintain consistent credit quality for its loans.

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

The years ended December 31, 2009, 2010 and 2011 were dominated by a global real estate and economic recession fueled by significant weakness and/or failure in many of the world's largest financial institutions, coupled with ongoing economic and political turmoil in various parts of the world. These events led to historically high dislocations in credit markets, creating favorable origination spreads from the benchmark origination interest rates during the period. This increase, coupled with the continuation of historically low benchmark short-term interest rates by the FOMC (which greatly impact the pricing of the Bank's retail deposits), benefitted both the net interest spread and net interest margin during the years ended December 31, 2010 and 2011, thus favorably impacting the Company's consolidated earnings. Partially offsetting this benefit were credit costs on Bank-owned loans during 2010 and 2011, as well as increased credit costs recognized during 2009 on loans sold to FNMA with recourse. During the year ended December 31, 2011, the FOMC prolonged its monetary policy actions aimed at maintaining both short-term and long-term interest rates at historically low levels. This continued to benefit the Company's funding costs during the year ended December 31, 2011, while adversely impacting the average yield on its interest earning assets.

During the year ended December 31, 2011, the Company experienced an increased level of prepayment and satisfaction activity, as management elected not to pursue loans that were either: 1) unfavorable from an interest rate repricing standpoint; or 2) required underwriting criteria in excess of management's risk tolerance. Should such levels of prepayment continue, they will reduce the average yield (exclusive of contractual prepayment charges) of the Bank's loan portfolio, which would likely adversely impact the Company's net interest margin in future periods.

During the period January 1, 2009 to December 31, 2011, credit costs remained significantly higher than the levels experienced prior to 2009.

#### Critical Accounting Policies

Various elements of the Company's accounting policies are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. The Company's policies with respect to the methodologies it uses to determine the allowance for loan losses (including reserves for loan commitments), the liability for the First Loss Position, the valuation of

MSR, asset impairments (including the assessment of impairment of goodwill and other than temporary declines in the valuation of securities), the recognition of deferred tax assets and unrecognized tax positions, the recognition of loan income, the valuation of financial instruments, and accounting for defined benefit plans are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions or estimates could result in material variations in the Company's consolidated results of operations or financial condition.

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

**Allowance for Loan Losses and Reserve for Loan Commitments.** The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Note 6 to the Company's consolidated financial statements. The reserve for loan commitments is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any increases in this reserve are achieved via a transfer of reserves from the Bank's allowance for loan losses, with any subsequent resulting shortfall in the allowance for loan losses satisfied through the quarterly provision for loan losses. Any decreases in the loan commitment reserve are recognized as a transfer of reserve balances back to the allowance for loans losses at each period end.

**Reserve Liability for the First Loss Position.** The Bank's methods and assumptions utilized to periodically determine its reserve liability for the First Loss Position are summarized in Note 6 to the condensed consolidated financial statements.

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

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

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

To the extent that the valuation of the MSR (as determined in the manner indicated above) falls below its recorded balance, an impairment charge is recognized through a valuation allowance, with any adjustments to such allowance reflected in periodic earnings.

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

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

The Company identified a single reporting unit for purposes of its goodwill impairment testing, and thus performs its impairment test on a consolidated basis. The impairment test has two potential stages. In the initial stage, the Holding Company's market capitalization (reporting unit fair value) is compared to its outstanding equity (reporting unit carrying value). The Company utilizes closing price data for the Holding Company's common stock as reported on the Nasdaq National Market in

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order to compute market capitalization. The Company has designated the last day of its fiscal year as the annual date for impairment testing. The Company performed its annual impairment test as of December 31, 2011 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events or circumstances have occurred subsequent to December 31, 2011 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or circumstances would require the immediate performance of an impairment test in accordance with ASC 805-10.

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

At December 31, 2011, the Company owned eight TRUPS classified as held-to-maturity. Late in 2008, the market for these securities became highly illiquid, and continued to be deemed as such as of December 31, 2011. As a result, at both December 31, 2011 and 2010, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing as described in Note 17 to the Company's consolidated financial statements).

At December 31, 2011 and 2010, the Company had an investment in nine mutual funds totaling \$1.7 million that were classified as trading. All changes in valuation of these securities are recognized in the Company's results of operations.

Debt securities that are not classified as either held-to-maturity or trading are classified as available-for-sale.

Available-for-sale debt and equity securities that have readily determinable fair values are carried at fair value. All of the Company's available-for-sale securities at December 31, 2011 and 2010 had readily determinable fair values, which were based on published or securities dealers' market values.

