

NORTHEAST COMMUNITY BANCORP INC  
Form 10-Q  
November 15, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-51852

Northeast Community Bancorp, Inc.  
(Exact name of registrant as specified in its charter)

United States of America  
(State or other jurisdiction of  
incorporation or organization)

06-1786701  
(I.R.S. Employer Identification No.)

325 Hamilton Avenue, White Plains,  
New York  
(Address of principal executive offices)

10601  
(Zip Code)

(914) 684-2500  
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of November 9, 2010, there were 13,130,500 shares of the registrant's common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	September 30, 2010	December 31, 2009
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$ 3,049	\$ 3,441
Interest-bearing deposits	68,553	85,277
Cash and cash equivalents	71,602	88,718
Certificates of deposit	996	8,715
Securities available for sale	171	176
Securities held to maturity	20,913	11,845
Loans receivable, net of allowance for loan losses of \$5,059 and \$6,733, respectively	370,319	386,266
Premises and equipment, net	7,707	8,220
Federal Home Loan Bank of New York stock, at cost	1,884	2,277
Bank owned life insurance	15,990	10,522
Accrued interest receivable	1,947	1,924
Goodwill	1,310	1,310
Intangible assets	543	588
Real estate owned	1,037	636
Other assets	5,531	6,079
<b>Total assets</b>	<b>\$ 499,950</b>	<b>\$ 527,276</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest bearing	\$ 11,192	\$ 11,594
Interest bearing	349,335	367,924
<b>Total deposits</b>	<b>360,527</b>	<b>379,518</b>
Advance payments by borrowers for taxes and insurance	4,137	3,153
Federal Home Loan Bank advances	25,000	35,000
Accounts payable and accrued expenses	2,215	1,829
Note payable	339	328
<b>Total liabilities</b>	<b>392,218</b>	<b>419,828</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued	—	—

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Common stock, \$0.01 par value; 19,000,000 shares authorized; issued and outstanding: 13,139,600 shares and 13,225,000, respectively	132	132
Additional paid-in capital	57,418	57,496
Unearned Employee Stock Ownership Plan (“ESOP”) shares	(3,953 )	(4,147 )
Retained earnings	54,814	54,121
Treasury stock – at cost, 85,400 shares and 0 shares, respectively	(515 )	–
Accumulated comprehensive loss	(164 )	(154 )
Total stockholders’ equity	107,732	107,448
Total liabilities and stockholders’ equity	\$ 499,950	\$ 527,276

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
<b>INTEREST INCOME:</b>				
Loans	\$5,585	\$6,077	\$17,010	\$17,959
Interest-earning deposits	17	86	92	144
Securities – taxable	244	62	761	162
<b>Total Interest Income</b>	<b>5,846</b>	<b>6,225</b>	<b>17,863</b>	<b>18,265</b>
<b>INTEREST EXPENSE:</b>				
Deposits	1,865	2,360	5,799	6,587
Borrowings	233	358	831	1,074
<b>Total Interest Expense</b>	<b>2,098</b>	<b>2,718</b>	<b>6,630</b>	<b>7,661</b>
<b>Net Interest Income</b>	<b>3,748</b>	<b>3,507</b>	<b>11,233</b>	<b>10,604</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>4</b>	<b>2,172</b>	<b>898</b>	<b>2,558</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>3,744</b>	<b>1,335</b>	<b>10,335</b>	<b>8,046</b>
<b>NON-INTEREST INCOME:</b>				
Other loan fees and service charges	80	82	231	242
Impairment loss on equity security	-	-	-	(4)
Loss on disposition of equipment	-	(15)	(7)	(18)
Earnings on bank owned life insurance	157	111	468	310
Investment advisory fees	193	181	574	530
Other	5	7	11	13
<b>Total Non-Interest Income</b>	<b>435</b>	<b>366</b>	<b>1,277</b>	<b>1,073</b>
<b>NON-INTEREST EXPENSES:</b>				
Salaries and employee benefits	1,715	1,758	5,273	5,058
Net occupancy expense	308	294	945	953
Equipment	122	193	400	538
Outside data processing	199	175	632	565
Advertising	15	37	51	268
Real estate owned expense	83	28	95	173
FDIC insurance premiums	112	113	355	340
Other	815	713	2,201	2,303
<b>Total Non-Interest Expenses</b>	<b>3,369</b>	<b>3,311</b>	<b>9,952</b>	<b>10,198</b>

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Income (Loss) before Income Taxes	810	(1,610 )	1,660	(1,079 )
PROVISION (BENEFIT) FOR INCOME TAXES	276	(759 )	477	(599 )
Net Income (Loss)	\$534	\$(851 )	\$1,183	\$(480 )
Net Income (Loss) per Common Share – Basic	\$0.04	\$(0.07 )	\$0.09	\$(0.04 )
Weighted Average Number of Common Shares Outstanding – Basic	12,743	12,816	12,735	12,794
Dividends paid per common share	\$0.03	\$0.03	\$0.09	\$0.09

See Notes to Consolidated Financial Statements



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## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2010 and 2009

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stocks	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
(In thousands, except per share data)								
Balance at December 31, 2008	\$ 132	\$ 57,560	\$(4,407 )	\$57,399	\$-	\$ (182 )	\$ 110,502	
Comprehensive income:								
Net income	-	-	-	(480 )	-	-	(480 )	\$ (480 )
Unrealized loss on securities available for sale, net of taxes of \$18	-	-	-	-	-	5	5	5
Prior Service Cost and Actuarial Loss – DRP, net of taxes of \$10	-	-	-	-	-	12	12	12
Cash dividend declared (\$.09 per share) to minority stockholders	-	-	-	(496 )	-	-	(496 )	
ESOP shares earned	-	(43 )	195	-	-	-	152	
Total comprehensive income								\$ (463 )
Balance at September 30, 2009	\$ 132	\$ 57,517	\$(4,212 )	\$56,423	\$-	\$ (165 )	\$ 109,695	
Balance at December 31, 2009	\$ 132	\$ 57,496	\$(4,147 )	\$54,121	-	\$ (154 )	\$ 107,448	
Comprehensive income:								
Net income	-	-	-	1,183	-	-	1,183	\$ 1,183
Change in unrealized gain on securities available for sale, net of taxes of \$1	-	-	-	-	-	2	2	2
Prior Service Cost and Actuarial Loss– DRP, net of								

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taxes of \$ 8	-	-	-	-	-	(12 )	(12 )	(12 )
Cash dividend declared (\$.09 per share) to minority stockholders	-	-	-	(490 )	-	-	(490 )	
Purchase of treasury stock	-	-	-	-	(515 )	-	(515 )	
ESOP shares earned	-	(78 )	194	-	-	-	116	
Total comprehensive income								\$ 1,173
Balance at September 30, 2010	\$132	\$ 57,418	\$(3,953 )	\$54,814	\$(515 )	\$ (164 )	\$ 107,732	

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2010	2009
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$1,183	\$(480 )
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of securities premiums and discounts, net	25	1
Provision for loan losses	898	2,558
Depreciation	586	494
Net (accretion) amortization of deferred loan discounts, fees and costs, net	104	(130 )
Amortization of intangible assets	45	52
Accretion of discount on note payable	11	11
Deferred taxes	292	(1,882 )
Retirement plan expense	456	208
Impairment loss on securities	-	4
Loss on disposal of equipment	7	18
Loss on sale of real estate owned	50	86
Earnings on bank owned life insurance	(468 )	(310 )
ESOP compensation expense	116	152
Increase in accrued interest receivable	(23 )	(117 )
Decrease (Increase) in other assets	263	(2,894 )
Decrease in other accounts payable and accrued expenses	(90 )	(509 )
Net Cash Provided by (Used in) Operating Activities	3,455	(2,738 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of loans	-	(1,529 )
Net decrease (increase) in loans	14,194	(33,355 )
Purchase of securities held to maturity	(22,568 )	-
Principal repayments on securities available for sale	8	5
Principal repayments and calls on securities held to maturity	13,475	288
Proceeds from maturities of certificates of deposit	7,719	1,245
Purchase of Federal Home Loan Bank of New York Stock	-	(377 )
Proceeds from sale of Federal Home Loan Bank of New York Stock	393	-
Purchases of premises and equipment	(80 )	(4,535 )
Purchases of certificates of deposit	-	(15,438 )
Proceeds from sale of real estate owned	300	283
Capitalized costs on real estate owned	-	(173 )
Purchase of bank owned life insurance	(5,000 )	(1,200 )
Net Cash Provided by (Used in) Investing Activities	8,441	(54,786 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (decrease) increase in deposits	(18,991 )	85,956
Proceeds from FHLB of New York advances	-	10,000
Repayment of FHLB advances	(10,000 )	(5,000 )
Increase (decrease) in advance payments by borrowers for taxes and insurance	984	(2,387 )
Purchase of treasury stock	(515 )	-
Cash dividends paid to minority stockholders	(490 )	(496 )

