DIME COMMUNITY BANCSHARES INC
Form 10-K
March 14, 2011

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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Year Ended December 31, 2010

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

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

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

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

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

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

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

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

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

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 X 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 X No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2010 was approximately $340 million based upon the $9.11 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2010.

As of March 11, 2011, there were 34,683,130 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 19, 2011 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-five full-service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York.

The Bank's principal business has been, and continues to be, gathering deposits from customers within its market area, and investing them primarily in multifamily residential mortgage loans, commercial real estate loans, one- to four-family residential mortgage loans, construction and land acquisition loans, 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").

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 Thrift Supervision ("OTS"), 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, 2010, the Bank's QTL Ratio was 70.7%, and the Bank maintained more than 65% of its portfolio assets in qualified thrift investments throughout the year ended December 31, 2010.

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

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

Market Area and Competition

The Bank has historically operated as a community-oriented financial institution providing financial services and loans primarily for multifamily housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York, and operates twenty-five 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, and approximately 80% of these loans were secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2010.

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, 2010. Management anticipates that the current level of competition for multifamily residential and commercial real estate loans will continue for the foreseeable future, which may inhibit the Bank's ability to maintain its current volume and profitability of such loans.

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 market and mutual funds, especially during periods of strong performance in the equity markets. 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 strategies 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 year ended December 31, 2010, 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. In addition, poor national economic conditions, such as those present throughout 2010 and currently, often result in lower short-term interest rates, which usually benefits the Bank's financial performance.

Lending Activities

Loan Portfolio Composition. At December 31, 2010, the Bank's loan portfolio totaled $3.47 billion, consisting primarily of mortgage loans secured by multifamily residential apartment buildings, including buildings organized under a cooperative form of ownership ("Underlying Cooperatives"); commercial properties; real estate construction and land acquisition; and one- to four-family residences and individual cooperative apartments. Within the loan portfolio, $2.50 billion, or 72.1%, were classified as multifamily residential loans; $833.2 million, or 24.0%, were classified as commercial real estate loans; $117.3 million, or 3.4%, were classified as one- to four-family residential, including condominium or cooperative apartments; $285,000, or 0.01%, were loans to finance multifamily residential and one- to four-family residential properties with full or partial credit guarantees provided by either the Federal Housing Administration (''FHA'') or the Veterans Administration (''VA''); and $15.2 million, or 0.4%, 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, 2010, $2.86 billion, or 82.6%, were adjustable-rate loans (''ARMs'') and $604.5 million, or 17.4%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 80% were ARMs at December 31, 2010, 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, 2010, the Bank's loan portfolio additionally included $2.5 million in consumer loans, composed of passbook loans, consumer installment loans, overdraft loans and mortgagor advances. As of December 31, 2010, $2.90 billion, or 85.5% 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, 2010, the Bank had $72.9 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2011. At December 31, 2009, the Bank had $89.0 million of loan commitments that were accepted by the borrower. All of these commitments closed during 2010.

At December 31, 2010, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained, totaled $596.3 million. Of this total, $224.4 million were sold without recourse, while remaining $371.9 million represented whole loans sold to the Federal National Mortgage Association ("FNMA") that were subject to recourse exposure that totaled $16.8 million at December 31, 2010.

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,									
	2010	Percent of Total	2009	Percent of Total	2008	Percent of Total	2007	Percent of Total	2006	Percent of Total
	Dollars in Thousands									
Real Estate loans:										
Multifamily residential	$2,499,980	72.08%	$2,376,756	70.08%	$2,241,800	68.18%	$1,948,765	67.78%	$1,855,080	68.64%
Commercial real estate	833,168	24.02	834,724	24.61	848,208	25.80	728,129	25.32	666,927	24.68
One- to four-family	107,800	3.11	121,091	3.57	130,663	3.97	139,541	4.85	146,613	5.42
Cooperative apartment units	9,468	0.27	10,800	0.32	11,632	0.35	6,172	0.21	7,224	0.27
FHA/VA insured	285	0.01	522	0.02	742	0.02	1,029	0.04	1,236	0.05
Construction and land acquisition	15,238	0.44	44,544	1.31	52,982	1.61	49,387	1.72	23,340	0.86
Total mortgage loans	3,465,939	99.93	3,388,437	99.91	3,286,027	99.93	2,873,023	99.92	2,700,420	99.92
Other loans:										
Student loans	-	-	-	-	-	-	-	-	-	-
Depositor loans	$530	0.02	$830	0.02	$1,059	0.03	$1,122	0.04	$1,172	0.04
Consumer installment and other	2,010	0.05	2,391	0.07	1,132	0.04	1,047	0.04	1,033	0.04
Total other loans	2,540	0.07	3,221	0.09	2,191	0.07	2,169	0.08	2,205	0.08
Gross loans	3,468,479	100.00%	3,391,658	100.00%	3,288,218	100.00%	2,875,192	100.00%	2,702,625	100.00%
Net unearned costs	5,013		4,017		3,287		1,833		1,048	
Allowance for loan losses	(19,166)		(21,505)		(17,454)		(15,387)		(15,514)	
Loans, net	$3,454,326		$3,374,170		$3,274,051		$2,861,638		$2,688,159	
Loans serviced for others:										

One- to four-family and cooperative apartment	$12,559	$15,657	$19,181	$21,515	$24,395
Multifamily residential	583,751	654,452	640,200	541,868	494,770
Total loans serviced for others	$596,310	$670,109	$659,381	$563,383	$519,165

Loan Originations, Purchases, Sales and Servicing. For the year ended December 31, 2010, total loan originations were $541.7 million. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. ARMs were approximately 91% 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. One- to four-family adjustable- and fixed-rate mortgage loans with maturities up to 15 years are generally retained for the Bank's portfolio. Generally, the Bank sells its newly originated one- to four-family fixed-rate mortgage loans with maturities greater than fifteen years in the secondary market.

From December 2002 through February 2009, the Bank sold multifamily residential loans to 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 existing portfolio of sold loans. The Bank sold one loan to FNMA totaling $3.2 million during the year ended December 31, 2009, as this loan was subject to a commitment executed prior to the expiration of the FNMA agreement. The Bank sold $27.5 million of such loans to FNMA during the year ended December 31, 2008.

The Bank currently has no formal arrangement pursuant to which it sells commercial real estate loans to the secondary market. The Bank sold participation interests in multifamily loans totaling $18.4 million, $100.0 million and $114.6 million to third party financial institutions during the years ended December 31, 2010, 2009, and 2008, respectively. 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 retains the servicing rights in connection with multifamily loans it sells in the secondary market. As of December 31, 2010, the Bank was servicing $596.3 million of loans for non-related institutions. 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 sold at the time of sale. At December 31, 2010, the Bank had recorded mortgage servicing rights ("MSR") of $2.3 million associated with the sale of one- to four-family and multifamily residential loans to FNMA and other third party institutions.

Sales of fixed-rate one- to four-family mortgage loans totaled $6.9 million, $16.1 million, and $8.2 million, respectively, during the years ended December 31, 2010, 2009, and 2008, 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.

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,				
	2010	2009	2008	2007	2006
	Dollars in Thousands				
Gross loans:					
At beginning of period	$3,391,658	$3,288,218	$2,875,192	$2,702,625	$2,611,594
Real estate loans originated:					
Multifamily residential	467,160	369,424	786,918	391,882	388,102
Commercial real estate	58,687	49,827	226,605	124,262	133,099
One- to four-family (1)	7,431	25,399	36,962	27,425	19,070
Cooperative apartment units	-	-	7,178	-	210

Equity lines of credit on multifamily residential or commercial properties	6,540	8,808	10,843	5,777	7,977
Construction and land acquisition	1,901	10,944	18,215	25,180	14,768
Total mortgage loans originated	541,719	464,402	1,086,721	574,526	563,226
Other loans originated	1,756	1,639	2,640	1,772	1,688
Total loans originated	543,475	466,041	1,089,361	576,298	564,914
Loans purchased (2)	45,096	90,648	-	-	-
Less:					
Principal repayments	435,944	327,433	523,788	326,103	328,453
Loans sold	66,584	119,350	150,983	77,628	145,430
Write down of principal balance for expected loss	8,902	5,515	-	-	-
Loans transferred to other real estate owned	320	951	1,564	-	-
Gross loans at end of period	$3,468,479	$3,391,658	$3,288,218	2,875,192	$2,702,625

(1) Includes one- to four-family home equity and home improvement loans.
(2) Includes $22.3 million and $31.5 million of loans re-acquired from FNMA during the years ended December 31, 2010 and 2009, respectively, that were previously sold with recourse to FNMA.

Loan Maturity and Repricing. The following table distributes the Bank's loan portfolio (including loans held for sale) at December 31, 2010, 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.

	At December 31, 2010							
	Real Estate Loans							
	Multifamily Residential	Commercial Real Estate	One- to Four-Family	Cooperative Apartment	FHA/VA Insured	Construction and Land Acquisition	Other Loans	Total Loans
	(Dollars In Thousands)							
Amount due to Mature or Reprice During the Year Ending:								
December 31, 2011	$ 267,957	$ 177,119	$ 27,828	$ 8,536	-	$ 15,238	$ 2,540	$ 499,218
December 31, 2012	272,091	133,471	19,108	152	$ 79	-	-	424,901
December 31, 2013	678,425	157,835	15,760	80	206	-	-	852,306
December 31, 2014	404,536	125,634	11,141	19	-	-	-	541,330
December 31, 2015	462,893	108,770	10,415	45	-	-	-	582,123
Sub-total	2,085,902	702,829	84,252	8,832	285	15,238	2,540	2,899,878
December 31, 2016 through December 31, 2019	368,426	113,452	17,048	337	-	-	-	499,263
December 31, 2020 and beyond	45,652	16,887	6,500	299	-	-	-	69,338
Total	$ 2,499,980	$ 833,168	$ 107,800	$ 9,468	$ 285	$ 15,238	$ 2,540	$ 3,468,479

The following table sets forth the outstanding principal balance in each loan category (including loans held for sale) at December 31, 2010 that is due to mature or reprice after December 31, 2011, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2011		
	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Mortgage loans:			
Multifamily residential	$436,419	$1,795,604	$2,232,023
Commercial real estate	115,572	540,477	656,049
One- to four-family	30,822	49,150	79,972
Cooperative apartment	767	165	932
FHA/VA insured	285	-	285
Construction and land acquisition	-	-	-
Other loans	-	-	-
Total loans	$583,865	$2,385,396	$2,969,261

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, 2010, $2.50 billion, or 72.1% of the Bank's gross loan portfolio, were multifamily residential loans. Of the multifamily residential loans, $2.25 billion, or 90.0%, were secured by apartment buildings and $249.6 million, or 10.0%, were secured by Underlying Cooperatives. The Bank also had $833.2 million of commercial real estate loans in its portfolio at December 31, 2010, representing 24.0% of its total loan portfolio. Of this total, approximately $468.1 million were secured by collateral containing strictly commercial tenants, while the remaining $365.1 million had a portion of the underlying collateral composed of residential units.

The Bank originated multifamily residential and commercial real estate loans totaling $525.8 million during the year ended December 31, 2010 and $419.3 million during the year ended December 31, 2009. At December 31, 2010, the Bank had commitments accepted by borrowers to originate $69.6 million of multifamily residential and commercial real estate loans, compared to $87.1 million outstanding at December 31, 2009.

At December 31, 2010, 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. Loans secured by fully residential apartment buildings were classified by the Bank 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 multifamily residential or commercial real estate loans based upon the percentage of the property's rental income received from its residential compared to its commercial tenants. If 50% or more of the rental income was received from residential tenants, the full balance of the loan was classified as multifamily residential. If less than 50% of the rental income was received from residential tenants, the full balance of the loan was classified as commercial real estate. At December 31, 2010, mixed-use properties classified as multifamily residential or commercial real estate loans totaled $1.17 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, 2010, had an average loan size of approximately $1.5 million. Multifamily residential loans in this range are generally secured by buildings that possess between 5 and 100 apartments. As of December 31, 2010, the Bank had a total of $2.35 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units, representing approximately 68% 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. Economic events and government regulations, such as rent control and rent stabilization laws, which are outside the control of the borrower or the Bank, could impair 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 in overhead expenses (e.g., utilities, taxes, and insurance).

The 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 53% and 200%, respectively, on all multifamily and commercial real estate loans originated during the year ended December 31, 2010. 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. 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, 2010, the Bank had 505 multifamily residential and commercial real estate loans in portfolio with principal balances greater than $2.0 million, totaling $2.04 billion. Within this total were nineteen loans totaling $269.6 million with outstanding balances greater than $10.0 million. These 505 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 FHLBNY advance rate plus a spread typically approximating 250 basis points, but generally may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the majority of the life of the loans. The Bank also offers fixed-rate, self-amortizing, multifamily residential and commercial real estate loans with maturities of up to fifteen years.

Commercial real estate loans are generally viewed as exposing lenders to a greater risk of loss than both one- to four-family and multifamily residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, as well as the success of the business and retail tenants occupying the properties, repayment of such loans are generally more vulnerable to weak economic conditions. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon 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; and (ii) the Bank will generally favor investments in mixed-use commercial properties that have some portion of income derived from residential units, which provide a reliable source of cash flow and lower vacancy rates. At December 31, 2010, approximately $365.1 million, or 10.5%, 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, 2010.

The Bank's three largest multifamily residential loans at December 31, 2010 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 $22.5 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) an $18.0 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, 2010.

The Bank's three largest commercial real estate loans at December 31, 2010 were: (i) a $14.7 million loan originated in May 2005 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 containing, in aggregate, fourteen retail units and 20 office rental units, and located in Queens, New York; 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 $106.4 million at December 31, 2010, of which $53.3 million were secured by office buildings and $53.1 million were secured by retail stores. Of these 10 loans, $44.9 million were located in Manhattan, New York, $17.6 million in New Jersey, $13.5 million in Queens, New York, and the remainder were located in other neighborhoods within the NYC metropolitan area. Excluding the 10 largest loans, the remaining loan portfolio containing only commercial tenants totaled 237 loans, consisting primarily of office and retail space, and had an average loan size approximating $1.5 million at December 31, 2010.

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. The Bank's highest individual borrower fell significantly below this limitation at December 31, 2010. (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, 2010, within the regulatory limit of $50.1 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 $38.6 million at December 31, 2010. 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, 2010.

Small Mixed-Use Lending (Small Investment Property Loans). In 2003, the Bank began originating small investment property loans. Small investment property loans are 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 can be underwritten to a maximum loan-to-value ratio of 80%, and are required to be personally guaranteed by the borrowers. The appraised value of small investment properties is 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 may vary 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 is used, loans can have debt service coverage ratios below 100%. In such cases, the Bank looks to the borrower’s financial capacity to service the debt. In the minority of cases where the income approach is used to appraise value, small investment property loans are underwritten to a minimum debt service ratio of 110%. Small investment property loans typically carry higher rates of interest in order to compensate the Bank for the assumed increased risk of default. Because these loans are required to be personally guaranteed, the Bank relies heavily on both the financial and credit information of borrowers in its underwriting. At December 31, 2010, the Bank held $67.1 million of loans in portfolio classified as small investment property loans, or approximately 1.9% of the gross loan portfolio, with a weighted average borrower FICO score of 716 and a weighted average loan-to-value ratio of 63%. The Bank does not currently originate loans under this program due to the small average loan size combined with rates that are currently deemed unattractive for this asset class.

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 $7.4 million of one- to four-family mortgages during the year ended December 31, 2010, including home equity and home improvement loans. At December 31, 2010, $117.3 million, or 3.4%, 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 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 $9.5 million, or 0.3% of total loans, as of December 31, 2010. The Bank did not originate any cooperative unit loans during the year ended December 31, 2010.

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 with maturities in excess of 15 years. One to four-family loans sold to PHH totaled $6.9 million during the year ended December 31, 2010. As of December 31, 2010, the Bank's portfolio of one- to four-family fixed-rate mortgage loans serviced for others totaled $12.6 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. On home equity and home improvement loans, the borrower pays an initial interest rate equal to the prime interest 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 $34.0 million at December 31, 2010.