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss, as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in fair value of any security below its carrying value is either temporary or other than temporary. Unrealized losses on held-to-maturity securities that are deemed temporary are disclosed but not recognized. Unrealized losses on debt or equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of deferred taxes as other comprehensive income or loss. All unrealized losses that are deemed other than temporary on either available-for-sale or held-to-maturity securities are recognized immediately as a reduction of the carrying amount of the security, with a corresponding decline in either net income or accumulated other comprehensive income or loss in accordance with ASC 320-10-65. See Note 3 to the Company's consolidated financial statements for a reconciliation of OTTI on securities during the years ended December 31, 2011 and 2010.

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

Unrecognized Tax Positions. Under current accounting rules, all tax positions adopted are subjected to two levels of evaluation. Initially, a determination is made, based on the technical merits of the position, as to whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The

tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. The Company had no material uncertain tax positions as of December 31, 2011. As of December 31, 2010, uncertain tax positions totaled \$1.4 million, which were eliminated during the year ended December 31, 2011.

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

Please refer to "Part 1 - Item 1 – Business - Asset Quality - Monitoring and Collection of Delinquent Loans" for a discussion of management's policies for determining whether a loan is maintained on accrual or non-accrual status.

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**Accounting for Defined Benefit Plans.** Defined benefit plans are accounted for in accordance with ASC 715, which requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of such benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

### Liquidity and Capital Resources

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

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

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

Retail branch and internet banking deposits decreased \$6.9 million during the year ended December 31, 2011, compared to an increase of \$133.7 million during the year ended December 31, 2010. Within deposits, core deposits (i.e., non-CDs) increased \$75.2 million during the year ended December 31, 2011, due to both successful gathering efforts tied to promotional offerings as well as increased commercial checking balances, while CDs declined \$82.1 million during the year ended December 31, 2011, primarily as a result of runoff of maturing promotional deposits for which the Bank did not bid aggressively to retain. During the year ended December 31, 2010, CDs increased \$74.6 million, fueled by a promotional 15-month individual retirement account CD marketing campaign, while core deposits (i.e., non-CDs) increased \$59.1 million, led by \$26.8 million of inflows of competitively priced savings accounts.

During the year ended December 31, 2011, the Bank reduced its FHLBNY advances by \$50.8 million. The Bank elected to both restrict asset growth and reduce year-end cash and due from banks, and thus utilized cash flows from real estate loans and MBS to fund loan originations and operations. These cash flows exceeded its cash needs, and the Bank was able to utilize the excess proceeds to reduce its FHLBNY advances. The Bank coupled the reduction of its FHLBNY advances with a restructuring of a portion of its remaining FHLBNY advance portfolio by extending its

term to maturity and lowering its average interest rate. During the year ended December 31, 2010, the Company converted \$35.0 million of REPO borrowings into an FHLB NY advance with the same remaining term to maturity, paying a small conversion premium in the process. The transaction was accomplished in order to convert the underlying collateral from investment securities and MBS (required for REPO borrowings) to real estate loans (permitted for FHLB NY advances). Excluding the conversion of the \$35.0 million of REPO borrowings, the Company reduced FHLB NY advances by \$54.2 million during the year ended December 31, 2010 due to the significant inflow of deposits which was sufficient to fund operations during the period.

During the year ended December 31, 2011, principal repayments totaled \$697.3 million on real estate loans and \$48.9 million on MBS. During the year ended December 31, 2010, principal repayments totaled \$425.7 million on real estate loans and \$78.4 million on MBS. The increase in principal repayments on real estate loans resulted from increased refinancing activity that

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was stimulated by lower marketplace offering rates . The decline in principal repayments on MBS resulted from a reduction of \$64.5 million in their average balance from the year ended December 31, 2010 to the year ended December 31, 2011.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through use of its borrowing line at the FHLB NY . At December 31, 2011, the Bank had an additional potential borrowing capacity of \$463.8 million through the FHLB NY, subject to customary minimum common stock ownership requirements imposed by the FHLB NY (i.e., 4.5% of the Bank's outstanding FHLB NY borrowings).

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

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury and the payment of quarterly cash dividends to shareholders of the Holding Company's common stock. During the years ended December 31, 2011 and 2010, real estate loan originations totaled \$678.8 million and \$541.7 million, respectively. Purchases of investment securities (excluding trading securities, short-term investments and federal funds sold) were \$293.2 million during the year ended December 31, 2011, compared to maturities and calls of \$204.0 million on such securities during the period. All of these purchases were limited to medium-term agency notes. Purchases of investment securities (excluding trading securities, short-term investments and federal funds sold) were \$147.4 million during the year ended December 31, 2010. The increase in the aggregate level of investment security purchases resulted from management's election to: (i) retain a high level of liquidity in order to maintain balance sheet flexibility during 2011, especially in the event deposit balances declined as a result of their historically low offering rates; and (ii) increase the yield on the Company's liquid funds.