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Net Cash (Used in) Provided by Financing Activities	(29,012 )	88,073
Net (Decrease) Increase in Cash and Cash Equivalents	(17,116 )	30,549
Cash and Cash Equivalents - Beginning	88,718	36,534
Cash and Cash Equivalents - Ending	\$71,602	\$67,083
<b>SUPPLEMENTARY CASH FLOWS INFORMATION</b>		
Income taxes paid	\$-	\$3,862
Interest paid	\$6,634	\$7,658
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES</b>		
Loan transferred to Real Estate Owned	\$751	\$613

See Notes to Consolidated Financial Statements

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NORTHEAST COMMUNITY BANK  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the “Company”) is a Federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the “Bank”), in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank’s wholly owned subsidiary, New England Commercial Properties, LLC (“NECP”). All significant intercompany accounts and transactions have been eliminated in consolidation.

NECP, a New York limited liability company, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. As of September 30, 2010, NECP had title to one multi-family property located in Newark, New Jersey and one multi-family property located in Holyoke, Massachusetts. The Bank accepted a deed-in-lieu of foreclosure and transferred the Newark, New Jersey multi-family property to NECP on November 19, 2008. In addition, the Bank completed foreclosure action on the Holyoke, Massachusetts property and transferred the property to NECP on July 31, 2010. Subsequently, we completed the sale of the Holyoke Massachusetts property to the property’s managing agent for \$350,000 on October 29, 2010.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders’ equity and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2009 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, changes in stockholders’ equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2009.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses. In preparing these consolidated financial statements, the Company evaluated the events that occurred after September 30, 2010 and through the date these consolidated financial statements were issued.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive

shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and, during the nine-month periods ended September 30, 2010 and 2009, had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Plan (“ESOP”) are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

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## NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

As of December 31, 2009 and September 30, 2010, the ESOP trust held 518,420 shares of the Company’s common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2009, the Company had allocated 77,763 shares to participants, and an additional 25,921 shares had been committed to be released. As of September 30, 2010, the Company had allocated 103,684 shares to participants, and an additional 19,441 shares had been committed to be released. The Company recognized compensation expense of \$37,000 and \$50,000 during the three-month periods ended September 30, 2010 and 2009, respectively, and \$116,000 and \$152,000 during the nine-month periods ended September 30, 2010 and 2009, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

## NOTE 4 – OUTSIDE DIRECTOR RETIREMENT PLAN (“DRP”)

Periodic expenses for the Company’s DRP were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Service cost	\$ 14	\$ 13	\$ 42	\$ 39
Interest cost	10	9	30	27
Amortization of Prior Service Cost	5	5	15	15
Amortization of actuarial loss	1	2	5	6
Total	\$ 30	\$ 29	\$ 92	\$ 87

This plan is a non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The amortization of prior service cost and actuarial loss in the nine-month periods ended September 30, 2010 and 2009 is also reflected as an adjustment to other comprehensive income (loss) during each period.

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## NOTE 5 – INVESTMENTS

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010				
Securities available for sale:				
Mortgage-backed securities-GSE	\$ 166	\$ 5	\$ -	\$ 171
Total	\$ 166	\$ 5	\$ -	\$ 171
Securities held to maturity:				
Mortgage-backed securities-GSE	\$ 16,050	\$ 441	\$ -	\$ 16,491
Collateralized mortgage obligations-GSE	4,862	158	-	5,020
Private pass-through securities	1	-	-	1
Total	\$ 20,913	\$ 599	\$ -	\$ 21,512
December 31, 2009				
Securities available for sale:				
Mortgage-backed securities-GSE	\$ 174	\$ 2	\$ -	\$ 176
Total	\$ 174	\$ 2	\$ -	\$ 176
Securities held to maturity:				
Mortgage-backed securities-GSE	\$ 11,796	\$ 30	\$ 1	\$ 11,825
Collateralized mortgage obligations-GSE	46	1	-	47
Private pass-through securities	3	-	-	3
Total	\$ 11,845	\$ 31	\$ 1	\$ 11,875

Contractual final maturities of mortgage-backed securities available for sale were as follows:

	September 30, 2010	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	\$ -	\$ -
Due after ten years	166	171
	\$ 166	\$ 171

Contractual final maturities of mortgage-backed securities held to maturity were as follows:

	September 30, 2010	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	\$ -	\$ -



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Due after one but within five years	-	-
Due after five but within ten years	300	307
Due after ten years	20,613	21,205
	\$ 20,913	\$ 21,512

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NOTE 5 – INVESTMENTS (Continued)

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

At September 30, 2010, one mortgage-backed security-GSE and one private label mortgage-backed security had unrealized losses that were not material. The unrealized losses in these two securities are more than 12 months. Management concluded that the unrealized losses for the two securities were temporary in nature since they were primarily related to market interest rates and not related to the underlying credit quality of the issuer of the security. Additionally, as the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before a market recovery, the investments are not considered to be other-than-temporarily impaired.

NOTE 6 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Fair value accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied.

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, fair value accounting guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

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

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are

observable for the assets or liabilities (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correction or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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## NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counter-party credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Securities Available for Sale.** Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

The following table summarizes financial assets measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2010				
Securities available for sale:				
Mortgage-backed securities-GSE	\$ -	\$ 171	\$ -	\$ 171
Total	\$ -	\$ 171	\$ -	\$ 171

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2009				
Securities available for sale:				
Mortgage-backed securities-GSE	\$ -	\$ 176	\$ -	\$ 176
Total	\$ -	\$ 176	\$ -	\$ 176

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a nonrecurring basis were as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
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Impaired loans:

September 30, 2010	\$ -	\$ -	\$ 2,321	\$ 2,321
December 31, 2009	\$ -	\$ -	\$ 4,122	\$ 4,122

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NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

Fair value is generally determined based upon independent third-party appraisals of the underlying collateral properties, or discounted cash flows based upon the expected proceeds.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2010 and December 31, 2009.

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

Securities available for sale are measured as described above. The fair value of held to maturity securities is determined using the same methodology as used for securities available for sale.

Loans

Fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans.

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

FHLB of New York Stock

The carrying amount of FHLB of New York stock is equal to its fair value and considers the limited marketability of this security.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Time deposits are segregated by type, size, and remaining maturity. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market. At September 30, 2010

and December 31, 2009, accrued interest payable of \$4,000 and \$8,000, respectively, is included in deposit liabilities.

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## NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

## FHLB of New York Advances and Note Payable

The fair value of FHLB advances and note payable are estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

## Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At September 30, 2010 and December 31, 2009, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

The carrying amounts and estimated fair value of our financial instruments are as follows:

	At September 30, 2010		At December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
<b>Financial assets:</b>				
Cash and cash equivalents	\$71,602	\$71,602	\$88,718	\$88,718
Certificates of deposit	996	996	8,715	8,715
Securities available for sale	171	171	176	176
Securities held to maturity	20,913	21,512	11,845	11,875
Loans receivable	370,319	385,473	386,266	395,366
FHLB stock	1,884	1,884	2,277	2,277
Accrued interest receivable	1,947	1,947	1,924	1,924
<b>Financial liabilities:</b>				
Deposits	360,527	367,832	379,518	385,820
FHLB advances	25,000	27,074	35,000	36,805
Note payable	339	351	328	335

## NOTE 7 – EFFECT OF SALE OF OUR NEW YORK CITY BRANCH OFFICE

On June 29, 2007, the Bank completed the sale of its branch office building located at 1353-55 First Avenue, New York, New York (the “Property”). The sale price for the Property was \$28.0 million. At closing, the Bank received \$10.0 million in cash and an \$18.0 million zero coupon promissory note recorded at its then present value of \$16.3 million (the “Original Note”). The Original Note was payable in two \$9.0 million installments due on the first and second anniversaries of the Original Note. On July 31, 2008, as payment of the first installment due under the Original Note, the Bank received \$2.0 million in cash and a new \$7.0 million note bearing interest at 7% per annum and payable over a five-month period ending on December 31, 2008 (the “New Note”). On December 31, 2008, the Original Note and the remaining \$1.9 million balance on the New Note were rolled into a new \$10.9 million note payable on July 31, 2009 (the “Combined Note”). On July 29, 2009, the \$10.9 million Combined Note was extended to January 31, 2010. The amount due on such date included interest and expenses. The Combined Note is secured by



100% of the interests in the companies owning the Property. In addition, the Combined Note is secured by a first mortgage on the Property. Based on a recent appraisal, the loan to value ratio is approximately 35%. This loan is included in loans receivable, and included in non-performing loans, however, it is not included in the calculation of the regulatory limits on loans to one borrower.