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 with changes in the published "prime lending" rate. It generally ranges from 100 to 200 basis points above the published prime rate with a floor rate, based upon the loan-to-value ratio of the combined first mortgage and equity line at the time of origination of the equity line of credit. The outstanding balance of these equity loans (which are included in the $34.0 million of total outstanding home equity and home improvement loans discussed in the previous paragraph) was $17.9 million at December 31, 2010, on outstanding total lines of $44.0 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 these 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, 2010 and 2009, respectively, the Bank funded $1.9 million and $10.9 million of construction advances on previously approved construction loans. At December 31, 2010, the Bank had

$2.4 million in unfunded construction loan commitments. The last new construction loan commitment issued by the Bank occurred in September 2008.

Land 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 70% at origination, and require a separate construction or permanent loan for any future development activity. Land acquisition loans totaled $1.0 million at December 31, 2010.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authorities for individual officers related to the various loan products offered by the Bank. In addition, the Bank maintains a Loan Operating Committee entrusted with loan approval authority. The Chief Executive Officer, President, Chief Financial Officer, Chief Investment Officer, Chief Retail Officer and Chief Lending Officer are members of the Loan Operating Committee. The Loan Operating Committee has authority to approve portfolio loan originations in amounts up to $3.0 million and loans originated and sold to PHH in amounts up to $4.0 million (although loans in excess of $1.5 million are not currently offered by the Bank through the PHH program). Both the Loan Operating Committee and the Bank's Board of Directors must approve all portfolio loan originations exceeding $3.0 million. 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, 2010 and December 31, 2009, the Company had neither whole loans nor loans underlying MBS that would be considered subprime loans, i.e., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See 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 loans that have missed three consecutive monthly payments, at which time the Bank generally does not recognize the interest from the third month and reverses all interest associated with the first two missed payments. The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status, and does not accept partial payments on loans on which foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to Other Real Estate Owned ("OREO"). The Bank generally utilizes all available remedies in an effort to resolve either non-accrual loans or OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

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

Non-accrual Loans

Within the Bank's portfolio, non-accrual loans totaled $20.2 million and $11.3 million at December 31, 2010 and December 31, 2009, respectively, representing 0.58% and 0.33% of total loans at December 31, 2010 and December 31, 2009. During the year ended December 31, 2010, twenty-two loans totaling $16.3 million were added to non-accrual status. Partially offsetting this increase were ten loans totaling $5.7 million that were removed from non-accrual status as they were satisfied during the period, $1.5 million of principal charge-offs on seven loans, and one non-accrual loan totaling $320,000 that was transferred to OREO. The difficulties experienced in both the national real estate and financial services marketplaces continued to adversely impact the multifamily and commercial real estate markets, albeit to a lesser extent locally, during the year ended December 31, 2010.

Impaired Loans

A loan is considered impaired when it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. A loan is not deemed impaired, even during a period of delayed payment by the borrower, if the Bank ultimately expects to collect all amounts due, including interest accrued at the contractual rate. Generally, the Bank considers non-accrual and troubled-debt restructured multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans exceeding $730,000 (the FNMA single family loan limit for high cost areas), to be impaired. Non-accrual one-to four-family loans of $730,000 or less, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment. Impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds its likely realizable value (typically obtained from an appraisal of the underlying collateral). Principal balances of all impaired loans are reduced to their likely realizable value, as determined by the impairment analysis. The recorded investment in loans deemed impaired was approximately $44.1 million, consisting of sixty-four loans, at December 31, 2010, compared to $15.0 million, consisting of nineteen loans, at December 31, 2009. During the year ended December 31, 2010, forty-six loans totaling $37.2 million were added to impaired status, while seven loans totaling $5.1 million that were impaired at December 31, 2009 were sold, and one $320,000 loan was transferred to OREO. In addition, on eight loans deemed impaired at both December 31, 2010 and 2009, $2.7 million of principal was charged-off during the year ended December 31, 2010.

The following is a reconciliation of non-accrual and impaired loans at December 31, 2010:

	(Dollars in Thousands)	
Non-accrual loans	$ 20,168	
Non-accrual one- to four-family and consumer loans with balances of $730,000 or less	(340)	
Troubled debt restructured loans retained on accrual status	12,422	
Other loans deemed impaired but retained on accrual status	11,847	(a)
Impaired loans	$ 44,097	

(a) Amount comprised of $8.3 million of loans 90 days or more past due on their contractual maturity and retained on accrual status, and $3.5 million of loans classified as substandard and retained on accrual status.

Troubled-Debt Restructurings ("TDRs")

Under ASC 310-40-15, the Bank is required to account for certain loan modifications or restructurings as TDRs. In determining whether a loan modification meets the criteria for classification as a TDR, management considers the following:

- 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 or accrued interest have been reduced

In instances in which the interest rate has been reduced or the loan term extended, management further considers the presence of each of the following:

- 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.
- The terms of the restructured loan are comparable to the terms offered by the Bank to non-troubled debtors.

The Bank never accepts receivables or equity interests in satisfaction of TDRs. Since all TDRs are collateralized by real estate, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment. Any shortfall in valuation on TDRs is accounted for through a charge-off, which can impact the level of periodic loan loss provisions.

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

The following table summarizes TDRs for the periods indicated:

	At or for the Year Ended December 31, 2010		At or for the Year Ended December 31, 2009	
	# Loans	Balance	# Loans	Balance
	(Dollars in Thousands)			
Number of loans modified in a manner that meets the definition of a TDR	18	$24,928	2	$4,277
Concessions granted:				z
Reduction of outstanding principal due	-	-	1	2,550
Deferral of principal amounts due	17	16,342	2	4,277
Temporary reduction in interest rate	6	10,517	2	4,277
Below market interest rate granted	-	-	-	-
Outstanding principal balance immediately before modification	18	24,928	2	4,277
Outstanding principal balance immediately after modification	18	24,928	2	4,277
Aggregate principal charge-off recognized on TDRs outstanding at period end	9	2,204	-	-
Outstanding principal balance at period end	19	22,558	3	5,317
TDRs that re-defaulted subsequent to being modified (at period end):	7	10,136	2	4,277
TDRs on accrual status at period end	12	12,422	1	1,040
TDRs on non-accrual status at period end	7	10,136	2	4,277

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, 2010. At December 31, 2009, the Bank owned five OREO properties with an aggregate recorded balance of $755,000. During the year ended December 31, 2010, the Company added one OREO property with a balance of $320,000 and disposed of six OREO properties with an aggregate balance of $653,000. The Company also reduced the balance of two OREO properties by a total of $422,000 during the period to reflect their likely disposal value. In all instances, these reductions reflected valuation information obtained during the reporting period.

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,				
	2010	2009	2008	2007	2006
Non-accrual Loans and Non-Performing Assets	(Dollars in Thousands)				
One- to four-family residential and cooperative apartment	$223	$397	$592	$38	$86

Multifamily residential and residential mixed use	7,548		7,820		3,366		2,236		1,655	
Commercial real estate and mixed use commercial real estate	12,380		3,070		3,439		577		1,859	
Consumer	17		7		5		5		6	
Total non-accrual loans	20,168		11,294		7,402		2,856		3,606	
Non-performing pooled bank trust preferred securities ("TRUPs")	564		688							
OREO	-		755		300		-		-	
Total non-performing assets	20,732		12,737		7,702		2,856		3,606	
Ratios:										
Total non-accrual loans to total loans	0.58	%	0.33	%	0.22	%	0.10	%	0.13	%
Total non-performing assets to total assets	0.51		0.32		0.19		0.08		0.11	
TDRs and Impaired Loans										
TDRs	$22,558		$5,317		-		-		-	
Impaired loans (1)	44,097		15,049		$8,900		$2,814		$3,514	

(1) See the discussion entitled "Impaired Loans" commencing on page F-12 for a reconciliation of non-accrual and impaired loans.

Non-performing assets approximated 4% of the combined balance of the Bank's tangible capital and allowance for loan losses at December 31, 2010, and have not exceeded 5% of this balance during the five year period ended December 31, 2010.

Other Potential Problem Loans

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

At December 31, 2010, there were fourteen loans totaling $3.8 million that were in excess of 90 days past due on their contractual balloon principal payment that continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payment. The weighted average loan-to-value ratio of these loans approximated 35% at December 31, 2010, and management expects that they will either be satisfied or formally modified in the upcoming quarters (two such loans commenced modification in January 2011). As a result, these loans remained on accrual status at December 31, 2010 and were deemed performing assets.

In addition, the Bank had two construction loans totaling $4.5 million that were in excess of 90 days past their contractual maturity at December 31, 2010, on which the Bank received payments throughout 2010 and expects to either receive satisfaction or convert them to permanent real estate loans in the upcoming quarters. As a result, these loans remained on accrual status and were deemed performing loans at December 31, 2010.

(ii) Loans Delinquent 30 to 89 Days

The Bank had 22 real estate loans, totaling $21.2 million, that were delinquent between 30 and 89 days at December 31, 2010, a net reduction of $8.3 million compared to 38 such loans totaling $29.5 million at December 31, 2009. Included within the 30 to 89 day delinquent loans as of December 31, 2010 were loans aggregating $6.2 million that were included in the previously discussed $44.1 million of loans deemed impaired at December 31, 2010. Given the continuing state of the general economy at December 31, 2010, it is anticipated that 30-89 day delinquencies will remain above $10 million for the foreseeable future. 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) Loan Modifications

At December 31, 2010, the Bank had 22 loans totaling $61.2 million that were mutually modified with the borrowers in a manner that did not meet the criteria for TDRs, and were either current or less than 30 days delinquent at December 31, 2010. These modifications, which have a typical term of 12 months, were granted by the Bank to borrowers who requested cash flow relief in order to assist them through periods of sub-optimal occupancy. The key features of modified loans are: 1) the modifications are temporary in nature; 2) they permit only minor reductions in the cash flow requirements of debt service; and 3) no forgiveness of contractual principal and interest amounts due to the Bank. Specific terms of modification have been in the form of either: (1) temporary suspension of monthly principal amortization, which, given the balloon repayment feature of these loans, typically amounts to a minor concession; or (2) either a temporary reduction of interest rate, or a permanent reduction to an interest rate higher than that offered a prime borrower and generally reflective of the credit condition of the loan at the time of modification. In consideration of paragraph 12c of ASC 310-40-15, the interest rate offered the borrower in a modification was consistent with an interest 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, no modified loans have had their maturities extended, nor would this be a typical negotiable item for the Bank. Although all of the modified loans at December 31, 2010 were secured by real estate, none of them were reliant upon the liquidation of the underlying collateral for the repayment of the outstanding loan. In the rare instance in which the Bank also held a second lien on a first mortgage that was 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 loan 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, 2010. Since the Bank is an active prime multifamily residential and commercial real estate lender, it has continuous access to marketplace offering rates for such properties. Any adjustments to lending rates for loans experiencing sub-optimal lending conditions would be authorized under the loan approval and underwriting polices that are summarized commencing on page F-8, and the Bank's lending function performs a formal review process that serves as an effective re-underwriting of all modified loans.

Based upon the criteria established by the Bank to review its potential problem loans for impairment, designation of these modified loans as TDRs would not have had a material impact upon the determination of the adequacy of the Bank's allowance for loan losses during the years ended December 31, 2010 and 2009.

The following table summarizes modifications for the periods indicated:

	At or for the Year Ended December 31, 2010		At or for the Year Ended December 31, 2009	
	# Loans	Balance	# Loans	Balance
	(Dollars in Thousands)			
Number of loans modified in a manner that did not meet the definition of a TDR	7	$ 26,231	17	$ 36,163
Concessions granted:				
Reduction of outstanding principal due	-	-	-	-
Deferral of principal amounts due	7	26,231	17	36,163
Temporary reduction in interest rate	1	1,662	1	1,270
Below market interest rate granted	-	-	-	-
Outstanding principal balance immediately before and after modification	7	26,231	17	36,163

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 $371.9 million at December 31, 2010. 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 $16.8 million at December 31, 2010. Against this contingent liability, the Bank has charged through earnings a recorded liability (reserve for First Loss Position) of $2.6 million as of December 31, 2010, leaving approximately $14.2 million of potential charges to earnings for future losses (if any). Within this pool of loans, no loans were 90 days or more delinquent and three loans totaling $3.7 million were 30 to 89 days past due at December 31, 2010. 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, reinstatement, note sale or enforcement of legal remedies.

Allowance for Loan Losses

Accounting Principles Generally Accepted in the United States ("GAAP") requires 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. 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:

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	At or for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in Thousands)				
Total loans outstanding at end of period (1)	$3,473,492	$3,395,675	$3,291,505	$2,877,025	$2,703,673
Average total loans outstanding (1)	$3,454,730	$3,287,445	$3,090,032	$2,777,220	$2,651,601
Allowance for loan losses:					
Balance at beginning of period	$21,505	$17,454	$15,387	$15,514	$15,785
Provision for loan losses	11,210	13,152	2,006	240	240
Charge-offs					
Multifamily residential	(10,865)	(7,266)	(501)	-	-
Commercial real estate	(2,760)	(1,220)	(85)	-	-
One- to four-family	(257)	(498)	-	-	(2)
FHA/VA insured	-	-	-	-	-
Cooperative apartment	-	-	-	-	-
Other	(3)	(28)	(26)	(28)	(48)
Total charge-offs	(13,885)	(9,012)	(612)	(28)	(50)
Recoveries	64	19	29	19	23
Reserve for loan commitments transferred from (to) other liabilities	272	(108)	644	(358)	(484)
Balance at end of period	$19,166	$21,505	$17,454	$15,387	$15,514
Allowance for loan losses to total loans at end of period	0.55%	0.63%	0.53%	0.53%	0.57%
Allowance for loan losses to total non-performing loans at end of period	95.03	190.41	235.80	538.76	430.23
Allowance for loan losses to total non-performing loans and TDRs at end of period	58.81	174.36	235.80	538.76	430.23
Ratio of net charge-offs to average loans outstanding during the period	0.40%	0.27%	0.02%	-	-

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

Based upon its evaluation of the loan portfolio, management believes that the Bank maintained its allowance for loan losses at a level appropriate to absorb losses inherent within the Bank's loan portfolio as of the balance sheet dates. Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect a borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. Although management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions or other factors beyond management's control. In addition, the OTS, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses. Such agencies 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 (classified loans) and loans designated as special mention. The final component relates to non-problem or performing loans.

Impaired Loan Component

The component of the allowance associated with impaired loans is determined individually for each impaired loan. To the extent that the individual loan analysis determines an impaired balance, the Bank may either allocate a reserve within the allowance for loan losses or charge off the amount of principal deemed impaired. Based upon this methodology, increases or decreases in either the amount of impaired loans, or the magnitude of impairment of such loans will impact the allocated portion of the allowance for loan losses associated with such loans. In addition, the election to recognize the impairment as either an allocated reserve or a charge-off of principal deemed loss would further impact this allocated balance. As a result, the allowance for loan losses associated with impaired loans is subject to volatility.

At December 31, 2009, an allocated reserve of $1.9 million, or 0.06% of total loans, was recognized for impaired loans. During the year ended December 31, 2010, management elected to charge off allocated reserve balances associated with impaired loans, thus carrying no allocated reserve on these loans at December 31, 2010.

The Bank's policy is to charge-off immediately the expected amount of loss on loans classified as Loss and reduce both the loan balance and the allowance for loan losses by this amount. Charge-offs of principal balances (full or partial) that were classified as Loss totaled $8.9 million and $5.4 million during the years ended December 31, 2010 and 2009, respectively. In addition, charge-offs of $5.0 million and $3.6 million were recognized during the years ended

December 31, 2010 and 2009, respectively, on criticized loans that were disposed of during the respective periods.

Special Mention Component

In order to determine an expected loss percentage on its pool of special mention loans at December 31, 2010, the Bank calculated a 12-month loss history analysis (January 1, 2010 to December 31, 2010) on its December 31, 2009 pool of such loans. The loss percentage resulting from this analysis was applied uniformly to the aggregate pool of special mention loans at December 31, 2010. Based upon this methodology, increases or decreases in either the amount of special mention loans, or the magnitude of charge-offs recognized within the past 12 months, will impact the allocated 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 also subject to great volatility.