The Holding Company did not repurchase any shares of its common stock during the years ended December 31, 2011 and 2010. As of December 31, 2011, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the \$12.60 per share closing price of its common stock as of December 31, 2011, the Holding Company would utilize \$14.2 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

During the year ended December 31, 2011, the Holding Company paid \$18.9 million in cash dividends on its common stock, up from \$18.6 million during the year ended December 31, 2010, reflecting an increase of 515,865 in issued and outstanding shares from December 31, 2010 to December 31, 2011.

#### Contractual Obligations

The Bank has outstanding at any time, a significant number of borrowings in the form of FHLB NY advances or REPOS, as well as fixed interest obligations on CDs. The Holding Company also has \$70.7 million of trust preferred borrowings due to mature in April 2034, which are callable at any time after April 2009. The Holding Company currently does not intend to call this debt.

The Bank is obligated under leases for rental payments on certain of its branches and equipment. A summary of CDs, borrowings and lease obligations at December 31, 2011 is as follows:

#### Payments Due By Period

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Contractual Obligations	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
(Dollars in thousands)					
CDs	\$561,147	\$274,060	\$99,575	\$42,769	\$997,551
Weighted average interest rate of CDs (1)	1.24 %	2.49 %	2.79 %	2.93 %	1.82 %
Borrowings	\$172,275	\$343,000	\$509,500	\$180,680	\$1,205,455
Weighted average interest rate of borrowings	2.72 %	2.76 %	3.35 %	5.11 %	3.55 %
Operating lease obligations	\$2,681	\$5,482	\$5,314	\$20,919	\$34,396

(1) The weighted average cost of CDs, inclusive of their contractual compounding of interest, was 1.85% at December 31, 2011.

## Off-Balance Sheet Arrangements

From December 2002 through February 2009, the Bank originated and sold multifamily residential mortgage loans in the secondary market to FNMA subject to the First Loss Position. See "Item I – Part 1. Business – Asset Quality – Problem Loans Serviced for FNMA Subject to the First Loss Position" for a discussion of the First Loss Position obligation associated with these loans.

In addition, as part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are granted pursuant to its regular underwriting standards. Since many of these loan commitments expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows. The following table presents off-balance sheet arrangements as of December 31, 2011:

	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
(Dollars in thousands)					
<b>Credit Commitments:</b>					
Available lines of credit	\$36,040	\$-	\$-	\$-	\$36,040
Other loan commitments	50,033	-	-	-	50,033
First Loss Position	16,356	-	-	-	16,356
<b>Total Credit Commitments</b>	<b>\$102,429</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$102,429</b>

## Analysis of Net Interest Income

The Company's profitability, like that of most banking institutions, is dependent primarily upon net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits or borrowings. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned or paid on them. The following tables set forth certain information relating to the Company's consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, and reflect the average yield on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated. Average balances are derived from daily balances. The yields and costs include fees that are considered adjustments to yields. All material changes in average balances and interest income or expense are discussed in the sections entitled "Interest Income" and "Interest Expense" in the comparisons of operating results commencing on page F-60.

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For the Year Ended December 31,									
2011			2010			2009			
(Dollars in Thousands)									
	Average		Average	Average		Average	Average		Average
	Balance	Interest	Yield/ Cost	Balance	Interest	Yield/ Cost	Balance	Interest	Yield/ Cost
<b>Assets:</b>									
Interest-earning assets:									
Real estate loans (1)	\$3,445,969	\$200,034	5.80%	\$3,454,327	\$202,591	5.86%	\$3,285,841	\$193,689	5.89%
Other loans	1,066	97	9.10	1,332	123	9.23	1,604	143	8.91
Investment securities	153,031	1,401	0.92	63,620	1,277	2.01	27,723	874	3.15
MBS	111,884	5,043	4.51	176,446	7,820	4.43	258,989	11,548	4.46
Federal funds sold and other short-term investments	163,853	2,641	1.61	141,282	2,983	2.11	187,707	2,914	1.55
Total interest-earning assets	3,875,803	\$209,216	5.40	3,837,007	\$214,794	5.60	3,761,864	\$209,168	5.56
Non-interest earning assets	217,605			246,380			204,577		
Total assets	\$4,093,408			\$4,083,387			\$3,966,441		
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