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## NOTE 7 – EFFECT OF SALE OF OUR NEW YORK CITY BRANCH OFFICE (Continued)

In consideration of a partial interest payment of \$300,000 to the Bank on November 1, 2010 and the satisfaction of certain vendor liens on the Property, the Bank agreed to extend the due date of the Combined Note to December 31, 2010. The financing of the partial interest payment was obtained by the borrowers from an affiliated party of the borrowers. The borrowers granted to such affiliated lender, and the Bank consented to, a second priority secured interest in the Property under the Bank's mortgage. On or before December 31, 2010 a payment equal to all remaining past-due interest plus interest in advance through June 30, 2011 is due. Upon payment of these amounts, the due date of the Combined Note will be further extended to June 30, 2011, with the goal of enabling the borrowers to complete the process of obtaining construction financing.

## NOTE 8 – COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	\$534	\$(851)	\$1,183	\$(480)
Other comprehensive income (loss):				
Gross unrealized holding gain on securities available for sale, net of income taxes, of \$-, \$-, \$1, and \$(1), respectively.	-	-	2	5
Benefit plan amounts (amortization of prior service costs and actuarial gains, net of income tax effect of \$3, \$3, \$8, and \$9, respectively).	(4)	4	(12)	12
Other comprehensive income (loss)	(4)	4	(10)	17
Comprehensive income (loss)	\$530	\$(847)	\$1,173	\$(463)

## NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-16, Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets. The ASU improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This ASU is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The adoption did not have a material effect on the Company's consolidated financial condition.

The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06

amends Codification Subtopic 820-10 to now require: (1) A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuances, and settlements in the roll forward of activity in

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NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the currently effective provisions of the ASU did not have a material effect on the Company's consolidated financial condition.

ASU 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, codifies the consensus reached in EITF Issue No. 09-I, "Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset." The amendments to the Codification provide that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40.

ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The adoption did not have a material effect on the Company's consolidated financial condition.

ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this Update apply to all entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments.

The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption did not have a material effect on the Company's consolidated financial condition. However, it will increase the disclosures related to loans and the allowance for loan losses.

NOTE 10 – PENDING BRANCH SALE

On June 30, 2010, the Company announced a definitive agreement for Ponce De Leon Federal Bank to purchase the Bank's branch office located at 2047 86th Street, Brooklyn, NY. The purchase includes the assumption of approximately \$28.6 million in deposits and the transfer of the fixtures, equipment and the real property at which the

branch is located. No loans are being sold as part of the transaction. The completion of the transaction, which has received regulatory approval, is expected in the fourth quarter of 2010.

NOTE 11 – STOCK REPURCHASE

On July 22, 2010, the Company announced that the Company’s Board of Directors approved the repurchase for up to 297,563 shares, or approximately 5.0% of the Company’s outstanding common stock held by persons other than NorthEast Community Bancorp MHC (the “MHC”). These repurchases will be conducted solely through a Rule 10b5-1

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NOTE 11 – STOCK REPURCHASE (Continued)

repurchase plan. Repurchased shares will be held in treasury. Through September 30, 2010, the Company has purchased 85,400 shares at a cost of \$515,000.

NOTE 12 – DIVIDEND RESTRICTION

The MHC held 7,273,750 shares, or 55.4%, of the Company's issued and outstanding common stock, and the minority public shareholders held 44.6% of outstanding stock, at September 30, 2010. The MHC filed notice with, and received approval by, the Office of Thrift Supervision ("OTS") to waive its right to receive cash dividends for the four fiscal quarters ending June 30, 2011.

The MHC has waived receipt of past dividends paid by the Company. The dividends waived are considered as a restriction on the retained earnings of the Company. As of September 30, 2010 and December 31, 2009, the aggregate retained earnings restricted for cash dividends waived were \$2,836,763 and \$2,182,125, respectively.

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

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in real estate market values in the Bank's market area, and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company's results are discussed in the Company's Annual Report on Form 10-K under "Item 1A. Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies: allowance for loan losses and deferred income taxes.

**Allowance for Loan Losses.** The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans;

value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision could require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss or a series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see note 1 of the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for 2009.

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Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

Third Quarter Performance Highlights

The Company's earnings for the quarter ended September 30, 2010 increased by \$1.4 million over the same period in 2009. Net interest income increased from period to period primarily as a result of the cost of our interest-bearing liabilities decreasing more than the corresponding decrease in the yield on our interest-earning assets.

Non-performing loans increased by \$10.0 million, or 49.4%, to \$30.1 million as of September 30, 2010 from \$20.1 million as of December 31, 2009. The increase in non-performing loans is primarily attributable to a single borrower with a hotel participation loan in Long Beach, New York and a non-residential loan located in Lawrenceville, New Jersey. We will continue to monitor these loans closely and adjust the level of allowance for loan loss appropriately as updated information becomes available.

In addition, all non-performing loans, potential non-performing loans and restructured loans are reviewed each month by management's Special Assets Group. The Special Asset Group consists of the President, the Director of Special Assets (a retired Bank Senior Vice President of Reclassified Assets), a former Bank commercial loan officer, who is also a commercial real estate appraiser, a Facilities Manager for REO and Collateral Properties and one commercial loan processor. The Special Assets Group conducts complete loan reviews of any loan that becomes 30 or more days past due to determine the cause of the delinquency and whether it is in the Bank's best long term interest to restructure the loan or offer some other form of forbearance before a delinquency becomes unmanageable and leads to a foreclosure action. The Special Assets Group monitors restructured loans quarterly through a review of operating statements and occupancy reports submitted by the borrower and quarterly or semi-annual property inspection reports.

Monthly and/or quarterly monitoring of each loan overseen by the Special Assets Group allows the Bank to adjust its level of loan loss allowances quickly in response to even modest changes in the loan portfolio's performance. Based on available information, along with the analyses performed by the Special Assets Group during the third quarter, we believe our allowance for loan losses as of September 30, 2010 is appropriate.

We believe that commercial real estate values in general, and specifically values throughout our lending territory, have begun to stabilize, thereby possibly limiting further material declines in the market value of collateral properties. Non-performing loans decreased \$1.3 million from \$31.4 million at June 30, 2010 to \$30.1 million at September 30, 2010.



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Comparison of Financial Condition at September 30, 2010 and December 31, 2009

Total assets decreased by \$27.3 million, or 5.2%, to \$500.0 million at September 30, 2010 from \$527.3 million at December 31, 2009. The decrease in total assets was primarily due to decreases of \$17.1 million in cash and cash equivalents, \$16.0 million in loans receivable, net, and \$7.7 million in certificates of deposits at other financial institutions, partially offset by increases of \$9.1 million in investments held-to-maturity and \$5.5 million in bank owned life insurance.

Cash and cash equivalents decreased by \$17.1 million, or 19.3%, to \$71.6 million at September 30, 2010, from \$88.7 million at December 31, 2009. In addition, certificates of deposits at other financial institutions decreased by \$7.7 million, or 88.6%, to \$996,000 at September 30, 2010, from \$8.7 million at December 31, 2009. The decrease in short-term liquidity primarily funded an increase of \$9.1 million in investment securities held-to-maturity, the purchase of \$5.0 million in bank owned life insurance, the repayment of \$10 million in FHLB advances, and the decrease of \$19 million of deposits offset by an \$18 million in loan repayments.

Investment securities held-to-maturity increased by \$9.1 million, or 76.6%, to \$20.9 million at September 30, 2010, from \$11.8 million at December 31, 2009 due to an effort to increase yield and earnings through the purchases of \$5.2 million in mortgage-backed securities, \$12.3 million in U.S. Government agency securities, and \$5.1 million in collateralized mortgage obligations. During the nine month ended September 30, 2010 there were calls and repayments totaling \$13.5 million.