At December 31, 2009, the component of the allowance for loan losses associated with special mention loans was determined based upon an expectation of default, and expected loss experience associated with loans that were deemed likely to default. Each individual special mention loan was reviewed separately for purposes of this analysis, with loss percentages ranging between 2.5% and 7.5% applied to such loans based upon their underlying payment status and/or condition of the underlying real estate collateral.

The portion of the allowance for loan losses attributable to Special Mention loans declined from $2.4 million at December 31, 2009 to $1.9 million at December 31, 2010, primarily reflecting an $11.2 million decline in Special Mention loans from December 31, 2009 to December 31, 2010.

Performing Loan Component

The following elements were considered and provided weighting in determining the allowance for loan losses associated with performing loans:

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

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

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

(ii) Economic conditions - At 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 and recent trends in: 1) the local unemployment rate, 2) real estate vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank’s loan portfolio. At December 31, 2009, the Bank considered the same set of variables in its analysis of expected economic loss from the performing mortgage loan portfolio but, due to the relatively higher level of uncertainty surrounding the local real estate market that existed at that time, the Bank arrived at a higher expected loss rate for the performing loan group as compared to

December 31, 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 incorporated into the methodology. Based upon the Bank’s mitigation only of certain underwriting practices during the years ended December 31, 2010 and 2009, this component did not impact the methodology at either December 31, 2010 or 2009.

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

(v) The period of time loans have been held and performing (Loan Seasoning) – Generally, it is assumed that loans performing for a period of at least three years are deemed likely to result in diminishing principal losses with the passage of time. As a result, a lower expected loss percentage should be applied to these loans. This element was given considerable weight in the evaluation of the allowance for loan losses at December 31, 2009, however, received significantly less consideration in the December 31, 2010 evaluation. The decrease in consideration during 2010 resulted from an analysis of the loss experience recognized during the 2008 to 2010 recessionary period (to which the Company migrated during 2010), which concluded that, contrary to this common assumption, the age or seasoning of the loan did not inversely correlate to the Bank's loss experience.

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. Loans designated as Special Mention and the related loss allowance for such loans are included within the respective underlying collateral group balance.

	At December 31,									
	2010		2009		2008		2007		2006	
	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)	Allocated Amount	Percent of Loans in Each Category to Total Loans(1)
	(Dollars in Thousands)									
Impaired loans	$-	1.27 %	$1,943	0.44 %	$900	0.27 %	$348	0.10 %	$351	0.13 %
Special Mention loans	1,880	1.31	2,411	1.67	156	0.08	-	0.04	-	0.03
Performing loans:										
Multifamily residential	13,797	71.35	11,999	69.66	10,583	68.03	9,381	67.69	8,948	68.59
Commercial real estate	2,945	22.53	3,774	23.49	4,695	25.63	4,449	25.31	5,208	24.61
One-to four-family and cooperative apartment	404	3.32	1,040	3.78	401	4.31	380	5.06	541	5.70
Construction and land acquisition	106	0.14	308	0.87	680	1.61	764	1.72	392	0.86
Consumer	34	0.08	30	0.09	39	0.07	65	0.08	74	0.08
Total	$19,166	100.00%	$21,505	100.00%	$17,454	100.00%	$15,387	100.00%	$15,514	100.00%

(1) Total loans represent gross loans less FHA and VA guaranteed loans.

Reserve Liability on the First Loss Position on Multifamily Loans Serviced for FNMA

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 balance of the First Loss Position associated with these loans, and activity related to the reserve liability:

	At or for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in Thousands)				
Outstanding balance of multifamily loans serviced for FNMA at period end	$371,877	$437,805	$519,831	$535,793	$494,770
Total First Loss Position at end of period	16,789 [1]	20,246 [1]	21,865	20,409	18,495
Reserve Liability on the First Loss Position					
Balance at beginning of period	$4,373	$5,573	$2,436	$2,223	$1,771
Additions for loans sold during the period	-	15	101	213	452
Provision for losses on problem loans[1]	-	3,303	3,946	-	-
Transfer to Bank loan balance for serviced loans re-acquired by the Bank	(1,123)	(3,545)	-	-	-
Charge-offs	(257)	(973)	(910)	-	-
Balance at period end	$2,993	$4,373	$5,573	$2,436	$2,223

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

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Reserve for Loan Commitments

At December 31, 2010, the Bank maintained a reserve of $408,000 associated with loan commitments accepted by the borrower at December 31, 2010. 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 of the Holding Company. At December 31, 2010, the Holding Company's principal asset was its $375.5 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 borrowing; (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's investment policy calls for investments in relatively short-term, liquid securities similar to those permitted by the securities investment policy of the Bank. The Holding Company cannot assure that it will engage in any of these activities in the future.

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 OTS 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.

Investment strategies are implemented by the Asset and Liability Committee ("ALCO"), which is comprised of the Chief Financial Officer, Chief Investment 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.

The Holding Company or the Bank may, with respective Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2010 and 2009, neither the Holding Company nor the Bank held any derivative instruments or embedded derivative instruments that required bifurcation.

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. The MBS portfolio also provides the Holding Company and the Bank with important interest rate risk management features, as the entire portfolio provides monthly cash flow for re-investment at current market interest rates. At

December 31, 2010 and 2009, respectively, all MBS owned by the Company possessed the highest possible investment credit rating, with the exception of one privately issued MBS in the Bank’s portfolio with book and market values at December 31, 2010 totaling $2.4 million and $2.3 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 $144.5 million, or 3.6% of total assets, at December 31, 2010, the majority of which was owned by the Bank. Approximately 73% of the MBS portfolio at December 31, 2010, was comprised of pass-through securities guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Agency ("GNMA") or FNMA as follows: $67.5 million of FHLMC or FNMA securities with fixed periods of five, seven or ten years which reset annually thereafter; $36.4 million of seasoned fixed-rate FNMA or FHLMC pass-through securities with an average estimated duration approximating 2.9 years;

$857,000 of GNMA ARM pass-through securities with a weighted average term to next rate adjustment of less than one year; and a $1.4 million FNMA 18-year balloon MBS.

At December 31, 2010, included in the MBS portfolio were $36.1 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. As of December 31, 2010, the aggregate fair value of the agency guaranteed CMOs and REMICs exceeded their cost basis by $1.0 million. The fair value of the private financial institution-issued CMO exceeded its cost basis by approximately $50,000 at December 31, 2010.

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, 2010, the Holding Company and the Bank owned, on a combined basis, $230.2 million of securities classified as available-for-sale, which represented 5.7% 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.

At December 31, 2010, the Holding Company owned $1.5 million of mutual fund investments classified as trading. Neither the Holding Company nor the Bank owned any securities classified as trading securities during the twelve months ended December 31, 2009.

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, 2010.

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

	For the Year Ended December 31,		
	2010	2009	2008
	Dollars in Thousands		
Amortized cost at beginning of period	$ 217,076	$ 299,728	$ 164,503
Purchases, net	-	-	183,849
Principal repayments	(78,389)	(82,128)	(48,155)
Premium amortization, net	(404)	(524)	(469)
Amortized cost at end of period	$ 138,283	$ 217,076	$ 299,728

Corporate Debt Obligations. Both the Holding Company and 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, and limits investments in any one corporate entity to the lesser of 1% of total assets or 5% of the Bank's total capital.

As of December 31, 2010, the Company’s investment in corporate debt obligations was comprised solely of eight securities with an aggregate remaining amortized cost of $19.5 million (based upon their purchase cost basis) that were secured primarily by the preferred debt obligations of a pool 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, 2010. From the Company's initial investment through December 31, 2010, four of the eight TRUPs had paid all contractual cash flows. Two securities are experiencing a deferral of a portion of their respective quarterly interest payment, and another two securities are experiencing a deferral of their entire quarterly interest payment.

At December 31, 2010, 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 Company's initial investment was considered uncertain, thus resulting in recognition of other-than-temporary impairment ("OTTI") charges. The aggregate OTTI charge recognized on these securities was $10.5 million at December 31, 2010, of which $8.3 million was determined to be attributable to credit related factors and $2.2 million was determined to be attributable to non-credit related factors. At December 31, 2010, 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, 2010, had credit ratings ranging from CC to Ba1 on one and "BB" to "Ba1" on the other on that date. During the year ended December 31, 2010, the Company added pre-tax OTTI charges totaling $2.8 million on TRUPs, of which $2.5 million was credit related and $282,000 was non-credit related, and reduced non-credit OTTI by $2.5 million for various adjustment items. In accordance with GAAP, the credit-related OTTI was recognized in the Company's consolidated results of operations, while the non-credit OTTI was recognized as a component of other comprehensive income.

At December 31, 2010, the remaining aggregate amortized cost of TRUPs that could be subject to future OTTI charges through earnings was $10.8 million. Of this total, unrealized losses of $4.1 million have already been recognized as a component of accumulated other comprehensive loss.

Equity Investments. The Company's consolidated investment in equity securities totaled $6.0 million at December 31, 2010, comprised of various equity mutual funds. Of this total, $4.5 million was classified as available for sale, and $1.5 million was classified as trading. At December 31, 2010, the aggregate fair value of the available for sale mutual fund investments was $954,000 above their cost basis. As of December 31, 2010, the Company had an OTTI charge of $1.4 million 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. At December 31, 2010, the aggregate fair value of mutual fund investments classified as trading was $65,000 above their cost basis.

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

	At December 31,					
	2010		2009		2008	
	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost	Fair Value
MBS	Dollars in Thousands					
Available-for-Sale:						
FHLMC pass through certificates	$77,020	$81,068	$112,033	$117,033	$144,688	$146,358
FNMA pass through certificates	22,994	24,158	40,105	41,615	55,526	56,569
GNMA pass through certificates	833	857	917	941	1,057	1,041
Private issuer MBS	2,363	2,298	3,267	2,784	4,474	4,138
Agency issued CMOs and REMICs	32,953	33,965	57,418	59,070	85,631	85,432
Private issuer CMOs and REMICs	2,122	2,172	3,336	3,330	8,352	7,813
Total MBS available-for-sale	138,285	144,518	217,076	224,773	299,728	301,351
INVESTMENT SECURITIES						
Held-to-Maturity:						
TRUPs	$10,760	$4,408	$13,765	$5,330	$16,561	$9,082
Municipal agency	-	-	-	-	-	-
Total investment securities held-to-maturity	10,760	4,408	13,765	5,330	$16,561	$9,082
Available-for-Sale:						
Federal agency obligations	81,388	81,152	36,900	36,732	1,035	1,036
Municipal agencies	-	-	-	-	9,931	10,133
TRUPs	-	-	-	-	-	-

Mutual funds	3,537	4,490	5,107	6,430	8,057	5,433
Total investment securities Available-for-Sale	84,925	85,642	42,007	43,162	19,023	16,602
Trading:						
Mutual funds	1,425	1,490	-	-	-	-
Total trading securities	1,425	1,490	-	-	-	-
Total investment securities	$97,110	$91,540	$55,772	$48,492	$35,584	$25,684

(1) Amount is net of cumulative credit related OTTI totaling $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.

Other than obligations of federal agencies and GSEs, neither the Holding Company nor the Bank had a combined investment in securities issued by any one entity in excess of the lesser of 1% of total assets or 10% of the Bank's stockholders' equity at December 31, 2010. 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, 2010, categorized by remaining period to contractual maturity.

	Amortized Cost	Fair Value	Weighted Average Tax EquivalentYield	
	(Dollars in Thousands)			
MBS:				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	$2,043	$2,096	3.64	%
Due after 5 years but within 10 years	52,225	54,151	4.25	
Due after ten years	84,017	88,271	4.64	
Total	138,285	144,518	4.48	
Federal Agency obligations:				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	80,998	80,760	0.64	
Due after 5 years but within 10 years	390	392	7.91	
Due after ten years	-	-	-	
Total	81,388	81,152	0.67	
Total:				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	83,041	82,856	0.71	
Due after 5 years but within 10 years	52,615	54,543	4.28	
Due after ten years	84,017	88,271	4.64	
Total	$219,673	$225,670	3.07	%

With respect to MBS, the entire carrying amount of each security at December 31, 2010 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. 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 2.1 years as of December 31, 2010 when giving consideration to anticipated repayments or possible prepayments, which is significantly less than their average maturity as presented in the table above.

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, 2010, the Bank offered, and presently offers, savings, money market, interest bearing and non-interest bearing checking accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. Traditionally, the Bank has relied upon direct and general marketing, customer service, convenience and long-standing relationships with customers to generate deposits. The communities in which the Bank maintains branch offices have historically provided nearly all of its deposits. At December 31, 2010, the Bank had deposit liabilities of $2.35 billion, up $133.7 million from December 31, 2009 (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, 2010, $401.4 million, or 17.1%, consisted of CDs with a minimum denomination of one-hundred thousand dollars. Individual Retirement Accounts totaled $238.5 million, or 10.1% of total deposits, on that date.

The Bank is authorized to accept brokered CDs up to an aggregate limit of $120.0 million. At December 31, 2010 and 2009, 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, 2010, the Bank had not purchased or sold any CDs through this program.

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

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Deposits	$2,539,003	$2,647,960	$3,158,031
Withdrawals	2,435,248	2,733,967	3,137,956
(Withdrawals greater than Deposits) Deposits greater than Withdrawals	$103,755	$(86,007)	$20,075
Interest credited	29,990	42,792	59,978
Total (decrease) increase in deposits	$133,745	$(43,215)	$80,053

At December 31, 2010, the Bank had $401.4 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	$43,942	1.51 %
After three but within six months	66,640	1.73
After six but within twelve months	121,309	1.63
After 12 months	169,540	2.86
Total	$401,431	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, 2010			At December 31, 2009			At December 31, 2008		
	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	$329,182	14.00 %	0.26 %	$302,340	13.64 %	0.27 %	$270,321	11.96 %	0.57 %
CDs	1,059,652	45.08	2.01	985,053	44.44	2.21	1,153,166	51.02	3.69
Money market accounts	727,939	30.97	0.71	708,578	31.96	0.93	633,167	28.02	2.63
Interest bearing checking accounts	108,078	4.60	0.51	114,416	5.16	0.67	112,687	4.99	2.10
Non-interest bearing	125,730	5.35	-	106,449	4.80	-	90,710	4.01	-

checking accounts												
Totals	$2,350,581	100.00	%	1.18	%	$2,216,836	100.00	%	1.35	%	$2,260,051	100.00 % 2.79 %

The weighted average maturity of the Bank's CDs at December 31, 2010 was 15.7 months, compared to 15.5 months at December 31, 2009. 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, 2010:

	Period to Maturity at December 31, 2010						
Interest Rate Range	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total at December 31, 2010	Total at December 31, 2009	Total at December 31, 2008
			(Dollars in Thousands)				
2.00% and below	$437,916	$105,059	$223	-	$543,198	$483,324	$40,930
2.01% to 3.00%	196,962	67,128	27,355	$7,371	298,816	215,510	237,070
3.01% to 4.00%	30,250	18,365	127,714	1,775	178,104	234,874	504,395
4.01% to 5.00%	1,751	37,695	-	-	39,446	50,063	354,252
5.01% and above	-	88	-	-	88	1,282	16,519
Total	$666,879	$228,335	$155,292	$9,146	$1,059,652	$985,053	$1,153,166

Borrowings. The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges offered to FHLBNY shareholders is the ability to secure advances from the FHLBNY under various lending programs at competitive interest rates. The Bank's borrowing line equaled $1.41 billion at December 31, 2010.

The Bank had FHLBNY advances totaling $990.5 million at December 31, 2010 and $1.01 billion at December 31, 2009, respectively. The Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such advances.

REPOS totaled $195.0 million at December 31, 2010 and $230.0 million at December 31, 2009. 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 FHLBNY advances for the periods presented:

REPOS:

	At or for the Year Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Balance outstanding at end of period	$195,000	$230,000	$230,000
Average interest cost at end of period	4.33 %	4.32 %	4.32 %
Average balance outstanding during the period	$203,055	$230,000	$227,828
Average interest cost during the period	4.33 %	4.32 %	3.80 %
Carrying value of underlying collateral at end of period	$214,539	$248,694	$251,744
Estimated fair value of underlying collateral	$214,539	$248,694	$251,744
Maximum balance outstanding at month end during period	$230,000	$230,000	$265,000

FHLBNY Advances:

	At or for the Year Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Balance outstanding at end of period	$990,525	$1,009,675	$1,019,675
Average interest cost at end of period	3.26 %	3.53 %	3.85 %
Weighted average balance outstanding during the period	$991,063	$958,538	$877,651
Average interest cost during the period	3.51 %	3.89 %	4.00 %
Maximum balance outstanding at month end during period	$1,064,675	$1,009,675	$1,066,675

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, 2010:

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 later 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, 2010, the Company had 365 full-time employees and 77 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. The Company was last audited by the Internal Revenue Service ("IRS") for its taxable year ended December 31, 1988. 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 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. Non-dividend distributions to shareholders of the Bank 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. Non-dividend 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 non-dividend 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 non-dividend 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. (See "Item 1 – Business - Regulation - Regulation of Federal Savings Associations - Limitation on Capital Distributions," for a discussion of limits on the payment of dividends by the Bank). 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.

Corporate Alternative Minimum Tax. The Bank's federal rate for the year ended December 31, 2010 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, New York State 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, New York State 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, 2009 approximated 8.63% of taxable income. This rate included a metropolitan commuter transportation district surcharge.

City of New York. 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, is required to file an annual report and pay an annual franchise tax to the State of Delaware.

Regulation

General

The Bank is subject to extensive regulation, examination, and supervision by 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 must file reports with the OTS concerning its activities and financial condition, and must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The OTS conducts periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a 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 is 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.

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

The following discussion is intended to be a summary of the material statutes and regulations applicable to 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 OTS 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 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. 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., 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.

Recent Financial Regulatory Reforms. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (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. The Reform Act is intended to address perceived weaknesses in the U.S. financial regulatory system and to prevent future economic and financial crises. There are many provisions of the Reform Act that are to be implemented through regulations to be adopted by the federal bank regulatory agencies within specified time frames following the effective date of the Reform Act, which creates a risk of uncertainty as to the ultimate effect of such provisions. The Company does not believe that the Reform Act will have a material impact on its core operations. However, the Company believes the following provisions of the Reform Act will have an impact on the Company, though it is not possible for the Company to determine at this time whether and to what extent the Reform Act will have a material effect on its business, financial condition or results of operations:

As a result of the Reform Act, on July 21, 2011, unless the Secretary of the Treasury opts to delay such date for up to an additional six months (such date, the "Designated Transfer Date"), the OTS will be eliminated and the Office of the Comptroller of the Currency (the "OCC") will assume the regulation of all federal savings associations, such as the Bank. The Board of Governors of the Federal Reserve System (the "FRB") will acquire the OTS's authority over all savings and loan holding companies, such as the Holding Company, and will also become the supervisor of all subsidiaries of savings and loan holding companies other than depository institutions. As a result, the Holding Company and the Bank will be subject to regulation, supervision and examination by two federal bank regulatory agencies, the OCC and the FRB, rather than solely the OTS, as is the current structure. The Reform Act also provides for the creation of the Bureau of Consumer Financial Protection ("CFPB"). With respect to insured depository institutions with less than $10 billion in assets, such as the Bank, the CFPB will have exclusive authority to issue new consumer protection regulations, 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 FRB, it is possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

In addition, the Reform Act significantly rolls back the federal preemption of state consumer protection laws that is currently 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. 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.

The Reform Act also includes provisions, subject to further rulemaking by the federal bank regulatory agencies, that may affect the Company's future operations, including 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. 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.

Interagency Guidance on Nontraditional Mortgage Product Risks. On October 4, 2006, the OTS and other 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.

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, 2010, the Bank's limit on loans to one borrower was $50.1 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 $38.6 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, 2010, the Bank maintained 70.7% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2010, and, therefore, was a QTL.

A savings association that fails the QTL test must either operate under certain restrictions on its activities or convert to a bank charter. The initial restrictions include prohibitions against (i) engaging in any new activity not permissible for a national bank, (ii) paying dividends not permissible under national bank regulations, and (iii) establishing any new branch office in a location not permissible for a national bank in the association's home state. 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.

Capital Requirements. OTS regulations require savings associations to satisfy three minimum capital standards: (i) a tangible capital ratio of 1.5%; (ii) a risk-based capital ratio of 8%; and (iii) a leverage capital ratio. For depository institutions that have been assigned the highest composite rating of 1 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 OTS 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.

The Reform Act requires the federal bank regulatory 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. The new requirements will eliminate 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 of risk and the risks of non-traditional activities. Current OTS regulations do not include a specific IRR component of the risk-based capital requirement; however, the OTS monitors the IRR of individual institutions through a variety of methods, including an analysis of the change in net portfolio value ("NPV"). NPV is the difference between the present value of the expected future cash flows of the Bank's assets and liabilities, plus the value of net expected cash flows from either loan origination commitments or purchases of securities and, therefore, hypothetically represents the value of an institution's net worth. The OTS has also used the NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. In addition, OTS Thrift Bulletin 13a provides guidance on the management of IRR and the responsibility of boards of directors in that area. The OTS, 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 OTS guidelines regarding NPV analysis. The OTS has not imposed any such requirements on the Bank.

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

	As of December 31, 2010			
	Actual		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
Tangible	$326,555	8.23 %	$59,559	1.5 %
Leverage Capital	326,555	8.23	158,824	4.0 %
Total Risk-based capital	333,788	11.95	223,507	8.0 %

The following is a reconciliation of GAAP capital to regulatory capital for the Bank:

	At December 31, 2010		
	Tangible Capital	Leverage Capital	Total Risk-Based Capital
	(Dollars in Thousands)		
GAAP capital	$375,533	$375,533	$375,533
Non-allowable assets:			
MSR	(228)	(228)	(228)
Accumulated other comprehensive loss	6,888	6,888	6,888
Goodwill	(55,638)	(55,638)	(55,638)
Tier 1 risk-based capital	326,555	326,555	326,555
Adjustment for recourse provision on loans sold	-	-	(12,341)
General regulatory valuation allowance	-	-	19,574

Total (Tier 2) risk based capital	326,555	326,555	333,788
Minimum capital requirement	59,559	158,824	223,507
Regulatory capital excess	$266,996	$167,731	$110,281

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

The IRR Advisory encourages institutions to use a variety of techniques to measure IRR exposure which include simple maturity gap analysis, income measurement and valuation measurement for assessing the impact of changes in market rates as well as simulation modeling to measure IRR exposure. Institutions are encouraged to use the full complement of analytical capabilities of their IRR simulation models. The IRR Advisory also reminds institutions that stress testing, which includes both scenario and sensitivity analysis, is an integral component of IRR management. The IRR Advisory indicates that institutions should regularly assess IRR exposures beyond typical industry conventions, including changes in rates of greater magnitude (e.g., up and down 300 and 400 basis points as compared to the generally used up and down 200 basis points) across different tenors to reflect changing slopes and twists of the yield curve.

The IRR Advisory emphasizes that effective IRR management not only involves the identification and measurement of IRR, but also provides for appropriate actions to control 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. OTS 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 OTS at least 30 days prior to each capital distribution. However, 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 OTS approval of a proposed capital distribution. In addition, the OTS 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 OTS 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 OTS 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, 2010, the Bank satisfied all such liquidity requirements.

Assessments. Savings associations are required by OTS regulation to pay semi-annual assessments to the OTS 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 OTS.

Branching. Subject to certain limitations, the Home Owners Lending Act ("HOLA") and OTS 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 OTS regulations preempt any state law purporting to regulate branching by federal savings associations.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by OTS 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 OTS, 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 OTS regulations, Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act ("FRA"), Regulation W issued by the FRB, as well as additional limitations adopted by the Director of the OTS. OTS 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.

OTS 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. OTS regulations also include certain exemptions from these prohibitions. The FRB and the OTS 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 OTS 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 one year after the Designated Transfer Date.

Enforcement. Under FDICIA, the OTS 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 to the Director of the OTS 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 OTS, 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 OTS has adopted regulations pursuant to FDICIA that authorize, but do not require, the OTS to order an institution that has been given notice by the OTS 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 plan, the OTS 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 OTS may seek enforcement in judicial proceedings and the imposition of civil money penalties.

Real Estate Lending Standards. The OTS and the other federal banking agencies have adopted regulations prescribing standards for extensions of credit that are (i) secured by real estate, or (ii) made for the purpose of financing the construction of improvements on real estate. The regulations require each savings association to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the association and the nature and scope of its real estate lending activities. The standards must additionally conform to accompanying OTS guidelines, which include loan-to-value ratios for the different types of real estate loans. Associations are permitted to make a limited amount of loans that do not conform to the loan-to-value limitations provided such exceptions are reviewed and justified appropriately. The guidelines additionally contain a number of lending situations in which exceptions to the loan-to-value standards are permitted.

In 2006, the OTS adopted guidance entitled "Concentrations in Commercial Real Estate (CRE) Lending, Sound Risk Management Practices" (the "CRE Guidance"), to address concentrations of commercial real estate loans in savings associations. The CRE Guidance reinforces and enhances the OTS existing regulations and guidelines for real estate lending and loan portfolio management, but does not establish specific commercial real estate lending limits. Rather, the CRE Guidance seeks to promote sound risk management practices that will enable savings associations to continue to pursue commercial real estate lending in a safe and sound manner. The CRE Guidance applies to savings associations with an accumulation of credit concentration exposures and asks that the associations quantify the additional risk such exposures may pose. Such quantification should include the stratification of the commercial real estate portfolio by, among other qualities, property type, geographic market, tenant concentrations, tenant industries, developer concentrations and risk rating. In addition, an institution should perform periodic market analyses for the various property types and geographic markets represented in its portfolio. Further, an institution with commercial real estate concentration risk should also perform portfolio level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings and capital. In January 2010, the Bank implemented a lending policy, which limits the Bank's aggregate exposure to commercial real estate loans (i.e., loans where income produced by the collateral is less than 50% from residential sources, construction loans and land loans) to the lesser of 400% of total capital or 30% of assets. As of December 31, 2010, the Bank was well below these maximum guidelines.

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 OTS prompt corrective action regulations, the OTS 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 OTS 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 OTS 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 OTS to meet a specific capital level. As of December 31, 2010, the Bank satisfied all criteria necessary to be categorized "well capitalized" under the prompt corrective action regulatory framework.

When appropriate, the OTS 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.

Savings associations are required to pay quarterly deposit insurance assessments to the DIF. The amount of the assessment is currently 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 possesses the flexibility to adjust rates without further notice-and-comment rulemaking, provided that no such adjustment can be greater than 3 basis points from one quarter to the next, adjustments cannot result in rates more than 3 basis points above or below the base rates and rates cannot be negative. In December 2010, the FDIC amended its regulations to increase the designated reserve ratio of the DIF from 1.25% to 2.00% of estimated insured deposits of the DIF, effective January 1, 2011. The FDIC is authorized to change the assessment rates as necessary, subject to the previously discussed limitations, to maintain the designated reserve ratio.

In accordance with the Reform Act, on February 7, 2011, the FDIC adopted a final rule that redefines the assessment base for deposit insurance assessments as average consolidated total assets minus average tangible equity, rather than on deposit bases, and adopts a new assessment rate schedule, as well as alternative rate schedules that become effective when the reserve ratio reaches certain levels. The final rule also makes conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates, eliminates the secured liability adjustment and creates a new assessment rate adjustment for unsecured debt held that is issued by another insured depository institution. The depository institution debt adjustment equals fifty basis points of each dollar of long-term, unsecured debt held as an asset by an insured depository institution when that debt was issued by another insured depository institution, to the extent that all such debt exceeds three percent of the institution's Tier 1 capital.

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

The Reform Act also increased the minimum designated reserve ratio for the DIF from 1.15% to 1.35% of insured deposits. 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 in 2011 regarding the requirement under the Reform Act that the FDIC offset the effect on institutions with less than $10 billion in assets (such as the Bank) of the requirement that the reserve ratio reach 1.35% by September 30, 2020, rather than 1.15% by the end of 2016 (as required under the prior restoration plan), so that more of the cost of raising the reserve ratio to 1.35% will be borne by institutions with more than $10 billion in assets.

In May 2009, the FDIC adopted a final rule implementing a 0.05% special assessment of each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, but no more than 0.10% times the institution's deposit assessment base for the second quarter of 2009, which was collected by the FDIC on September 30, 2009. The Bank's special assessment totaled $1.8 million for the year ended December 31, 2009. Additional special assessments may be imposed by the FDIC for future periods.

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, of which a $9.6 million prepayment balance remained at December 31, 2010.

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 assessment rate is adjusted quarterly and was 0.0114% of total deposits of the Bank for the fourth quarter of 2008 and the first quarter of 2009. The Bank's total expense in 2010 for the FICO bonds assessment was $262,000. 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 OTS 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. OTS 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 FHLBNY, which is one of the twelve regional FHLB's composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. Any advances from the FHLBNY 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 FHLBNY, is currently required to acquire and hold shares of FHLBNY 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 FHLBNY 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 FHLBNY, 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 FHLBNY; (ii) 4.5% of the outstanding principal balance of the "acquired member assets," as defined by the FHLBNY, 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 FHLBNY's balance sheet of derivative contracts between the FHLBNY and its members, which is also zero for the Bank. The Bank was in compliance with these requirements with an investment in FHLBNY Class B stock of $51.7 million at December 31, 2010. The FHLBNY can adjust the specific percentages and dollar amount periodically within the ranges established by the FHLBNY 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 $10.7 million through $58.8 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against the portion of total transaction accounts in excess of $58.8 million. The initial $10.7 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 OTS.

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 OTS 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 OTS 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 such, it is required to register with the OTS and is subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over the Holding Company's non-savings association subsidiaries. Among other effects, this authority permits the OTS 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 OTS; 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 OTS 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 OTS 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 OTS, and to other activities authorized by OTS regulation. Effective in April 2008, however, all savings and loan association holding companies became permitted, with the prior approval of the OTS, 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.

The OTS is prohibited from approving 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 OTS 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").

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.

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.

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, 2010 the Bank had six 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.

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, 2010, the Bank's one year interest rate gap was negative, 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 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 NPV, which is the difference between the estimated market value of its assets and liabilities. In addition, the Bank monitors its NPV ratio, which is the NPV divided by the estimated market value of total assets. To monitor its overall sensitivity to changes in interest rates, the Bank simulates the effect of instantaneous changes in interest rates of up to 200 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 OTS, as the Bank's chartering agency, 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 "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 complete 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 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 does not expect to participate 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 2008 and 2009 had, during the year ended December 31, 2010, 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 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 $3.7 million for the year ended December 31, 2009, compared to $899,000 for the year ended December 31, 2008.

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

On September 29, 2009, the FDIC adopted an amendment to the restoration plan that increases the deposit insurance assessment rate uniformly across all four risk categories by three basis points (annualized) of insured deposits beginning January 1, 2011. In addition, on November 17, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay their quarterly deposit insurance assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 on December 30, 2009, together with their regular deposit insurance assessment for the third quarter of 2009. The Bank's payment on December 30, 2009 totaled approximately $13.4 million, and was $9.6

million as of December 31, 2010.

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

There is no guarantee that the higher premiums, special assessment and assessment prepayment described above will be sufficient for the DIF to satisfy its funding requirements, which may result in further special assessments or increases in deposit insurance premiums. Any such future assessments or increases could have a further material impact on the Company's results of operations.

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

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

The elimination of the Company’s primary federal regulator, the OTS, and the assumption by the OCC of regulatory authority over all federal savings associations, such as the Bank, and the acquisition by the FRB of regulatory authority over all savings and loan holding companies, such as the Holding Company, as well as all subsidiaries of savings and loan holding companies other than depository institutions. Although the laws and regulations currently applicable to the Company generally will not change by virtue of the elimination of the OTS (except to the extent such laws have been modified by the Reform Act), the application of these laws and regulations may vary as administered by the OCC and the FRB.

The Reform Act also includes provisions, subject to further rulemaking by the federal bank regulatory agencies, that may affect the Company’s future operations, including 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. 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.

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-five 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. (RESERVED)

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.