Loans receivable, net, decreased by \$16.0 million, or 4.1%, to \$370.3 million at September 30, 2010 from \$386.3 million at December 31, 2009, due primarily to loan repayments totaling \$18 million and loan charge-offs net of provision totaling \$1.8 million that exceeded loan originations aggregating \$3.8 million.

Bank owned life insurance increased by \$5.5 million, or 52.0%, to \$16.0 million at September 30, 2010 from \$10.5 million at December 31, 2009 due primarily to the purchase of \$5.0 million in additional bank owned life insurance.

Premises and equipment decreased by \$513,000, or 6.2%, to \$7.7 million at September 30, 2010 from \$8.2 million at December 31, 2009 due primarily to depreciation of existing premises and equipment.

Real estate owned increased by \$401,000, or 63.1%, to \$1.0 million at September 30, 2010 from \$636,000 at December 31, 2009 due to the successful foreclosure action on an apartment building located in Holyoke, Massachusetts whereby the Bank took title to the property in July 2010.

Deposits decreased by \$19.0 million, or 5.0%, to \$360.5 million at September 30, 2010 from \$379.5 million at December 31, 2009. The decrease in deposits was primarily attributable to decreases of \$39.6 million in certificates of deposits and \$402,000 in non-interest bearing accounts, offset by increases of \$20.6 million in NOW and money market accounts, and \$364,000 in our regular savings accounts.

Advance payments by borrowers for taxes and insurance increased by \$984,000, or 31.2% to \$4.1 million at September 30, 2010 from \$3.2 million at December 31, 2009 due primarily to increased payments by borrowers for taxes reflecting increased real estate taxes imposed by various municipalities.

Accounts payable and accrued expenses increased by \$386,000, or 21.1%, to \$2.2 million at September 30, 2010 from \$1.8 million at December 31, 2009 due to an increase of \$386,000 in the Senior Executive Retirement Plan.

Stockholders' equity increased by \$284,000, or 0.3%, to \$107.7 million at September 30, 2010, from \$107.4 million at December 31, 2009. This increase was primarily the result of net income of \$1.2 million and \$116,000 of ESOP

expense during the period, offset by cash dividends declared of \$490,000 and treasury stock purchases of \$515,000.

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## Comparison of Operating Results for the Three Months Ended September 30, 2010 and 2009

General. Earnings increased by \$1.4 million, or 162.7%, to \$534,000 for the quarter ended September 30, 2010, from a net loss of \$851,000 for the quarter ended September 30, 2009. The increase was primarily the result of an increase of \$241,000 in net interest income and an increase of \$69,000 in non-interest income, offset by increases of \$1.0 million in income taxes and \$58,000 in non-interest expense, and a decrease of \$2.2 million in the provision for loan losses.

Net Interest Income. Net interest income increased by \$241,000, or 6.9%, to \$3.7 million for the three months ended September 30, 2010 from \$3.5 million for the three months ended September 30, 2009. The increase in net interest income resulted primarily from a decrease of \$620,000 in interest expense that exceeded a decrease of \$379,000 in interest income. The increase in net interest income occurred despite a decrease of \$438,000 in average net interest-earning assets.

The interest rate spread increased by 36 basis points to 2.68% for the three months ended September 30, 2010 from 2.32% for the three months ended September 30, 2009. The net interest margin increased by 24 basis points from 2.88% for the quarter ended September 30, 2009 to 3.12% for the quarter ended September 30, 2010. The increase in the interest rate spread and the net interest margin in the third quarter of 2010 compared to the same period in 2009 was due to the cost of our interest-bearing liabilities decreasing more than a corresponding decrease in the yield on our interest-earning assets. The cost of our interest-bearing liabilities decreased by 60 basis points to 2.19% for the three months ended September 30, 2010 from 2.79% for the three months ended September 30, 2009. The yield on our interest-earning assets decreased by 24 basis points to 4.87% for the three months ended September 30, 2010 from 5.11% for the three months ended September 30, 2009. The decrease in both the yield on our interest-earning assets and the cost of our interest-bearing liabilities was due to the low interest rate environment in 2010.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2010 and 2009.

	Three Months Ended September 30,							
	Average Balance	2010 Interest and Dividends	Yield/ Cost		Average Balance	2009 Interest and Dividends	Yield/ Cost	
	(Dollars in thousands)							
Assets:								
Interest-earning assets:								
Loans	\$381,828	\$5,585	5.85	%	\$397,357	\$6,077	6.12	%
Securities (including FHLB stock)	29,405	244	3.32		4,830	62	5.13	
Other interest-earning assets	69,315	17	0.10		85,535	86	0.40	
Total interest-earning assets	480,548	5,846	4.87		487,722	6,225	5.11	
Allowance for loan losses	(5,391 )				(2,231 )			
Non-interest-earning assets	33,360				30,857			
Total assets	\$508,517				\$516,348			
Liabilities and equity:								
Interest-bearing liabilities:								
Interest-bearing demand	\$87,576	\$329	1.50	%	\$37,412	\$106	1.13	
Savings and club accounts	60,868	99	0.65		59,917	113	0.75	

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Certificates of deposit	207,514	1,437	2.77	245,806	2,141	3.48
Total interest-bearing deposits	355,958	1,865	2.10	343,135	2,360	2.75
Borrowings	27,565	233	3.38	47,124	358	3.04
Total interest-bearing liabilities	383,523	2,098	2.19	390,259	2,718	2.79
Noninterest-bearing demand	11,057			7,057		
Other liabilities	5,676			8,297		
Total liabilities	400,256			405,613		
Stockholders' equity	108,261			110,735		
Total liabilities and Stockholders' equity	\$508,517			\$516,348		
Net interest income		\$3,748			\$3,507	
Interest rate spread			2.68 %			2.32 %
Net interest margin			3.12 %			2.88 %
Net interest-earning assets	\$97,025			\$97,463		
Interest-earning assets to interest-bearing liabilities	125.30 %			124.97 %		

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Total interest income decreased by \$379,000, or 6.1%, to \$5.8 million for the three months ended September 30, 2010, from \$6.2 million for the three months ended September 30, 2009. Interest income on loans decreased by \$492,000, or 8.1%, to \$5.6 million for the three months ended September 30, 2010 from \$6.1 million for the three months ended September 30, 2009. The average balance of the loan portfolio decreased by \$15.6 million to \$381.8 million for the three months ended September 30, 2010 from \$397.4 million for the three months ended September 30, 2009 as repayments outpaced originations. The average yield on loans decreased by 27 basis points to 5.85% for the three months ended September 30, 2010 from 6.12% for the three months ended September 30, 2009.

Interest income on securities increased by \$182,000, or 293.5%, to \$244,000 for the three months ended September 30, 2010 from \$62,000 for the three months ended September 30, 2009. The increase was primarily due to an increase of \$24.6 million, or 508.8%, in the average balance of securities to \$29.4 million for the three months ended September 30, 2010 from \$4.8 million for the three months ended September 30, 2009. The increase in the average balance was due to purchases of additional investment securities, offset by a decrease in FHLB New York stock. The increase in the average balance was offset by a decrease of 181 basis points in the average yield on securities to 3.32% for the three months ended September 30, 2010 from 5.13% for the three months ended September 30, 2009. The decline in the yield was primarily due to the re-pricing of the yield of our adjustable rate investment securities and to the decline in intermediate and long term interest rates from September 30, 2009 to September 30, 2010.

Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by \$69,000, or 80.2%, to \$17,000 for the three months ended September 30, 2010 from \$86,000 for the three months ended September 30, 2009. The decrease was primarily due to a decrease of 30 basis points in the average yield on other interest-earning assets to 0.10% for the three months ended September 30, 2010 from 0.40% for the three months ended September 30, 2009. The decline in the yield was due to the maturity of higher yielding certificates of deposits at other financial institutions. The decline in interest income on other interest-earning assets was also due to a decrease of \$16.2 million, or 19.0%, in the average balance of other interest-earning assets to \$69.3 million for the three months ended September 30, 2010 from \$85.5 million for the three months ended September 30, 2009. The decrease in the average balance of other interest-earning assets was due to the decrease in cash and cash equivalents and certificates of deposits at other financial institutions.