	Twelve Months Ended December 31, 2010			Twelve Months Ended December 31, 2009		
Quarter Ended	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
March 31st	$0.14	$14.06	$11.21	$0.14	$13.60	$6.46
June 30th	0.14	14.12	11.18	0.14	10.90	6.98
September 30th	0.14	14.32	11.78	0.14	12.94	8.54
December 31st	0.14	15.62	13.33	0.14	12.40	10.25

On December 31, 2010, the final trading date in the fiscal year, the Holding Company's common stock closed at $14.59.

Management estimates that the Holding Company had approximately 8,100 shareholders of record as of March 1, 2011, including persons or entities holding stock in nominee or street name through various brokers and banks. There were 34,395,531 shares of Holding Company common stock outstanding at December 31, 2010.

During the year ended December 31, 2010, the Holding Company paid cash dividends totaling $18.6 million, representing $0.56 per outstanding common share. During the year ended December 31, 2009, the Holding Company paid cash dividends totaling $18.5 million, representing $0.56 per outstanding common share.

On January 28, 2011, the Board of Directors declared a cash dividend of $0.14 per common share to all shareholders of record as of February 7, 2011. This dividend was paid on February 15, 2011.

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 April 2000, the Holding Company issued $25.0 million in subordinated notes payable, with a stated annual coupon rate of 9.25%. This debt obligation was repaid in full on May 1, 2010.

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, 2010.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Number of Shares that May Yet be Purchased Under the Programs (1)
October 2010	-	-	-	1,124,549
November 2010	-	-	-	1,124,549
December 2010	-	-	-	1,124,549

(1) No existing repurchase programs expired during the three months ended December 31, 2010, 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, 2010 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, 2006 through December 31, 2010. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.

	Period Ending December 31,					
Index	2005	2006	2007	2008	2009	2010
Dime Community Bancshares, Inc.	100.00	99.70	94.85	102.26	95.21	123.45
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL Thrift Index	100.00	116.57	69.93	44.50	41.50	43.37

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, 2010, 2009, 2008, 2007, and 2006 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, 2009, 2008, 2007 and 2006 have been reclassified to conform to the December 31, 2010 presentation. These reclassifications were not material.

	At or for the Year Ended December 31,				
	2010	2009	2008	2007	2006
Selected Financial Condition Data:					
Total assets	$4,040,295	$3,952,274	$4,055,598	$3,501,175	$3,173,377
Loans and loans held for sale (net of deferred costs or fees and the allowance for loan losses)	3,454,326	3,374,170	3,274,051	2,861,638	2,688,159
MBS	144,518	224,773	301,351	162,764	154,437
Investment securities (including FHLBNY capital stock)	145,491	104,485	80,898	73,204	61,078
Federal funds sold and other short-term investments	4,536	3,785	-	128,014	78,752
Goodwill	55,638	55,638	55,638	55,638	55,638
Deposits	2,350,581	2,216,836	2,260,051	2,179,998	2,008,532
Borrowings	1,256,205	1,335,355	1,346,840	958,745	788,900
Stockholders' equity	328,734	294,773	276,964	268,852	290,631
Tangible Stockholders' equity (1)	279,219	243,938	232,156	217,238	241,829
Selected Operating Data:					
Interest income	$214,794	$209,168	$202,654	$182,160	$170,810
Interest expense	79,413	97,685	111,302	111,147	93,340
Net interest income	135,381	111,483	91,352	71,013	77,470
Provision for loan losses	11,209	13,152	2,006	240	240
Net interest income after provision for loan losses	124,172	98,331	89,346	70,773	77,230
Non-interest (loss) income	8,055	(745)	2,814	10,420	12,390
Non-interest expense	61,977	57,310	49,973	45,502	41,976
Income before income tax	70,250	40,276	42,187	35,691	47,644
Income tax expense	28,861	14,087	14,159	13,248	17,052
Net income	$41,389	$26,189	$28,028	$22,443	$30,592

(1) Tangible stockholders' equity represents stockholders' equity (as measured under GAAP), and reduced by the following GAAP measures: 1) goodwill; 2) accumulated other comprehensive income (loss); and 3) 10% of the recorded net servicing asset at period end.

	At or for the Year Ended December 31,									
	2010		2009		2008		2007		2006	
SELECTED FINANCIAL RATIOS AND OTHER DATA (1):										
Return on average assets	1.01	%	0.66	%	0.76	%	0.69	%	0.98	%
Return on average stockholders' equity	13.15		9.20		10.29		8.11		10.43	
Stockholders' equity to total assets at end of period	8.14		7.46		6.83		7.68		9.16	
Tangible equity to tangible assets at end of period	7.01		6.26		5.79		6.29		7.74	
Loans to deposits at end of period	147.77		153.18		145.64		131.97		134.61	
Loans to interest-earning assets at end of period	92.18		91.07		89.60		88.77		90.18	
Net interest spread (2)	3.34		2.73		2.34		1.88		2.19	
Net interest margin (3)	3.53		2.96		2.60		2.29		2.60	
Average interest-earning assets to average interest-bearing liabilities	109.32		108.99		108.35		111.48		113.07	
Non-interest expense to average assets	1.52		1.44		1.35		1.39		1.34	
Efficiency ratio (4)	42.74		48.65		51.25		55.88		48.36	
Effective tax rate	41.08		34.98		33.56		37.12		35.79	
Dividend payout ratio	45.16		70.89		65.88		83.58		64.37	
Per Share Data:										
Diluted earnings per share	$1.24		$0.79		$0.85		$0.67		$0.87	
Cash dividends paid per share	0.56		0.56		0.56		0.56		0.56	
Book value per share (5)	9.50		8.57		8.10		7.93		7.97	
Tangible book value per share (5)	8.07		7.09		6.79		6.41		6.63	
Asset Quality Ratios and Other Data(1):										
Net charge-offs	$13,821		$8,993		$583		$9		$27	
Total non-performing loans	20,168		11,294		7,402		2,856		3,606	
OREO	-		755		300		-		-	
Non-performing TRUPs	564		688		-		-		-	
Total non-performing assets	20,732		12,737		7,702		2,856		3,606	
Non-performing loans to total loans	0.58	%	0.33	%	0.22	%	0.10	%	0.13	%
Non-performing assets to total assets	0.51		0.32		0.19		0.08		0.11	
Non-performing assets plus accruing loans 90 days or more delinquent as a percentage of the combined balance of the Bank's tangible capital and allowance for loan losses	8.4		4.0		2.4		1.0		1.2	
Allowance for Loan Losses to:										
Non-performing loans	95.03	%	190.41	%	235.80	%	538.76	%	430.23	%
Total loans (6)	0.55		0.63		0.53		0.53		0.57	
Regulatory Capital Ratios: (Bank only) (1)										
Tangible capital	8.23	%	7.60	%	7.63	%	7.88	%	9.05	%
Leverage capital	8.23		7.60		7.63		7.88		9.05	
Total risk-based capital	11.95		11.22		11.43		11.92		12.61	

Earnings to Fixed Charges Ratios (7) (8):										
Including interest on deposits	1.87	x	1.41	x	1.38	x	1.32	x	1.51	x
Excluding interest on deposits	3.24		1.72		1.80		1.98		2.28	
Full Service Branches	25		23		23		21		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) Tangible book value per share equals the Company's consolidated tangible stockholders' equity divided by common shares outstanding. Period-end shares outstanding are utilized to calculate both book value and tangible book value per share.

(6) 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.

(7) 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.

(8) 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 multifamily residential and mixed-use real estate loans. During much of 2006 and 2007, growth was restrained due to the interest rate environment, which management deemed unfavorable for significant balance sheet growth. During 2008, the Company grew assets due to continued loan demand and favorable marketplace conditions surrounding the origination of multifamily residential real estate loans. By the end of 2008, the Company began restricting its plans for future growth based upon the desire to retain capital levels sufficient to accommodate potential credit quality problems resulting from the downturn in the economy and the local real estate market. This strategy continued throughout 2009 and 2010.

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

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

The years ended December 31, 2010 and 2009 were dominated by a global real estate and economic recession fueled by significant weakness and/or failure in many of the world's largest financial institutions. 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), resulted in year-over-year increases in both net interest spread and net interest margin during the years ended December 31, 2010 and 2009, thus favorably impacting the Company's consolidated earnings during the period. Partially offsetting this benefit were increased credit costs on Bank-owned loans and TRUPs that were recognized during both 2010 and 2009, as well as increased credit costs recognized during 2009 on loans sold to FNMA with recourse.

Critical Accounting Policies

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

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

Allowance for Loan Losses. The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Part I – Item 1. Business – Allowance for Loan Losses.

Reserve for Loan Commitments. The Bank's methods and assumptions utilized to periodically determine its reserve for loan commitments are summarized commencing on page F-20.

Reserve Liability for the First Loss Position on Multifamily Loans Sold to FNMA. The Bank's methods and assumptions utilized to periodically determine its liability for the First Loss Position on multifamily loans sold to FNMA are summarized commencing on page F-19.

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

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

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

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

(i) Goodwill Impairment Analysis. As of December 31, 2010, the Company had goodwill totaling $55.6 million, which is accounted for in accordance with ASC 805-10. ASC 805-10 requires performance of an annual impairment test at the reporting unit level. Management annually performs analyses to test for impairment of goodwill. In the event an impairment of goodwill is determined to exist, it is recognized as a charge to earnings.

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

December 31, 2010 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events or circumstances have occurred subsequent to December 31, 2010 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or circumstances would require the immediate performance of an impairment test in accordance with ASC 805-10.

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

At December 31, 2010, 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, 2010. As a result, at both December 31, 2010 and December 31, 2009, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing as described in Note 17 to the consolidated financial statements).

At December 31, 2010, the Company had an investment in nine mutual funds totaling $1.5 million that were classified as trading. All changes in valuation of these securities are recognized in the Company's results of operations. The Company owned no securities classified as trading during the year ended December 31, 2009. 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, 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 market 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 consolidated financial statements for a reconciliation of OTTI on securities during the years ended December 31, 2010 and 2009.

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

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

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

The Company's policies regarding accrual of interest on loans is discussed in Part I – Item 1. Business – Asset Quality – Monitoring and Collection of Delinquent Loans."

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

Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's 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 increased $133.7 million during the year ended December 31, 2010, compared to a decline of $43.2 million during the year ended December 31, 2009. 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, 2009, CDs declined $168.1 million and were partially offset by an increase of $124.9 million in core deposits. During this period, the Bank did not replace maturing promotional CDs gathered in late 2008 in an effort to both improve its overall funding costs and limit undesired balance sheet growth. The increase in core deposits during the year ended December 31, 2009 occurred as deposit pricing pressure diminished in the Bank's marketplace and the Bank experienced an unusually large inflow of commercial money market and checking deposits during the period.

During the year ended December 31, 2010, principal repayments totaled $434.3 million on real estate loans and $78.4 million on MBS. During the year ended December 31, 2009, principal repayments totaled $328.1 million on real estate loans and $82.1 million on MBS. The increase in principal repayments on real estate loans reflected additional loan refinancing activity as portfolio loans approached their contractual repricing date. The reduction in principal repayments on MBS reflected a decline of $82.5 million in their average balance from the year ended December 31, 2009 to the year ended December 31, 2010, as the Company has elected not to purchase any MBS during the past several years and experiences monthly principal amortization on its existing MBS. The Company does not presently believe that its future levels of principal repayments will be materially impacted by problems currently experienced in the residential or commercial mortgage markets. (See "Part I. Item 1 – Business - Asset Quality" for a further discussion of the Bank's asset quality).

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 FHLBNY. At December 31, 2010, the Bank had an additional potential borrowing capacity of $419.4 million through the FHLBNY, subject to customary minimum common stock ownership requirements imposed by the FHLBNY (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

During the year ended December 31, 2010, the Company converted $35.0 million of REPO borrowings into an FHLBNY 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 FHLBNY advances). Excluding the conversion of the $35.0 million of REPO borrowings, the Company reduced FHLBNY 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, 2009, the Company reduced its FHLBNY advances by $10.0 million, as it elected to utilize liquidity from deposit inflows to reduce its overall borrowing level during the period. Late in 2010, the Company added $86.0 million of fixed rate FHLBNY advances, with a weighted average cost of 1.83% and a weighted average term to maturity of 4.5 years, and modified $60.0 million of existing putable FHLBNY advances. The modifications resulted in a 61 basis point reduction in the weighted average cost of the borrowings, and also provided a 2.7-year extension in their weighted average term to maturity. Management will continue to assess these funding opportunities in order to help maintain pricing discipline on deposits and to manage the Bank's interest rate risk.

The Bank is subject to minimum regulatory capital requirements imposed by its primary regulator, the OTS, which, as a general matter, are based on the amount and composition of an institution's assets. At December 31, 2010, 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, 2010 and 2009, real estate loan originations totaled $541.7 million and $464.4 million, respectively. 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, compared to $46.0 million during the year ended December 31, 2009. All of these purchases were limited to medium-term agency notes. The increase in the aggregate level of investment security purchases resulted from management's election to: (i) retain an unusually high level of liquidity in order to maintain balance sheet flexibility during 2009, 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, 2010 and 2009. As of December 31, 2010, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the $14.59 per share closing price of its common stock as of December 31, 2010, the Holding Company would utilize $16.4 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, 2010 the Company paid $18.6 million in cash dividends on its common stock, up from $18.5 million during the year ended December 31, 2009, reflecting an increase of 197,649 in issued and outstanding shares from December 31, 2009 to December 31, 2010.

Contractual Obligations

The Bank has outstanding at any time, a significant number of borrowings in the form of FHLBNY 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 certain rental payments on its branches and equipment, and for monthly payments on a data processing outsourcing agreement. A summary of CDs, borrowings and lease obligations at December 31, 2010 is as follows:

	Payments Due By Period				
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	$666,879	$228,335	$155,292	$9,146	$1,059,652
Weighted average interest rate of CDs (1)	1.57 %	2.45 %	3.20 %	2.99 %	2.01 %
Borrowings	$105,750	$388,275	$371,500	$320,000	$1,185,525
Weighted average interest rate of borrowings	3.68 %	3.40 %	2.69 %	4.26 %	3.43 %
Operating lease obligations	$2,529	$4,929	$4,577	$20,183	$32,218
	$252	-	-	-	$252

Minimum data processing system obligation

(1) The weighted average cost of CDs, inclusive of their contractual compounding of interest, was 2.04% at December 31, 2010.

The Company had a $1.4 million reserve recorded related to unrecognized income tax benefits at December 31, 2010. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all liabilities related to unrecognized income tax benefits that were not paid by December 31, 2010 have been excluded from the tabular disclosure of contractual obligations.

Off-Balance Sheet Arrangements

From December 2002 through February 2009, the Bank originated and sold multifamily residential mortgage loans in the secondary market to FNMA while retaining servicing. 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, 2010:

	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
			(Dollars in thousands)		
Credit Commitments:					
Available lines of credit	$34,869	$-	$-	$-	$34,869
Other loan commitments	69,582	-	-	-	69,582
First Loss Position on loans sold to FNMA	16,789	-	-	-	16,789
Total Credit Commitments	$121,240	$-	$-	$-	$121,240

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-earnings 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, 2010, 2009 and 2008, 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-56.