Total interest expense decreased by \$620,000, or 22.8%, to \$2.1 million for the three months ended September 30, 2010 from \$2.7 million for the three months ended September 30, 2009. Interest expense on deposits decreased by \$495,000, or 21.0%, to \$1.9 million for the three months ended September 30, 2010 from \$2.4 million for the three months ended September 30, 2009. During this same period, the average cost of deposits decreased by 65 basis points to 2.10% for the three months ended September 30, 2010 from 2.75% for the three months ended September 30, 2009.

Due to an effort by the Bank to decrease reliance on two nationwide certificates of deposit listing services, partially offset by the opening of two new branch offices in Massachusetts during the second quarter of 2009, the average balance of certificates of deposits decreased by \$38.3 million, or 15.6%, to \$207.5 million for the three months ended September 30, 2010 from \$245.8 million for the three months ended September 30, 2009. As a result of the decrease in the average balance of certificates of deposits, interest expense on our certificates of deposits decreased by \$704,000, or 32.9%, to \$1.4 million for the three months ended September 30, 2010 from \$2.1 million for the three months ended September 30, 2009. The decrease in interest expense on our certificates of deposits was also due to a decrease of 71 basis points in the average cost of our certificates of deposits to 2.77% for the three months ended September 30, 2010 from 3.48% for the three months ended September 30, 2009.

Interest expense on our other deposit products increased by \$209,000, or 95.4%, to \$428,000 for the three months ended September 30, 2010 from \$219,000 for the three months ended September 30, 2009. The increase was due to an increase of 37 basis points in the cost of our interest-bearing demand deposits to 1.50% for the three months ended September 30, 2010 from 1.13% for the three months ended September 30, 2009, offset by a decrease of 10 basis

points in the cost of our savings and holiday club deposits to 0.65% for the three months ended

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September 30, 2010 from 0.75% for the three months ended September 30, 2009. The increase in interest expense was also due to an increase of \$50.2 million, or 134.1%, in the average balance of interest-bearing demand deposits to \$87.6 million for the three months ended September 30, 2010 from \$37.4 million for the three months ended September 30, 2009 and an increase of \$951,000, or 1.6%, in the average balance of our savings and holiday club deposits to \$60.9 million for the three months ended September 30, 2010 from \$59.9 million for the three months ended September 30, 2009.

Interest expense on borrowings decreased by \$125,000, or 34.9%, to \$233,000 for the three months ended September 30, 2010 from \$358,000 for the three months ended September 30, 2009. The decrease was primarily due to a decrease of \$19.6 million, or 41.5%, in the average balance of borrowed money to \$27.6 million for the three months ended September 30, 2010 from \$47.1 million for the three months ended September 30, 2009. Interest expense on borrowed money for the three months ended September 30, 2010 was comprised of \$229,000 in interest expense on an average balance of \$27.2 million in FHLB advances and \$4,000 in interest expense on an average balance of \$337,000 on a note payable incurred in connection with the acquisition of the operating assets of Hayden Financial Group LLC (now operating as Hayden Wealth Management Group, the Bank's investment advisory and financial planning service division) in the fourth quarter of 2007. This compared to interest expense from FHLB advances of \$353,000 on an average balance of \$46.6 million in FHLB advances and \$5,000 in interest expense on an average balance of \$494,000 on the Hayden acquisition note for the three months ended September 30, 2009.

Allowance for Loan Losses. The following table summarizes the activity in the allowance for loan losses for the three months ended September 30, 2010 and 2009.

	Three Months Ended September 30,				
	2010		2009		
	(Dollars in thousands)				
Allowance at beginning of period	\$	5,501	\$	2,085	
Provision for loan losses		4		2,172	
Charge-offs		488		157	
Recoveries		42		—	
Net charge-offs		446		157	
Allowance at end of period	\$	5,059	\$	4,100	
Allowance to non-performing loans		16.81	%	61.87	%
Allowance to total loans outstanding at the end of the period		1.36	%	1.03	%
Net charge-offs to average loans outstanding during the period (annualized)		0.47	%	0.16	%

The allowance to non-performing loans ratio decreased to 16.81% at September 30, 2010 from 61.87% at September 30, 2009 due primarily to the increase in non-performing loans to \$30.1 million at September 30, 2010 from \$6.6 million at September 30, 2009. As noted previously in the Third Quarter Performance Highlights section, the increase in non-performing loans is primarily attributable to a single borrower with a hotel participation loan in Long Beach, New York and a non-residential loan located in Lawrenceville, New Jersey. Management is currently assessing the fair value of the loans and upon receipt of the updated appraisals may determine that specific reserves are necessary. Based on available information, along with the analyses performed by the Special Assets Group during the third quarter, we believe our allowance for loan losses as of September 30, 2010 is appropriate.

In conjunction with the increase in the allowance for loan losses, and on an on-going basis the Company continually monitors fair value analyses on all non-performing and potential non-performing loans. The level of the allowance for

loan losses is adjusted up or down as indicated by portfolio performance, i.e., past-due loan volume, the results of the on-going loan analyses and the condition of the commercial real estate market in general and specifically within our lending area. At this time we believe the current level of the allowances for loan losses is appropriate based on the aforementioned conditions. As indicated by our on-going analyses and future estimates of the commercial real estate market, we may adjust the level of the allowance for loan losses up or down as we believe appropriate (See discussion on Non-Performing Assets).

The allowance for loan losses was \$5.06 million at September 30, 2010, \$6.73 million at December 31, 2009, and \$4.10 million at September 30, 2009. We recorded provisions for loan losses of \$4,000 for the three month period ended September 30, 2010 compared to a provision for loan losses of \$2.2 million for the three month period ended September 30, 2009.



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We charged-off an aggregate of \$488,000 against two non-performing non-residential mortgage loans, five non-performing multi-family mortgage loans, and two performing multi-family mortgage loans during the three months ended September 30, 2010. We recorded \$42,000 in recoveries during the three months ended September 30, 2010. During the three months ended September 30, 2009, we charged-off \$157,000 against two non-performing non-residential mortgage loans and one non-performing multi-family mortgage loan with an aggregate balance of \$2.4 million. We did not have any recoveries during the three months ended September 30, 2009.

**Non-interest Income.** Non-interest income increased by \$69,000, or 18.9%, to \$435,000 for the three months ended September 30, 2010 from \$366,000 for the three months ended September 30, 2009. The increase was primarily due to increases of \$46,000 in earnings on bank owned life insurance and \$12,000 in fee income generated by Hayden Wealth Management Group, the Bank's investment advisory and financial planning services division and a loss of \$15,000 on disposition of equipment in the 2009 period, partially offset by decreases of \$2,000 in other loan fees and service charges and \$2,000 in other non-interest income.

**Non-interest Expense.** Non-interest expense increased by \$58,000, or 1.8%, to \$3.4 million for the three months ended September 30, 2010 from \$3.3 million for the three months ended September 30, 2009. The increase resulted primarily from increases of \$102,000 in other non-interest expense, \$55,000 in real estate owned expense, \$24,000 in outside data processing expense, and \$14,000 in net occupancy expense, offset by decreases of \$71,000 in equipment expense, \$43,000 in salaries and employee benefits, and \$22,000 in advertising expense.

Other non-interest expense increased by \$102,000, or 14.3%, to \$815,000 in 2010 from \$713,000 in 2009 due mainly to increases of \$164,000 in legal fees primarily related to a shareholder matter and troubled debt restructured loans, \$14,000 in other non-interest expense and \$3,000 in insurance expense, offset by decreases of \$42,000 in office supplies and stationery expenses, \$21,000 in telephone expenses, \$10,000 in audit and accounting fees, \$3,000 in directors, officers and employees expenses, and \$3,000 in service contracts.

Real estate owned expense increased by \$55,000, or 196.4%, to \$83,000 in 2010 from \$28,000 in 2009 primarily due to a loss of \$50,000 and expenses related to the sale of two gasoline stations located in Putnam and Westchester Counties, New York.

Outside data processing expense increased by \$24,000, or 13.7%, to \$199,000 in 2010 from \$175,000 in 2009 due to additional services provided in 2010 by the Company's core data processing vendor.

Occupancy expense increased by \$14,000, or 4.8%, to \$308,000 in 2010 from \$294,000 in 2009 due to increases in real estate taxes and utilities expense.

Equipment expense decreased by \$71,000, or 36.8%, to \$122,000 in 2010 from \$193,000 in 2009 due to efforts to reduce certain expenses.

Salaries and employee benefits, which represented 50.9% of the Company's non-interest expense during the quarter ended September 30, 2010, decreased by \$43,000, or 2.4%, to \$1.72 million in 2010 from \$1.76 million in 2009 due to a reduction in staff in various departments.

Advertising expense decreased by \$22,000, or 59.5%, to \$15,000 in 2010 from \$37,000 in 2009 due to efforts to reduce certain expenses.

**Income Taxes.** Income taxes increased by \$1.0 million, or 136.4%, to an expense of \$276,000 for the three months ended September 30, 2010 from a benefit of \$759,000 for the three months ended September 30, 2009. The increase

resulted primarily from a \$2.4 million, or 150.0%, increase in pre-tax income in 2010 compared to 2009. The effective tax rate was 34.1% for the three months ended September 30, 2010 and a benefit of 47.1% for the three months ended September 30, 2009.

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## Comparison of Operating Results For the Nine Months Ended September 30, 2010 and 2009

General. Net income increased by \$1.7 million, or 346.5%, to \$1.2 million for the nine months ended September 30, 2010 from a net loss of \$480,000 for the nine months ended September 30, 2009. The increase was primarily the result of an increase of \$629,000 in net interest income, an increase of \$204,000 in non-interest income, and a decrease of \$246,000 in non-interest expense, offset by a decrease of \$1.7 million in provision for loan losses and an increase of \$1.1 million in the provision for income taxes.

Net Interest Income. Net interest income increased by \$629,000, or 5.9%, to \$11.2 million for the nine months ended September 30, 2010 from \$10.6 million for the nine months ended September 30, 2009. The increase in net interest income resulted primarily from a decrease of \$1.0 million in interest expense that exceeded a decrease of \$402,000 in interest income. The increase in net interest income occurred despite a decrease of \$4.0 million in average net interest-earning assets.

The interest rate spread increased by 15 basis points to 2.62% for the nine months ended September 30, 2010 from 2.47% for the nine months ended September 30, 2009. The net interest margin decreased by 5 basis points between these periods to 3.07% for the nine months ended September 30, 2010 from 3.12% for the nine months ended September 30, 2009. The increase in the interest rate spread in 2010 compared to the same period in 2009 was due to the cost of our interest-bearing liabilities decreasing more than a corresponding decrease in the yield on our interest-earning assets. The decrease in the net interest margin in 2010 was due to our average interest earning assets increasing at a greater rate than our net interest income. The cost of our interest-bearing liabilities decreased by 63 basis points to 2.26% for the nine months ended September 30, 2010 from 2.89% for the nine months ended September 30, 2009. The yield on our interest-earning assets decreased by 49 basis points to 4.88% for the nine months ended September 30, 2010 from 5.37% for the nine months ended September 30, 2009. The decrease in both the yield on our interest-earning assets and the cost of our interest-bearing liabilities was due to the low interest rate environment in 2010.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2010 and 2009.

	Nine Months Ended September 30,							
	Average Balance	2010 Interest and Dividends	Yield/ Cost		Average Balance	2009 Interest and Dividends	Yield/ Cost	
(Dollars in thousands)								
Assets:								
Interest-earning assets:								
Loans	\$388,936	\$17,010	5.83	%	\$387,006	\$17,959	6.19	%
Securities	31,916	761	3.18		4,896	162	4.41	
Other interest-earning assets	66,998	92	0.18		61,770	144	0.31	
Total interest-earning assets	487,850	17,863	4.88		453,672	18,265	5.37	
Allowance for loan losses	(5,974 )				(2,006 )			
Non-interest-earning assets	33,989				27,836			
Total assets	\$515,865				\$479,502			
Liabilities and equity:								
Interest-bearing liabilities:								
Interest-bearing demand	\$80,442	\$848	1.41	%	\$29,873	\$211	0.94	%

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Savings and club accounts	60,627	312	0.69	58,846	351	0.80
Certificates of deposit	217,392	4,639	2.85	216,888	6,025	3.70
Total interest-bearing deposits	358,461	5,799	2.16	305,607	6,587	2.87
Borrowings	32,714	831	3.39	47,394	1,074	3.02
Total interest-bearing liabilities	391,175	6,630	2.26	353,001	7,661	2.89
Noninterest-bearing demand	10,179			6,603		
Other liabilities	6,036			9,074		
Total liabilities	407,390			368,678		
Stockholders' equity	108,475			110,824		
Total liabilities and Stockholders' equity	\$515,865			\$479,502		
Net interest income		\$11,233			\$10,604	
Interest rate spread			2.62 %			2.47 %
Net interest margin			3.07 %			3.12 %
Net interest-earning assets	\$96,675			\$100,671		
Average interest-earning assets to average interest-bearing liabilities	124.71 %			128.52 %		

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Total interest income decreased by \$402,000, or 2.2%, to \$17.9 million for the nine months ended September 30, 2010, from \$18.3 million for the nine months ended September 30, 2009. Interest income on loans decreased by \$949,000, or 5.3%, to \$17.0 million for the nine months ended September 30, 2010 from \$18.0 million for the nine months ended September 30, 2009. The average balance of the loan portfolio increased by \$1.9 million to \$388.9 million for the nine months ended September 30, 2010 from \$387.0 million for the nine months ended September 30, 2009 as originations outpaced repayments. The average yield on loans decreased by 36 basis points to 5.83% for the nine months ended September 30, 2010 from 6.19% for the nine months ended September 30, 2009.

Interest income on securities increased by \$599,000, or 369.8%, to \$761,000 for the nine months ended September 30, 2010 from \$162,000 for the nine months ended September 30, 2009. The increase was primarily due to an increase of \$27.0 million, or 551.9%, in the average balance of securities to \$31.9 million for the nine months ended September 30, 2010 from \$4.9 million for the nine months ended September 30, 2009. The increase in the average balance was due to purchases of additional investment securities, offset by a decrease in FHLB New York stock. The increase in the average balance was offset by a decrease of 123 basis points in the average yield on securities to 3.18% for the nine months ended September 30, 2010 from 4.41% for the nine months ended September 30, 2009. The decline in the yield was due to the re-pricing of the yield of our adjustable rate investment securities and the decline in intermediate and long term interest rates from September 30, 2009 to September 30, 2010.

Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by \$52,000, or 36.1%, to \$92,000 for the nine months ended September 30, 2010 from \$144,000 for the nine months ended September 30, 2009. The decrease was primarily the result of a decrease of 13 basis points in the yield to 0.18% for the nine months ended September 30, 2010 from 0.31% for the nine months ended September 30, 2009, offset by an increase of \$5.2 million, or 8.5%, in the average balance of other interest-earning assets to \$67.0 million for the nine months ended September 30, 2010 from \$61.8 million for the nine months ended September 30, 2009. The increase in the average balance of other interest-earning assets was due to increased levels of cash and cash equivalents.

Total interest expense decreased by \$1.0 million, or 13.5%, to \$6.6 million for the nine months ended September 30, 2010 from \$7.7 million for the nine months ended September 30, 2009. Interest expense on deposits decreased by \$788,000, or 12.0%, to \$5.8 million for the nine months ended September 30, 2010 from \$6.6 million for the nine months ended September 30, 2009. During this same period, the average interest cost of deposits decreased by 71 basis points to 2.16% for the nine months ended September 30, 2010 from 2.87% for the nine months ended September 30, 2009.

Due to an effort by the Bank to increase deposits through the opening of two new branch offices in Massachusetts during the second quarter of 2009, partially offset by a decreased reliance on two nationwide certificate of deposit listing services, the average balance of certificates of deposits increased by \$504,000, or 0.2%, to \$217.4 million for the nine months ended September 30, 2010 from \$216.9 million for the nine months ended September 30, 2009. Despite the increase in the average balance of certificates of deposit, interest expense on our certificates of deposit decreased by \$1.4 million, or 23.0%, to \$4.6 million for the nine months ended September 30, 2010 from \$6.0 million for the nine months ended September 30, 2009. The decrease in interest expense on our certificates of deposit was due to a decrease in the average cost of our certificates of deposit by 85 basis points to 2.85% for the nine months ended September 30, 2010 from 3.70% for the nine months ended September 30, 2009.