	For the Year Ended December 31,								
	2010			2009			2008		
	(Dollars in Thousands)								
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:									
Interest-earning assets:									
Real estate loans (1)	$3,454,327	$202,591	5.86 %	$3,285,841	$193,689	5.89 %	$3,088,242	$182,934	5.92
Other loans	1,332	123	9.23	1,604	143	8.91	1,790	166	9.27
Investment securities	176,446	7,820	4.43	27,723	874	3.15	32,230	1,950	6.05
MBS	63,620	1,277	2.01	258,989	11,548	4.46	280,307	12,685	4.53
Federal funds sold and other short-term investments	141,282	2,983	2.11	187,707	2,914	1.55	110,202	4,919	4.46
Total interest-earning assets	3,837,007	$214,794	5.60	3,761,864	$209,168	5.56	3,512,771	$202,654	5.77
Non-interest earning assets	246,380			204,577			197,153		
Total assets	$4,083,387			$3,966,441			$3,709,924		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest bearing checking accounts	101,220	$601	0.59 %	$108,716	$1,080	0.99	$91,988	$2,200	2.39
Money Market accounts	747,523	5,779	0.77	719,818	9,536	1.32	655,853	18,551	2.83
Savings accounts	313,105	808	0.26	289,473	1,060	0.37	273,720	1,535	0.56
CDs	1,075,932	22,803	2.12	1,048,016	31,116	2.97	1,017,951	37,692	3.70
Borrowed Funds	1,272,230	49,422	3.88	1,285,598	54,893	4.27	1,202,581	51,324	4.27
Total interest-bearing liabilities	3,510,010	$79,413	2.26	3,451,621	$97,685	2.83	3,242,093	$111,302	3.43
Non-interest bearing checking accounts	119,221			102,419			91,699		
Other non-interest-bearing liabilities	139,382			127,791			103,833		
Total liabilities	3,768,613			3,681,831			3,437,625		
	314,774			284,610			272,299		

Stockholders' equity											
Total liabilities and stockholders' equity	$4,083,387				$3,966,441				$3,709,924		
Net interest spread (2)			3.34	%			2.73	%			2.34
Net interest income/ interest margin (3)		$135,381	3.53	%		$111,483	2.96	%		$91,352	2.60
Net interest-earning assets	$326,997				$310,243				$270,678		
Ratio of interest-earning assets to interest-bearing liabilities			109.32	%			108.99	%			108.35

(1) In computing the average balance of real estate loans, non-performing loans have been included. Interest income on real estate loans includes loan fees. Interest income on real estate loans also includes applicable prepayment fees and late charges.

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

(3) The interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis. The following table represents the extent to which variations in interest rates and the volume of interest-earning assets and interest-bearing liabilities have affected interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) variances attributable to fluctuations in volume (change in volume multiplied by prior rate), (ii) variances attributable to rate (changes in rate multiplied by prior volume), and (iii) the net change. Variances attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Increase/ (Decrease) Due to			Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 Increase/ (Decrease) Due to			Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 Increase/ (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:	(Dollars in Thousands)								
Real Estate Loans	$ 8,545	$ 357	$ 8,902	$ 10,114	$ 641	$ 10,755	$ 16,152	$ 1,561	$ 17,713
Other loans	(21)	1	(20)	(16)	(7)	(23)	(4)	(8)	(12)
Investment securities	745	(342)	403	(290)	(786)	(1,076)	276	(337)	(61)
MBS	(3,215)	(513)	(3,728)	(857)	(280)	(1,137)	4,818	1,523	6,341
Federal funds sold and other short-term investments	(630)	699	69	1,498	(3,503)	(2,005)	(1,811)	(1,676)	(3,487)
Total	$ 5,424	$ 202	$ 5,626	$ 10,449	$ (3,935)	$ 6,514	$ 19,431	$ 1,063	$ 20,494
Interest-bearing liabilities:									
Interest bearing checking accounts	$ (105)	$ (374)	$ (479)	$ 71	$ (1,191)	$ (1,120)	$ 933	$ 434	$ 1,367
Money market accounts	(261)	(3,496)	(3,757)	$ (128)	$ (8,887)	(9,015)	$ (73)	$ (5,614)	$ (5,687)
Savings accounts	26	(278)	(252)	(10)	(465)	(475)	(66)	(30)	(96)
CDs	(516)	(7,798)	(8,314)	(93)	(6,483)	(6,576)	(3,129)	(8,238)	(11,367)
Borrowed funds	(1,074)	(4,397)	(5,471)	3,109	460	3,569	17,168	(1,230)	15,938
Total	$ (1,930)	$ (16,343)	$ (18,273)	$ 2,949	$ (16,566)	$ (13,617)	$ 14,833	$ (14,678)	$ 155
Net change in net interest income	$ 7,354	$ 16,545	$ 23,899	$ 7,500	$ 12,631	$ 20,131	$ 4,598	$ 15,741	$ 20,339

Comparison of Financial Condition at December 31, 2010 and December 31, 2009

Assets. Assets totaled $4.04 billion at December 31, 2010, an increase of $88.0 million from total assets of $3.95 billion at December 31, 2009.

Cash and due from banks and investment securities available for sale increased $46.9 million and $42.5 million, respectively, during the period. During the year ended December 31, 2010, the Company gathered $133.7 million in new deposits and elected to retain a portion of these funds in liquid balances to fund future cash obligations. Portfolio real estate loans increased $75.0 million during the period, as a result of $541.7 million of originations and $45.1 million of purchases, which were partially offset by amortization and satisfactions of $434.3 million and portfolio sales of $75.2 million during the same period. MBS available-for-sale declined $80.3 million during the period on principal repayments of $78.4 million during the year ended December 31, 2010.

Liabilities. Total liabilities increased $54.1 million during the year ended December 31, 2010, primarily as a result of the addition of $133.7 million in deposits, and $2.6 million in mortgagor escrow balances during the period. The Company repaid a maturing $25.0 million subordinated note on May 1, 2010 and reduced its aggregate balance of FHLBNY advances and REPO borrowings by $54.2 million during the year ended December 31, 2010. Mortgagor escrow balances increased as a result of both increased loan balances and borrower tax obligations. See "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the changes in retail branch and Internet banking deposits, FHLBNY advances and REPOS. The Holding Company repaid its $25.0 million subordinated note payable on its May 1, 2010 maturity date.

Stockholders' Equity. Stockholders' equity increased $34.0 million during the year ended December 31, 2010, due primarily to net income of $41.4 million, a reclassification of $8.0 million from liabilities to equity related to the Employee Stock Ownership Plan benefit component of the Company’s Benefit Maintenance Plan ("BMP") that resulted from modifications to the BMP in March 2010, $3.2 million of stock benefit plan expense amortization that added to the cumulative balance of stockholders' equity, and $1.0 million of proceeds from stock option exercises by employees. Partially offsetting these items were $18.6 million in cash dividends paid during the period.

Comparison of Financial Condition at December 31, 2009 and December 31, 2008

Assets. Assets totaled $3.95 billion at December 31, 2009, a decline of $103.3 million from total assets of $4.06 billion at December 31, 2008.

Cash and due from banks declined $171.7 million during the period. During the first six months of 2009, the Company elected to hold cash inflows from deposits gathered in late 2008 highly liquid in order to provide greater balance sheet flexibility. During the final six months of 2009, the Company utilized a substantial portion of these liquid funds in order to fund CD outflows during the period, resulting in a significant decline in their period-end balance from December 31, 2008 to December 31, 2009. In addition, MBS available-for-sale declined $76.6 million during the period as principal repayments of $82.1 million on these securities were partially offset by an increase of $6.1 million in their market valuation during the year ended December 31, 2009.

Portfolio real estate loans increased $103.3 million during the period, as a result of $464.4 million of originations and the purchase of $90.6 million of real estate loans, which were partially offset by amortization and satisfactions of $326.4 million and sales of $119.4 million during the same period. Investment securities available-for-sale increased $26.6 million, primarily as a result of purchases of $46.0 million in agency obligations that were partially offset by the sale of $10.0 million of municipal agency securities and $10.0 million of called federal agency securities during the period.

Liabilities. Total liabilities decreased $121.1 million during the year ended December 31, 2009, reflecting declines of $43.2 million in retail branch and Internet banking deposits, $10.0 million in FHLBNY advances, and $64.2 million in escrow and other deposits during the period. The decline in escrow and other deposits resulted from both the payment of semi-annual real estate tax payments for mortgage loan customers in December 2009, as well as a postponement in funding the last semi-annual real estate tax payment of 2008 to early January 2009. See "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the decreases in retail branch and Internet banking deposits and FHLBNY advances during the period.

Stockholders' Equity. Stockholders' equity increased $17.8 million during the year ended December 31, 2009, due primarily to net income of $26.2 million, a reduction of $7.3 million in the after-tax balance of accumulated other comprehensive loss (which increases stockholders' equity), and amortization of stock plan benefit expense of $2.9 million, which were partially offset by $18.5 million in cash dividends paid during the period. The decline in the balance of accumulated other comprehensive loss reflected an increase in valuation of a great majority of the Company's available-for-sale investments and MBS during the period as a result of greater marketplace demand for securities possessing high credit quality during the year ended December 31, 2009. The decline in the balance of accumulated other comprehensive loss also reflected a $1.2 million after-tax decline in the unfunded status of the Company's defined benefit plans.

Comparison of Operating Results for the Years Ended December 31, 2010 and 2009

General. Net income was $41.4 million during the year ended December 31, 2010, an increase of $15.2 million from net income of $26.2 million during the year ended December 31, 2009. During the comparative period, net interest income increased $23.9 million, the provision for loan losses declined $1.9 million and non-interest income increased $8.8 million, while non-interest expense increased $4.7 million, resulting in an increase in pre-tax income of $30.0 million. Income tax expense increased $14.8 million during the comparative period due to both the increase in pre-tax earnings as well as a higher effective tax rate.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2010 and 2009 presented below should be read in conjunction with the tables on pages F-54 and F-55, which set forth certain information related to the consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

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

Interest Income. Interest income was $214.8 million during the year ended December 31, 2010, an increase of $5.6 million from the year ended December 31, 2009, primarily reflecting growth in interest income of $8.9 million on real estate loans and $403,000 on investment securities. The increases in interest income on real estate loans and investment securities resulted from increases in their average balances of $168.5 million and $35.9 million, respectively, during the year ended December 31, 2010 compared to the year ended December 31, 2009.

Offsetting these items was a decline of $3.7 million in interest income on MBS that resulted from a reduction of $82.5 million in their average balance during the year ended December 31, 2010 compared to the year ended December 31, 2009. The reduction in average balance resulted from $78.4 million in principal repayments during 2010. The Company has not purchased any MBS since January 1, 2009.

Interest Expense. Interest expense decreased $18.3 million, to $79.4 million, during the year ended December 31, 2010, from $97.7 million during the year ended December 31, 2009. The decline resulted from reductions in interest expense of $3.8 million on money market accounts, $8.3 million on CDs and $5.5 million on borrowed funds.

The decrease in interest expense on money market accounts and CDs resulted from declines of 55 basis points and 85 basis points, respectively, in their average cost, as a result of the Company's orderly reduction in offering rates on all deposit accounts during 2010. In addition, the Company was able to replace maturing borrowings at lower average costs during 2010, creating a reduction of 39 basis points in its average borrowing costs from the year ended December 31, 2009 to the year ended December 31, 2010. Partially offsetting these items was additional interest expense resulting from increases in the average balance of money markets of $27.7 million and CDs of $27.9 million from the year ended December 31, 2009 to the year ended December 31, 2010, reflecting $94.0 million of such deposits added in aggregate during 2010. The average balance of borrowed funds declined $5.5 million during the year ended December 31, 2010 compared to the year ended December 31, 2009, as the Company was able to utilize deposit inflows and existing liquidity from December 31, 2009 to fund its 2010 obligations.

Provision for Loan Losses. The provision for loan losses was $11.2 million during the year ended December 31, 2010, $2.0 million below the provision of $13.2 million recorded during the year ended December 31, 2009. This decline resulted primarily from a reduction of $1.9 million in the allowance for loan losses on impaired loans from December 31, 2009 to December 31, 2010, reflecting a lower level of probable credit losses determined on impaired loans at December 31, 2010 compared to 2009. The lower level of probable credit losses on impaired loans largely resulted from $20.4 million of charge-offs recognized on such loans from July 1, 2009 through December 31, 2010. Although non-accrual loans increased $8.9 million during the year ended December 31, 2010, they remained a small portion of the Bank’s total loan portfolio, and virtually all were non-homogeneous in nature. As a result, a high correlation between the change in the Bank’s non-accrual loans and its allowance for loan losses cannot effectively be surmised. Extended periods of higher non-accrual loans and charge-offs would, however, likely result in increased levels of loan loss provisioning during the same timeframe.

Non-Interest Income. Total non-interest income increased $8.8 million from the year ended December 31, 2009 to the year ended December 31, 2010. Within non-interest income, mortgage banking income increased $2.8 million, and credit-related OTTI charges declined $5.4 million (resulting in an increase in non-interest income). In addition, during the year ended December 31, 2010, the Company recognized gains of $608,000 on sales, and $242,000 on the transfer from available-for-sale into trading, of some equity mutual fund holdings. (See Note 3 to the Consolidated Financial Statements for a further discussion of the OTTI charges, and the sale and transfer of equity mutual fund holdings). The increase in mortgage banking income resulted primarily from the absence of charges to increase the liability for the First Loss Position on loans sold with recourse to FNMA during the year ended December 31, 2010, as the Bank recorded a charge to mortgage banking income of $3.3 million during the year ended December 31, 2009 for an increase to this liability (See Note 7 to the Consolidated Financial Statements for the components comprising mortgage banking income, and Note 6 to the Consolidated Financial Statements for a discussion of the liability for the First Loss Position). The remainder of the increase in non-interest income resulted primarily from $739,000 of additional rental income on leased properties, reflecting both higher cash receipts, as well as a modification of the manner in which the Company recognizes its rental income from a strictly cash basis to a straight line accrual methodology.

Non-Interest Expense. Non-interest expense was $62.0 million during the year ended December 31, 2010, an increase of $4.7 million from $57.3 million during the year ended December 31, 2009.

Salaries and employee benefits increased $3.2 million during the comparative period, of which $977,000 resulted from a non-recurring benefit cost associated with the reinstatement of the BMP, $561,000 resulted from an adjustment to the manner of expense recognition on a component of the BMP, $353,000 reflected an actuarial adjustment to the defined benefit plan expenses associated with The Retirement Plan of The Dime Savings Bank of

Williamsburgh (the "Employee Retirement Plan") and BMP, and the remainder resulted from ongoing salary increases. Occupancy and equipment expense increased $1.5 million as a result of two additional retail offices impacting occupancy expenses during 2010, as well as $970,000 of higher rental expense, largely reflecting a transition of operating lease rental expense from a strictly cash basis to a straight line accrual methodology. Federal deposit insurance costs declined $1.4 million during the comparative period as a result of a special insurance assessment of $1.8 million incurred during the year ended December 31, 2009. During the year ended December 31, 2010, the Company recorded a provision for losses on OREO of $422,000 for the write-down of OREO properties to their likely disposal value, compared to $196,000 of such expenses recognized during 2009. Other expenses (excluding provisions for losses on OREO) grew $965,000, primarily reflecting higher marketing costs of $830,000.

Non-interest expense was 1.52% of average assets during the year ended December 31, 2010, compared to 1.44% during the year ended December 31, 2009, reflecting the $4.7 million increase in non-interest expense.

Income Tax Expense. Income tax expense increased $14.8 million during the year ended December 31, 2010 compared to the year ended December 31, 2009, due primarily to an increase of $30.0 million in pre-tax earnings. The Company's customary consolidated tax rate had previously approximated 37%. As previously discussed, during the year ended December 31, 2010, the Company recognized gains totaling $608,000 on both the sale of mutual funds and the transfer of mutual funds into trading. From a tax perspective, since: (i) these events triggered the reversal of deferred tax assets previously recognized when the Company recorded OTTI charges in March 2009; and (ii) the deferred tax assets on the OTTI charges were established at a statutory rate approximating 45% (significantly in excess of the current consolidated 40.0% tax rate), their reversal created a higher effective tax rate during the year ended December 31, 2010. In addition, the Company recognized an increase of approximately $1.4 million during the year ended December 31, 2010 related to a change in New York State and City tax law enacted during 2010. The Company’s consolidated effective tax rate thus increased to 41.08% during the year ended December 31, 2010. The impact of $7.9 million in OTTI charges reduced the effective tax rate for the year ended December 31, 2009 to 35.0%, as the tax provision applied to these OTTI items was made at the statutory 45% rate. Looking forward, the consolidated effective tax rate is expected to approximate 40%.