Interest expense on our other deposit products increased by \$598,000, or 106.4%, to \$1.2 million for the nine months ended September 30, 2010 from \$562,000 for the nine months ended September 30, 2009. The increase was due to an increase of 47 basis points in the cost of our interest-bearing demand deposits to 1.41% for the nine months ended September 30, 2010 from 0.94% for the nine months ended September 30, 2009, offset by a decrease of 11 basis points in the cost of our savings and holiday club deposits to 0.69% for the nine months ended



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September 30, 2010 from 0.80% for the nine months ended September 30, 2009. The increase in interest expense was also due to an increase of \$50.5 million, or 169.3%, in the average balance of interest-bearing demand deposits to \$80.4 million for the nine months ended September 30, 2010 from \$29.9 million for the nine months ended September 30, 2009 and an increase of \$1.8 million, or 3.0%, in the average balance of our savings and holiday club deposits to \$60.6 million for the nine months ended September 30, 2010 from \$58.8 million for the nine months ended September 30, 2009.

Interest expense on borrowings decreased by \$243,000, or 22.6%, to \$831,000 for the nine months ended September 30, 2010 from \$1.1 million for the nine months ended September 30, 2009. The decrease was primarily due to a decrease of \$14.7 million, or 31.0%, in the average balance of borrowed money to \$32.7 million for the nine months ended September 30, 2010 from \$47.4 million for the nine months ended September 30, 2009. Interest expense on borrowed money for the nine months ended September 30, 2010 was comprised of \$819,000 in interest expense on an average balance of \$32.4 million in FHLB advances and \$12,000 in interest expense on an average balance of \$333,000 on a note payable incurred in connection with the acquisition of the operating assets of Hayden Financial Group LLC (now operating as Hayden Wealth Management Group, the Bank's investment advisory and financial planning service division) in the fourth quarter of 2007. This compared to interest expense from FHLB advances of \$1.1 million on an average balance of \$46.9 million in FHLB advances and \$17,000 in interest expense on an average balance of \$489,000 on the note incurred in connection with the acquisition of Hayden Financial Group LLC during the nine months ended September 30, 2009.

Allowance for Loan Losses. The following table summarizes the activity in the allowance for loan losses for the nine months ended September 30, 2010 and 2009.

	Nine Months Ended September 30,	
	2010	2009
	(Dollars in thousands)	
Allowance at beginning of period	\$ 6,733	\$ 1,865
Provision for loan losses	898	2,558
Charge-offs	2,617	323
Recoveries	45	-
Net charge-offs	2,572	323
Allowance at end of period	\$ 5,059	\$ 4,100

We recorded provisions for loan losses of \$898,000 and \$2.6 million for the nine-month periods ended September 30, 2010 and 2009, respectively. During the nine months ended September 30, 2010, we charged-off \$2.6 million against seventeen non-performing multi-family mortgage loans, seven non-performing non-residential mortgage loans and two performing multi-family mortgage loans having aggregate balances of \$10.7 million as of September 30, 2010. We recorded recoveries of \$45,000 during the nine months ended September 30, 2010.

During the nine months ended September 30, 2009, we charged-off \$323,000 against two non-performing non-residential mortgage loans and one non-performing multi-family mortgage loan having aggregate balances of \$2.4 million. We did not have any recoveries during the nine months ended September 30, 2009.

Non-interest Income. Non-interest income increased by \$204,000, or 19.0%, to \$1.3 million for the nine months ended September 30, 2010 from \$1.1 million for the nine months ended September 30, 2009. The increase was primarily due to increases of \$158,000 in earnings on bank owned life insurance and \$44,000 in fee income generated by Hayden Wealth Management Group, the Bank's investment advisory and financial planning services division, and a decrease of \$11,000 in loss on disposition of equipment, partially offset by decreases of \$11,000 in other loan fees and

service charges, \$4,000 on impairment loss on equity security and \$2,000 in other non-interest income.

Non-interest Expense. Non-interest expense decreased by \$246,000, or 2.4%, to \$10.0 million for the nine months ended September 30, 2010 from \$10.2 million for the nine months ended September 30, 2009. The decrease resulted primarily from decreases of \$217,000 in advertising expense, \$138,000 in equipment expense, \$102,000 in other non-interest expense, \$78,000 in real estate owned expenses, and \$8,000 in occupancy expense, partially offset by increases of \$215,000 in salaries and employee benefits, \$67,000 in outside data processing expense and \$15,000 in FDIC insurance premiums.



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Advertising expense decreased by \$217,000, or 81.0%, to \$51,000 in 2010 from \$268,000 in 2009, equipment expense decreased by \$138,000, or 25.7%, to \$400,000 in 2010 from \$538,000 in 2009, and occupancy expense decreased by \$8,000, or 0.8%, to \$945,000 in 2010 from \$953,000 in 2009 due to efforts to reduce expenses.

Other non-interest expense decreased by \$102,000, or 4.4%, to \$2.2 million in 2010 from \$2.3 million in 2009 due mainly to decreases of \$158,000 in other non-interest expense primarily related to the opening of two branch offices in Massachusetts during the second quarter of 2009, \$76,000 in directors, officers and employee expense, \$69,000 in office supplies and stationery expense, and \$26,000 in telephone expense, offset by increases of \$174,000 in legal fees primarily related to a shareholder matter and troubled debt restructured loans, \$23,000 in service contracts expense, \$15,000 in audit and accounting fees, \$11,000 in insurance expense, and \$5,000 in directors compensation expense.

Real estate owned expense decreased by \$78,000, or 45.1%, to \$95,000 in 2010 from \$173,000 in 2009 due to increased rental income during the current period.

Salaries and employee benefits, which represented 53.0% of the Company's non-interest expense during the nine months ended September 30, 2010, increased by \$215,000, or 4.3%, to \$5.3 million in 2010 from \$5.1 million in 2009 due to an increase in the Senior Executive Retirement Plan expense, offset by a decrease in the number of full time equivalent employees from 102 at September 30, 2009 to 91 at September 30, 2010 as a result of reduction in staff in various departments.

Outside data processing expense increased by \$67,000, or 11.9%, to \$632,000 in 2010 from \$565,000 in 2009 due to additional services provided in 2010 by the Company's core data processing vendor.

FDIC insurance expense increased by \$15,000, or 4.4%, to \$355,000 in 2010 from \$340,000 in 2009 due to increased deposit insurance rates in the current period, offset by a special assessment of \$205,000 incurred as of June 30, 2009.

Income Taxes. Income taxes increased by \$1.1 million, or 179.6%, to an expense of \$477,000 for the nine months ended September 30, 2010 from a benefit of \$599,000 for the nine months ended September 30, 2009. The increase resulted primarily from a \$2.8 million increase in pre-tax income in 2010 compared to 2009. The effective tax rate was 28.7% for the nine months ended September 30, 2010 and a benefit of 55.5% for the nine months ended September 30, 2009.

## NON PERFORMING ASSETS

The following table provides information with respect to our non-performing assets at the dates indicated.

	At September 30, 2010	At December 31, 2009
	(Dollars in thousands)	
Non-accrual loans	\$ 28,139	\$ 20,150
Loans past due 90 days or more and accruing	-	-
Total nonaccrual and 90 days or more past due loans	28,139	20,150
Other non-performing loans	1,965	-
Total non-performing loans	30,104	20,150
Real estate owned	1,037	636
Total non-performing assets	31,141	20,786
Troubled debt restructurings	6,926	13,175

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Total troubled debt restructurings and non-performing assets	\$	38,067	\$	33,961
Total non-performing loans to total loans		8.02	%	5.14
Total non-performing loans to total assets		6.02	%	3.94
Total non-performing assets and troubled debt restructurings to total assets		7.61	%	6.44

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Non-accrual loans at September 30, 2010 consisted of eleven loans in the aggregate – five multi-family mortgage loans and six non-residential mortgage loans.

The five non-accrual multi-family mortgage loans totaled \$3.6 million at September 30, 2010, consisting of the following multi-family mortgage loans: (1) An outstanding balance of \$1.2 million secured by an apartment building located in Cambridge, Massachusetts. This borrower and related properties are operating under Chapter 11 bankruptcy protection and are making regularly scheduled payments as instructed by the Trustee. Based on the reorganization plan before the Court, we expect full repayment of this loan. (2) An outstanding balance of \$1.1 million secured by a mixed-use apartment building located in Boston, Massachusetts. Based on continuing negotiations with the borrower who has a contract of sale for the commercial portion of the building's operations, we expect full repayment of the loan over a term similar to the original loan terms. (3) An outstanding balance of \$700,000 secured by an apartment building located in Paterson, New Jersey. We are currently negotiating with the second mortgagee and suing the borrower on a general guarantee. We believe we are adequately protected and do not anticipate losses in excess of current reserves. (4) An outstanding balance of \$338,000 secured by an apartment building located in Elizabeth, New Jersey. We are currently negotiating with the borrower to restructure the outstanding balance and believe we are close to finalizing a restructure agreement. We are also proceeding with the foreclosure action and expect to sell the property at auction should negotiations break down. Based on a current appraisal, we do not anticipate a loss if we proceed to a foreclosure sale. (5) An outstanding balance of \$275,000 secured by an apartment building located in Herkimer, New York. We are currently in the process of acquiring the property through a deed-in-lieu of foreclosure and have a local real estate agent ready to market the building as soon as we close on the deed-in-lieu transaction. Based on a current appraisal, no additional loss is expected on this property.