Comparison of Operating Results for the Years Ended December 31, 2009 and 2008

General. Net income was $26.2 million during the year ended December 31, 2009, a decline of $1.8 million from net income of $28.0 million during the year ended December 31, 2008. During the comparative period, the provision for loan losses increased $11.1 million, non-interest income declined $3.6 million and non-interest expense increased $7.3 million, while net interest income increased $20.1 million, resulting in a reduction in pre-tax income of $1.9 million. Income tax expense decreased $72,000 during the comparative period due to the decline in pre-tax earnings.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2009 and 2008 presented below should be read in conjunction with the tables on pages F-54 and F-55, which set forth certain information related to the consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

During the year ended December 31, 2009, FOMC monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%. In addition, dislocations in the securitization marketplace for loans secured by multifamily and commercial real estate reduced the overall competition for the Bank's primary loan product, thus permitting origination rates on these loans to remain unaffected by general reductions in interest rates. The combination of these events favorably impacted the Company's net interest income and net interest margin during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Interest Income. Interest income was $209.2 million during the year ended December 31, 2009, an increase of $6.5 million from $202.7 million during the year ended December 31, 2008. This resulted primarily from an increase in interest income of $10.8 million on real estate loans, that was partially offset by declines in interest income of $2.0 million on federal funds sold and other short-term investments and $1.1 million on each of investment securities and MBS.

The increase in interest income on real estate loans resulted from growth in their average balance of $197.6 million during the year ended December 31, 2009 compared to the year ended December 31, 2008, reflecting originations of $464.4 million and purchases of $90.6 million during 2009, which was partially offset by principal repayments of $326.4 million and loan sales of $119.4 million during the same period.

The decrease in interest income on federal funds sold and other short-term investments resulted from a decline of 291 basis points in their average yield (reflecting lower federal funds and benchmark short-term interest rates during the year ended December 31, 2009 as a result of FOMC monetary policy actions), which was partially offset by an increase of $77.5 million in their average balance during the comparative period. The increase in average balance reflected management's preference to retain funds in highly liquid short-term investments during the year ended December 31, 2009.

The decline in interest income on investment securities reflected reductions of both $4.5 million in their average balance and 290 basis points in their average yield. The decline in average yield reflected lower interest rates that resulted from FOMC monetary policy actions as well as reductions in interest income received on the Bank's TRUPs. The decline in their average balance reflected management's preference to curtail purchases of these assets throughout much of the year ended December 31, 2009. The decline in interest income on MBS resulted primarily from a decline of $21.3 million in their average balance from principal repayments of $82.1 million that occurred throughout 2009. The Company did not purchases any MBS during 2009.

Interest Expense. Interest expense decreased $13.6 million, to $97.7 million, during the year ended December 31, 2009, from $111.3 million during the year ended December 31, 2008. The decline resulted from reductions in interest expense of $9.0 million on money market accounts, $6.6 million on CDs, and $1.1 million on interest bearing checking accounts, which were partially offset by increased interest expense of $3.6 million on borrowed funds.

The decrease in interest expense on money market accounts resulted from a decline of 151 basis points in their average cost, as the Bank lowered offering rates on money market accounts during 2009 in response to the significant reduction in benchmark short-term interest rates in 2008 and 2009. Similarly, the decline in interest expense on CDs resulted primarily from a decrease of 73 basis points in their average cost during the year ended December 31, 2009 compared to the year ended December 31, 2008, and the decline in interest expense on interest bearing checking accounts reflected a decline of 140 basis points in their average cost during the comparative period. The decline in these average costs reflected lower offering rates during the year ended December 31, 2009 compared to the year ended December 31, 2008, as short-term market interest rates, which influence the pricing of both CDs and interest bearing checking accounts, declined significantly throughout 2008, and remained near zero during 2009.

The increase in interest expense on borrowed funds resulted from $83.0 million of growth in their average balance during the year ended December 31, 2009 compared to the year ended December 31, 2008, as the Company added a total of $388.1 million in borrowings in the form of REPOS and FHLBNY advances throughout 2008 in order to fund operational requirements and help maintain pricing discipline on deposits. Since the great majority of these added borrowings were retained throughout 2009, their average balance was higher during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Provision for Loan Losses. The provision for loan losses was $13.2 million during the year ended December 31, 2009, an increase of $11.1 million over the provision of $2.0 million recorded during the year ended December 31, 2008. This increase reflected: (i) the increase in non-accrual and other problem loans from December 31, 2008 to December 31, 2009; (ii) deteriorating conditions in the Bank's local real estate marketplace that resulted in higher estimated loan loss reserves on these non-accrual and other problem loans; and (iii) increased reserves applied to performing loans as a result of a higher reserve allocation determined on these loans at December 31, 2009 compared to December 31, 2008.

Non-Interest Income. Total non-interest income declined $3.6 million from the year ended December 31, 2008 to the year ended December 31, 2009. During the year ended December 31, 2009, the Company recognized $7.9 million of credit-related OTTI charges on TRUPs and equity mutual fund investment securities, compared to $3.2 million of such charges recognized during the year ended December 31, 2008. (See Note 3 to the Consolidated Financial Statements for a further discussion of the OTTI charges). Partially offsetting this was an increase in net mortgage banking income of $416,000 during the comparative period, and a $468,000 increase in net gain on the sale of investment securities and OREO, as well as a net gain of $505,000 recognized on a portion of the Company's trust preferred corporate debt that was re-acquired at a discount during 2009. The increase in mortgage banking income resulted primarily from a reduction of $643,000 in the required charges to increase the liability for the First Loss Position on loans sold with recourse to FNMA (reflecting a more favorable condition of problem loans within the pool), that was partially offset by a decline of $321,000 in gains on loans sold (reflecting lower sales volume). The increase in the net gain on the sale of investment securities and OREO reflected a gain of $431,000 recognized in the first quarter of 2009 on the sale of the Bank's portfolio of municipal securities (which was partially offset by a loss of $92,000 on the sale of OREO recognized in the second quarter), compared to a loss of $129,000 recognized during the second quarter of 2008 on the sale of OREO. Service charges and fees declined $557,000 during the comparative period as a result of both lower mortgage application income as well as a reduction in fees received on un-cashed official checks issued on behalf of depositors, as the Bank ceased utilization of a third party company to reconcile such checks in late 2008. Under the previous arrangement, the Bank would immediately fund the full balance of official checks issued to the third party reconciling firm, and would periodically receive a pre-negotiated fee for the balance of un-cashed official checks. In late 2008, the Bank assumed the official check reconciliation function internally.

Non-Interest Expense. Non-interest expense was $57.3 million during the year ended December 31, 2009, an increase of $7.3 million from $50.0 million during the year ended December 31, 2008.

Salaries and employee benefits increased $3.2 million during the comparative period as a result of $1.6 million of higher expenses associated with a reduction in the funded status of the Employee Retirement Plan, as well as a $758,000 reduction in the offset to salaries for capitalized loan origination salary costs during the year ended December 31, 2009 compared to the year ended December 31, 2008 (reflecting lower loan origination levels during the comparative period). Occupancy and equipment expense increased by $911,000 during the comparative period, reflecting the opening of the Brooklyn Heights branch in late 2008 and the acquisition of a building in late 2008 intended for future operational use. Federal deposit insurance costs increased $4.6 million during the comparative period as a result of a special insurance assessment of $1.8 million incurred as of September 30 , 2009, as well as ongoing increases in such costs resulting from the implementation of the FDIC DIF re-capitalization plans. Other operating expenses declined $1.5 million, primarily as a result of reduced marketing and professional fees.

Non-interest expense was 1.44% of average assets during the year ended December 31, 2009, compared to 1.35% during the year ended December 31, 2008. This increase reflected the substantial increase in FDIC insurance expense during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Income Tax Expense. Income tax expense declined $72,000 during the year ended December 31, 2009 compared to the year ended December 31, 2008, due primarily to a reduction of $1.9 million in pre-tax income during the period. The Company's customary consolidated effective tax rate approximates 37%. The impact of the previously discussed OTTI charges on investment securities reduced the actual effective tax rate for the year ended December 31, 2009 to 35.0%, while the combination of OTTI charges, a non-recurring reduction of $662,000 in the reserve for unrecognized tax benefits, and a reduction of $275,000 in recorded income tax expense related to the completion of the December 31, 2007 tax returns lowered the effective tax rate to 33.5% during the year ended December 31, 2008.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased costs of operations. Unlike industrial companies, nearly all of the Company's consolidated assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's consolidated performance than do the effects of general levels of inflation. Interest rates do not necessarily fluctuate in the same direction or to the same extent as the price of goods and services.

Recently Issued Accounting Standards

For a discussion of the impact of recently issued accounting standards, please see Note 1 to the Company's consolidated financial statements that commence on page F-67.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a depository financial institution, the Bank's primary source of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of interest income recorded on, and the market value of, a significant portion of the Bank's assets. Fluctuations in interest rates will also ultimately impact the level of interest expense recorded on, and the market value of, a significant portion of the Bank's liabilities. In addition, the Bank's real estate loan portfolio, concentrated primarily within the NYC metropolitan area, is subject to risks associated with the local economy.

Real estate loans, the largest component of the Bank's interest earning assets, traditionally derived their current interest rates primarily from either the five- or seven-year constant maturity Treasury index. As a result, the Bank's interest earning assets were historically most sensitive to these benchmark interest rates. Dislocations in the credit markets during the year ended December 31, 2010 resulted in a lower level of sensitivity of the Bank's multifamily loans to these benchmark interest rates. Since the majority of the Bank's interest bearing liabilities mature within one year, its interest bearing liabilities are most sensitive to fluctuations in short-term interest rates.

Neither the Holding Company nor the Bank is subject to foreign currency exchange or commodity price risk. In addition, the Company engaged in no hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) or embedded derivative instruments that required bifurcation during the years ended December 31, 2010 or 2009. In the future, the Company may, with appropriate Board approval, engage in hedging transactions utilizing derivative instruments. Trading securities owned by the Company were nominal at December 31, 2010. The Company owned no trading securities at December 31, 2009.

Since a majority of the Company's consolidated interest-earning assets and interest-bearing liabilities are located at the Bank, virtually all of the interest rate risk exposure exists at the Bank level. As a result, all of the significant interest rate risk management procedures are performed at the Bank level. The Bank's interest rate risk management strategy is designed to limit the volatility of net interest income and preserve capital over a broad range of interest rate movements and has the following three primary components:

Assets. The Bank's largest single asset type is the adjustable-rate multifamily residential loan. Multifamily residential loans typically carry shorter average terms to maturity than one- to four-family residential loans, thus significantly reducing the overall level of interest rate risk. Over 90% of multifamily residential loans originated by the Bank during the years ended both December 31, 2010 and 2009 were adjustable rate, with repricing typically occurring after five or seven years. In addition, the Bank has sought to include in its portfolio various types of adjustable-rate one- to four-family loans and adjustable and floating-rate investment securities, with repricing terms generally of three years or less. At December 31, 2010, adjustable-rate real estate and consumer loans totaled $2.86 billion, or 70.8% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled $68.3 million, or 1.7% of total assets. At December 31, 2009, adjustable-rate real estate and consumer loans totaled $2.80 billion, or 70.8% of total assets, and adjustable-rate investment securities (CMOs, REMICs, MBS issued by GSEs and other securities) totaled $101.5 million, or 2.6% of total assets.

Deposit Liabilities. As a traditional community-based savings bank, the Bank is largely dependent upon its base of competitively priced core deposits to provide stability on the liability side of the balance sheet. The Bank has retained many loyal customers over the years through a combination of quality service, convenience, and a stable and experienced staff. Core deposits at December 31, 2010 were $1.23 billion, or 55.6% of total deposits. The balance of CDs as of December 31, 2010 was $985.1 million, or 44.4% of total deposits, of which $628.8 million, or 63.8%, were to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2010 was 15.5 months, compared to 8.8 months at December 31, 2009. During the year ended December 31, 2010, the Bank generally priced its CDs in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year, and the increase in the average maturity of CDs during the year ended December 31, 2010 reflected promotional CDs with maturities of 12 months and longer that were added throughout 2010.

Wholesale Funds. The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to $1.41 billion at December 31, 2010. The Bank borrows from the FHLBNY for various purposes. At December 31, 2010, the Bank had outstanding advances of $990.5 million from the FHLBNY, all of which were secured by a blanket lien on the Bank's loan portfolio. Wholesale funding provides the Bank opportunities to extend the overall duration of its interest bearing liabilities, thus helping manage interest rate risk.

The Bank has authority to accept brokered deposits as a source of funds and considers them a potential funding source. The Bank had no outstanding brokered deposits at either December 31, 2010 or December 31, 2009.

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, 2010, the Bank had not purchased or sold any CDs through this program.

Interest Rate Risk Exposure (NPV) Compliance

Under guidelines established by OTS Thrift Bulletin 13a, the Bank also measures its interest rate risk through an analysis of the change in its NPV under several interest rate scenarios. NPV is the difference between the present value of the expected future cash flows of the Bank's assets and liabilities, plus the present value of net expected cash flows from either commitments to originate or sell loans or purchase securities.

Traditionally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. Increases in interest rates thus result in decreases in the fair value of interest-earning assets, which could adversely affect the Company's consolidated results of operations in the event they were to be sold, or, in the case of interest-earning assets classified as available-for-sale, reduce the Company's consolidated stockholders' equity, if retained. During the years ended December 31, 2009 and 2010, dislocations in the credit markets resulted in a significantly lower correlation between changes in interest rates and changes in these fair values. The changes in the value of assets and liabilities due to fluctuations in interest rates reflect the interest rate sensitivity of those assets and liabilities. Under GAAP, changes in the unrealized gains and losses, net of taxes, on securities classified as available-for-sale are reflected in stockholders' equity through other comprehensive income. As of December 31, 2010, the Company's consolidated securities portfolio included $267.9 million in securities classified as available- for-sale, which possessed a gross unrealized gain of $8.9 million.

In order to measure the Bank's sensitivity to changes in interest rates, NPV is calculated under market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under various other interest rate scenarios ("Rate Shock Scenarios") representing immediate, permanent, parallel shifts in the term structure of interest rates from the actual term structure observed in the Pre-Shock Scenario. The changes in NPV between the Pre-Shock Scenario and various Rate Shock Scenarios due to fluctuations in interest rates reflect the interest rate sensitivity of the Bank's assets, liabilities, and commitments to either originate or sell loans and/or purchase or sell securities that are included in the NPV. The NPV ratio under any interest rate scenario is defined as the NPV in that scenario divided by the present value of the assets in the same scenario (the "NPV Ratio"). An increase in the NPV Ratio is considered favorable, while a decline is considered unfavorable.

An interest rate risk exposure compliance report is presented to the Bank's Board of Directors on a quarterly basis. The report, prepared in accordance with Thrift Bulletin 13a, compares the Bank's estimated Pre-Shock Scenario NPV to the estimated NPVs calculated under the various Rate Shock Scenarios. The calculated estimates of the resulting NPV Ratios are compared to current limits established by management and approved by the Board of Directors.

The analysis that follows presents the estimated NPV resulting from market interest rates prevailing at a given quarter-end Pre-Shock Scenario, and under four Rate Shock Scenarios. The analysis additionally presents a measurement of the interest rate sensitivity at December 31, 2010 and December 31, 2009. Interest rate sensitivity is measured by the basis point changes in the various NPV Ratios from the Pre-Shock Scenario to the Rate Shock Scenarios.

	At December 31, 2010							At December 31, 2010 and 2009
	Net Portfolio Value					At December 31, 2009		
	Dollar Amount	Dollar Change from the Pre-shock Scenario	Percentage Change from the Pre-shock Scenario	NPV Ratio	Basis Point Change in NPV Ratio from the Pre-shock Scenario	NPV Ratio	Basis Point Change in NPV Ratio from the Pre-shock Scenario	Board Approved NPV Ratio Limit
	(Dollars in Thousands)							
Rate Shock Scenario								
+ 200 Basis Points	$432,333	$ (14,889)	-3.33 %	10.63 %	(9)	9.48 %	(68)	5.0 %
+ 100 Basis Points	448,038	816	18.25	10.86	14	10.03	(13)	6.0

Pre-Shock Scenario	447,222	-	-	10.72	-	10.16	-	7.0
- 100 Basis Points	457,563	10,341	2.31	10.81	9	9.84	(32)	7.0
- 200 Basis Points	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.0

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

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

The Pre-Shock Scenario NPV increased from $412.5 million at December 31, 2009 to $447.2 million at December 31, 2010. The NPV Ratio at December 31, 2010 was 10.72% in the Pre-Shock Scenario, compared to 10.16% at December 31, 2009. The increase in the Pre-Shock Scenario NPV was due primarily to an increase in the valuation of multifamily loans (reflecting lower marketplace offering rates on such loans at December 31, 2010 compared to December 31, 2009). The growth in the Pre-Shock Scenario NPV Ratio reflected the increased Pre-Shock Scenario NPV at December 31, 2010 compared to December 31, 2009.

The Bank's +200 basis point Rate Shock Scenario NPV increased from $373.3 million at December 31, 2009 to $432.3 million at December 31, 2010. The increase resulted primarily from a more favorable valuation of multifamily loans at December 31, 2010 compared to December 31, 2009, reflecting a decline in their estimated term to next interest rate repricing at December 31, 2010 compared to December 31, 2009. Assets with a reduced term to next interest rate repricing generate a more favorable NPV in a rising rate interest rate environment. As a result, the decline in the NPV of total assets from the Pre-Shock Scenario to the +200 basis point Rate Shock Scenario was lower at December 31, 2010 than December 31, 2009.

The NPV Ratio was 10.63% in the +200 basis point Rate Shock Scenario at December 31, 2010, an increase from the NPV Ratio of 9.48% in the +200 basis point Rate Shock Scenario at December 31, 2009. The increase reflected the aforementioned increase in the +200 basis point Rate Shock Scenario NPV during the comparative period.

At December 31, 2010, the interest rate sensitivity in the +200 basis point Rate Shock Scenario was negative 9 basis points, compared to interest rate sensitivity of negative 68 basis points in the +200 basis point Rate Shock Scenario at December 31, 2009. The reduction in sensitivity was due primarily to less sensitivity in the valuation of multifamily loans in the +200 basis point Rate Shock Scenario at December 31, 2010 compared to December 31, 2009, as the majority of these loans moved closer to their contractual repricing.

Item 8. Financial Statements and Supplementary Data

For the Company's consolidated financial statements, see index on page F-67.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2010, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2010 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

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

Management’s Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, utilizing the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Controls – Integrated Framework." Based upon its assessment, management believes that, as of December 31, 2010, the Company's internal control over financial reporting is effective.

Crowe Horwath LLP, the independent registered public accounting firm that audited the consolidated financial statements included in the Annual Report, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, which is included on page F-68.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the Company is presented under the headings, "Proposal 1 - Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers" in the Holding Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 19, 2011 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2010, and is incorporated herein by reference.

Information regarding the audit committee of the Holding Company's Board of Directors, including information regarding audit committee financial experts serving on the audit committee, is presented under the headings, "Meetings and Committees of the Company's Board of Directors," and "Report of the Audit Committee" in the Proxy Statement and is incorporated herein by reference.

The Holding Company has adopted a written Code of Business Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Business Ethics is published on the Company's website, www.dime.com. The Company will provide to any person, without charge, upon request, a copy of such Code of Business Ethics. Such request should be made in writing to: Dime Community Bancshares, Inc., 209 Havemeyer Street, Brooklyn, New York 11211, attention Investor Relations.

Item 11. Executive Compensation

Information regarding executive and director compensation and the Compensation Committee of the Holding Company's Board of Directors is presented under the headings, "Directors' Compensation," "Compensation - Executive Compensation, "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is included under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

The following table presents information as of December 31, 2010 with respect to compensation plans under which equity securities of the Holding Company are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)] (c)	
Equity compensation plans approved by the Holding Company's shareholders	3,213,007	$ 14.63	623,304	(1)
Equity compensation plans not approved by the Holding Company's shareholders	-	-	-	

(1) Amount comprised of 20,520 stock options that remain available for future issuance under the 2001 Stock Option Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc., and 602,784 equity awards that remain available for future issuance under the 2004 Stock Incentive Plan for Outside Directors, Officers and Employees of Dime Community Bancshares, Inc., of which 452,237 were eligible to be issued in the form of restricted stock awards.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions is included under the heading, "Transactions with Certain Related Persons" in the Proxy Statement and is incorporated herein by reference. Information regarding director independence is included under the heading, "Information as to Nominees and Continuing Directors" in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services, as well as the Audit Committee's pre-approval policies and procedures, is included under the heading, "Proposal 2 – Ratification of Appointment of Independent Auditors," in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

See index to Consolidated Financial Statements on page F-67.

(2) Financial Statement Schedules

Financial statement schedules have been omitted because they are not applicable or not required or the required information is shown in the Consolidated Financial Statements or Notes thereto under "Part II - Item 8. Financial Statements and Supplementary Data."

(3) Exhibits Required by Item 601 of SEC Regulation S-K

See Index of Exhibits on pages F-119 and F-120.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 14, 2011.

DIME COMMUNITY BANCSHARES, INC.

By: /s/ VINCENT F. PALAGIANO

Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 14, 2011 by the following persons on behalf of the registrant and in the capacities indicated.

Name	Title
/s/ VINCENT F. PALAGIANO Vincent F. Palagiano	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ MICHAEL P. DEVINE Michael P. Devine	President and Chief Operating Officer and Director
/s/ KENNETH J. MAHON Kenneth J. Mahon	First Executive Vice President and Chief Financial Officer and Director (Principal Financial Officer)
/s/ MICHAEL PUCELLA Michael Pucella	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ ANTHONY BERGAMO Anthony Bergamo	Director
/s/ GEORGE L. CLARK, JR. George L. Clark, Jr.	Director
/s/ STEVEN D. COHN Steven D. Cohn	Director
/s/ PATRICK E. CURTIN Patrick E. Curtin	Director
/s/ FRED P. FEHRENBACH Fred P. Fehrenbach	Director
/s/ JOHN J. FLYNN John J. Flynn	Director
/s/ JOSEPH J. PERRY Joseph J. Perry	Director
/s/ OMER S.J. WILLIAMS Omer S.J. Williams	Director

CONSOLIDATED FINANCIAL STATEMENTS OF DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors, and Shareholders
Dime Community Bancshares, Inc. and Subsidiaries
Brooklyn, New York

We have audited the accompanying consolidated statements of financial condition of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for years ended December 31, 2010 and 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting located in Item 9a of Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audits of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP

Livingston, New Jersey
March 14, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dime Community Bancshares, Inc. & Subsidiaries
Brooklyn, NY

We have audited the accompanying consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2008 of Dime Community Bancshares, Inc. and Subsidiaries (the "Company"). These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations of Dime Community Bancshares, Inc and Subsidiaries and its cash flows for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 16, 2009

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

	December 31, 2010	December 31, 2009
ASSETS:		
Cash and due from banks	$86,193	$39,338
Federal funds sold and other short-term investments	4,536	3,785
Investment securities held-to-maturity (estimated fair value of $4,408 and $5,330 at December 31, 2010 and December 31, 2009, respectively) (Fully unencumbered)	6,641	7,240
Investment securities available-for-sale, at fair value :		
Encumbered	80,229	27,646
Unencumbered	5,413	15,516
	85,642	43,162
Mortgage-backed securities available-for-sale, at fair value:		
Encumbered	139,192	221,048
Unencumbered	5,326	3,725
	144,518	224,773
Trading securities	1,490	-
Loans:		
Real estate, net	3,467,644	3,392,038
Other loans	2,540	3,221
Less allowance for loan losses	(19,166)	(21,505)
Total loans, net	3,451,018	3,373,754
Loans held for sale	3,308	416
Premises and fixed assets, net	31,613	29,841
Federal Home Loan Bank of New York ("FHLBNY") capital stock	51,718	54,083
Other real estate owned ("OREO")	-	755
Goodwill	55,638	55,638
Other assets	117,980	119,489
Total Assets	$4,040,295	$3,952,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors:		
Interest bearing deposits	$2,224,851	$2,110,387
Non-interest bearing deposits	125,730	106,449
Total deposits	2,350,581	2,216,836
Escrow and other deposits	68,542	65,895
Securities sold under agreements to repurchase	195,000	230,000
FHLBNY advances	990,525	1,009,675
Subordinated notes payable	-	25,000
Trust Preferred securities payable	70,680	70,680
Other liabilities	36,233	39,415
Total Liabilities	$3,711,561	$3,657,501
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock ($0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2010 and December 31, 2009)	-	-
Common stock ($0.01 par, 125,000,000 shares authorized, 51,219,609 shares and 51,131,784 shares issued at December 31, 2010 and December 31, 2009, respectively,	512	511

and 34,593,180 shares and 34,395,531 shares outstanding at December 31, 2010 and December 31, 2009, respectively)		
Additional paid-in capital	225,585	214,654
Retained earnings	329,668	306,787
Accumulated other comprehensive loss, net of deferred taxes	(6,352)	(5,082)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(3,470)	(3,701)
Unearned Restricted Stock Award common stock	(2,684)	(2,505)
Common stock held by Benefit Maintenance Plan ("BMP")	(7,979)	(8,007)
Treasury stock, at cost (16,626,429 shares and 16,736,253 shares at December 31, 2010 and December 31, 2009, respectively)	(206,546)	(207,884)
Total Stockholders' Equity	$328,734	$294,773
Total Liabilities And Stockholders' Equity	$4,040,295	$3,952,274

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
Interest income:			
Loans secured by real estate	$202,591	$193,689	$182,934
Other loans	123	143	166
Mortgage-backed securities	7,820	11,548	12,685
Investment securities	1,277	874	1,950
Federal funds sold and other short-term investments	2,983	2,914	4,919
Total interest income	214,794	209,168	202,654
Interest expense:			
Deposits and escrow	29,991	42,792	59,978
Borrowed funds	49,422	54,893	51,324
Total interest expense	79,413	97,685	111,302
Net interest income	135,381	111,483	91,352
Provision for loan losses	11,209	13,152	2,006
Net interest income after provision for loan losses	124,172	98,331	89,346
Non-interest income:			
Total other than temporary impairment ("OTTI") losses	(2,757)	(10,919)	(3,209)
Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes)	282	3,004	-
Net OTTI recognized in earnings	(2,475)	(7,915)	(3,209)
Service charges and other fees	3,913	4,209	4,766
Mortgage banking (loss) income	1,069	(1,774)	(2,190)
Net gain (loss) on securities and sales of other assets (1)	916	339	(129)
Net gain on the re-acquisition of trust preferred securities payable	-	505	-
Income from Bank Owned Life Insurance ("BOLI")	1,941	2,022	1,999
Other	2,691	1,869	1,577
Total non-interest (loss) income	8,055	(745)	2,814
Non-interest expense:			
Salaries and employee benefits	31,329	28,167	24,922
Stock benefit plan compensation expense	3,895	3,647	3,702
Occupancy and equipment	9,372	7,878	6,967
Data processing costs	3,048	2,985	3,067
Advertising and marketing	2,271	1,441	2,364
Federal deposit insurance premiums	4,096	5,524	899
Provision for losses on OREO	422	196	-
Other	7,544	7,472	8,052
Total non-interest expense	61,977	57,310	49,973
Income before income taxes	70,250	40,276	42,187
Income tax expense	28,861	14,087	14,159
Net income	$41,389	$26,189	$28,028
Earnings per Share:			
Basic	$1.24	$0.79	$0.85
Diluted	$1.24	$0.79	$0.85

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Net Income	$41,389	$26,189	$28,028
Change in pension and other postretirement obligations, net of deferred benefit (taxes) of $1,273, $(1,021) and $3,776 during the years ended December 31, 2010, 2009 and 2008, respectively	(1,547)	1,240	(4,523)
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of tax of $(83), $(1,625) and $(1,224) during the years ended December 31, 2010, 2009 and 2008, respectively	101	1,975	1,496
Non-credit component of OTTI charge recognized during the period, net of tax benefits of $127 and $1,356 during the years ended December 31, 2010 and December 31, 2009 respectively	(156)	(1,648)	-
Reduction in non-credit component of OTTI, net of taxes of $(1,130) and $(391) during the years ended December 31, 2010 and 2009, respectively	1,374	476	-
Reclassification adjustment for securities sold during the period, net of taxes of and $384 and $195 during the years ended December 31, 2010 and 2009 respectively	(467)	(236)	-
Net unrealized securities (loss) gain arising during the period, net of benefit (taxes) of $474, $(4,604) and $3,188 during the years ended December 31, 2010, 2009 and 2008, respectively	(575)	5,477	(3,742)
Comprehensive Income	$40,119	$33,473	$21,259

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY			
Common Stock (Par Value $0.01):			
Balance at beginning of period	$511	$511	$509
Shares issued in exercise of options	1	-	2
Balance at end of period	512	511	511
Additional Paid-in Capital:			
Balance at beginning of period	214,654	213,917	208,369
Stock options exercised	1,011	43	2,471
(Tax Liability) Excess tax benefit of stock benefit plans	112	(130)	518
Amortization of excess fair value over cost – ESOP stock	721	583	1,011
Stock option expense	967	1,083	1,079
BMP award distribution	(28)	-	-
BMP reclassification	8,007	-	-
Release from treasury stock for restricted stock award shares and return of shares to treasury for forfeited shares	141	(842)	469
Balance at end of period	225,585	214,654	213,917
Retained Earnings:			
Balance at beginning of period	306,787	297,848	288,112
Net income for the period	41,389	26,189	28,028
BMP reclassification	132	-	-
Cumulative effect adjustment for the adoption of the transition requirements of ASC 715-20-65 "Compensation-Retirement Benefits - Defined Benefit Plans- Transition and Open Effective Date Information," net of taxes	-	(7)	(23)
Cumulative effect adjustment for the adoption of ASC 320-10-65 "Investments—Debt and Equity Securities – Overall – Transition and Open Effective Date Information," net of taxes	-	1,255	-
Cash dividends declared and paid	(18,640)	(18,498)	(18,269)
Balance at end of period	329,668	306,787	297,848
Accumulated Other Comprehensive Loss, Net of Deferred Taxes:			
Balance at beginning of period	(5,082)	(11,111)	(4,278)
Cumulative effect adjustment for the adoption of ASC 320-10-65, net of taxes of $1,034	-	(1,255)	-
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of tax	101	1,975	1,496
Non-credit component of OTTI charge recognized during the period, net of tax	(156)	(1,648)	-
Reduction in non-credit component of OTTI during the period, net of tax	1,374	476	-
(Increase) Decrease in unrealized loss on available-for-sale securities during the period, net of deferred benefit (taxes) of $858, $(4,409) and $3,188, respectively	(1,042)	5,241	(3,742)
Unrecognized (loss) gain of pension and other postretirement obligations, net of deferred benefit (tax) of $1,273, $(1,021) and $3,776	(1,547)	1,240	(4,523)

Cumulative effect adjustment for the adoption of the transition requirements of ASC 715-20-65, net of taxes of $53	-	-	(64)
Balance at end of period	(6,352)	(5,082)	(11,111)
Unallocated Common Stock of ESOP:			
Balance at beginning of period	(3,701)	(3,933)	(4,164)
Amortization of earned portion of ESOP stock	231	232	231
Balance at end of period	(3,470)	(3,701)	(3,933)
Unearned Restricted Stock Award and Recognition and Retention Plan ("RRP") Common Stock:			
Balance at beginning of period	(2,505)	(1,790)	(634)
Release from treasury stock for restricted stock award shares, net of return of shares to treasury for forfeited shares	(1,479)	(1,745)	(1,773)
Amortization of earned portion of RRP stock	1,300	1,030	617
Balance at end of period	(2,684)	(2,505)	(1,790)
Common Stock Held by BMP:			
Balance at beginning of period	(8,007)	(8,007)	(7,941)
Plan contributions	-	-	(66)
Award distribution	28	-	-
Balance at end of period	(7,979)	(8,007)	(8,007)
Treasury Stock, at cost:			
Balance at beginning of period	(207,884)	(210,471)	(211,121)
Release from treasury stock for BMP benefits or restricted stock award shares, net of forfeited shares returned to treasury	1,338	2,587	1,304
Purchase of treasury shares, at cost	-	-	(654)
Balance at end of period	(206,546)	(207,884)	(210,471)
TOTAL STOCKHOLDERS' EQUITY AT THE END OF PERIOD	$328,734	$294,773	$276,964

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$41,389	$26,189	$28,028
Adjustments to reconcile net income to net cash provided by operating activities			
Net gain on investment and mortgage backed securities sold	(609)	(431)	-
Net gain recognized on the transfer of securities from available-for-sale into trading	(242)	-	-
Net gain recognized on trading securities			