The six non-accrual non-residential mortgage loans totaled \$24.5 million at September 30, 2010 as detailed in the following paragraph. (1) The first non-accrual non-residential mortgage loans had an outstanding balance of \$10.9 million and is related to the sale of the 1353-55 First Avenue, New York, New York branch office building (the "Property"). See Note 7 to the financial statements in this report for further detail on this loan. (2) The second non-accrual non-residential mortgage loan had an outstanding balance of \$733,000 and consists of capitalized legal fees, which we expect to recover, related to the Property. Based on the current appraised value, no loss is anticipated. (3) The third non-accrual non-residential mortgage loan had an outstanding balance of \$479,000 and is secured by a restaurant and 23 boat slips located in Far Rockaway, New York, and a general guarantee of the borrower. The borrower has filed a Chapter 13 bankruptcy petition and, under supervision of the Chapter 13 trustee, has been making regularly scheduled monthly payments of principal, interest and escrow as per the original terms of the mortgage while a repayment plan is being finalized. We do not anticipate additional losses on this loan. (4) The fourth non-accrual non-residential mortgage loan had an outstanding balance of \$437,000 and is secured by a strip shopping center and warehouse located in Tobyhanna, Pennsylvania. The property was severely damaged by fire and the Bank and borrower are currently suing the insurance company and the borrower's insurance agent as part of the Bank's collection efforts. The borrower is making monthly escrow payments to keep the taxes up to date during the course of the lawsuit. We do not anticipate any additional losses on this loan and expect to recover all legal and court fees as well upon resolution of the suit. (5) The fifth non-accrual non-residential loan has an outstanding balance of \$7.5 million and is a participation loan secured by a newly completed boutique hotel in Long Beach, New York. Additional security consists of a general guarantee of the two principals and an assignment of LLC interests in two other properties. The loan is only recently past-due, however, the borrower has requested forbearance for a yet to be determined period of time. The participating institutions have ordered a new appraisal based on lower than projected per room daily rental rates. Management is currently assessing the fair value of the loans and upon receipt of the updated appraisals may determine that specific reserves are necessary. (6) The sixth non-accrual non-residential loan with an outstanding balance of \$4.5 million is located in Lawrenceville, New Jersey and is with the same borrower with the Long Beach, New York loan described above. We are currently negotiating a forbearance agreement with the borrower and based on a current appraisal and projected cash flow analysis, we do not anticipate losses on this loan. We will continue to monitor these loans closely and adjust the level of allowance for loan loss

appropriately as updated information becomes available.

The other non-performing loans consisted of two mortgage loans where management had doubts about the borrowers' abilities to comply with contractual loan terms. The first had an outstanding balance of \$1.9 million, was 30 days delinquent at September 30, 2010, and is secured by ten apartment buildings located in Pittsburgh, Pennsylvania. The second non-performing loan had an outstanding balance of \$67,000, was current at September 30, 2010, and is secured by a second mortgage on an apartment building located in Fall River, Massachusetts on which we hold a first mortgage. We do not currently anticipate any loss on these two loans based on recent appraisals and current cash flow reports for these properties.

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At September 30, 2010, we owned foreclosed property with a net balance of \$1.0 million, consisting of a six unit multi-family building (net balance of \$636,000) located in Newark, New Jersey and an apartment building (net balance of \$402,000) located in Holyoke, Massachusetts. We renovated the Newark, New Jersey property and have leased four of the six units, with the goal of marketing the property in the near term. We completed the sale of the Holyoke Massachusetts property to the property's managing agent for \$350,000 on October 29, 2010.

The troubled debt restructured loans consisted of seven loans, all of which are current, totaling \$6.9 million. The largest troubled debt restructured loan had an outstanding balance of \$1.8 million and is secured by a commercial condominium located in Brooklyn, New York.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, and borrowings from the Federal Home Loan Bank of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending, and investing activities during any given period. Cash and cash equivalents totaled \$71.6 million at September 30, 2010 and consist primarily of interest-bearing deposits at other financial institutions and miscellaneous cash items. In addition, certificates of deposits at other financial institutions totaled \$996,000 at September 30, 2010. Securities classified as available for sale provide an additional source of liquidity. Total securities classified as available for sale were \$171,000 at September 30, 2010.

At September 30, 2010, we had \$20.4 million in loan commitments outstanding, consisting of \$15.9 million in unused commercial business lines of credit, \$2.5 million in unused real estate equity lines of credit, \$1.5 million of real estate loan commitments, \$271,000 in unused loans in process, and \$155,000 in consumer lines of credit. Certificates of deposit due within one year of September 30, 2010 totaled \$146.4 million. This represented 74.9% of certificates of deposit at September 30, 2010. We believe a large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2010. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of deposit accounts and FHLB advances. At September 30, 2010, we had the ability to borrow \$74.7 million, net of \$25.0 million in outstanding advances, from the FHLB of New York. At September 30, 2010, we had no overnight advances outstanding. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen re-pricing time frames.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and for the repurchase, if any, of its shares of common stock. At September 30, 2010, the Company had liquid assets of \$18.1 million.

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Capital Management. The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2010, the Bank exceeded all regulatory capital requirements. The Bank is considered “well capitalized” under regulatory guidelines.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers’ requests for funding and take the form of loan commitments, letters of credit and lines of credit.

For the three months ended September 30, 2010 and the year ended December 31, 2009, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Qualitative Aspects of Market Risk. The Company’s most significant form of market risk is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread.

Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that re-price to market interest rates in three to five years; purchasing securities that typically re-price within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the re-pricing time frame of our liabilities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our chief executive officer, chief financial officer, chief mortgage officer, chief retail banking officer and treasurer, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Quantitative Aspects of Market Risk. We use an interest rate sensitivity analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in our net portfolio value at September 30, 2010 that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change.

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Basis Point ("bp") Change in Rates	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
300	\$ 90,993	\$ (5,338 )	(6 )%	18.66 %	(60 ) bp
200	93,134	(3,197 )	(3 )%	18.93 %	(33 ) bp
100	94,800	(1,531 )	(2 )%	19.11 %	(15 ) bp
50	95,530	(801 )	(1 )%	19.18 %	(8 ) bp
0	96,331			19.26 %	
(50)	97,379	1,048	1 %	19.39 %	13 bp
(100)	96,832	500	1 %	19.27 %	1 bp

We and the Office of Thrift Supervision use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to re-pricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates.

Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

## Item 4.

## Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.

OTHER INFORMATION

Item 1.

Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At September 30, 2010, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

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Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2009 and in Part II, “Item 1A. Risk Factors” in our quarterly report on Form 10-Q for the quarter ended June 30, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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

## Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchases during the three months ended September 30, 2010.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31	-	-	-	-
August 1 to August 31	59,800	\$ 6.04	59,800	237,763
September 1 to September 30	25,600	6.04	25,600	212,163
Total	85,400	6.04	85,400	212,163

On July 22, 2010, the Board of Directors of the Company approved the repurchase of up to 297,563 shares of the Company's outstanding common stock held by persons other than NorthEast Community Bancorp MHC.

## Item 3. Defaults Upon Senior Securities

Not applicable

## Item 4. (Removed and Reserved)

## Item 5. Other Information

None

## Item 6. Exhibits

31.1 CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 CFO certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1 CEO and CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Northeast Community Bancorp, Inc.

Date: November 15, 2010

By: /s/ Kenneth A. Martinek  
Kenneth A. Martinek  
President and Chief Executive Officer

Date: November 15, 2010

By: /s/ Salvatore Randazzo  
Salvatore Randazzo  
Executive Vice President, Chief Operating  
Officer  
and Chief Financial Officer