

DIME COMMUNITY BANCSHARES INC  
Form 10-Q  
August 05, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014  
OR

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

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

Commission file number 0-27782

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

Delaware 11-3297463  
(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification number)

209 Havemeyer Street, Brooklyn, NY 11211  
(Address of principal executive offices) (Zip Code)

(7718) 782-6200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (11) has filed all the reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (22) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.4.4405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

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|  |  |   |  |
|--|--|---|--|
| LARGE ACCELERATED<br>FILER <input type="radio"/> | ACCELERATED<br>FILER <input checked="" type="checkbox"/> | NON -ACCELERATED<br>FILER <input type="radio"/> | SMALLER REPORTING<br>COMPANY <input type="radio"/> |
|--|--|---|--|

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Classes of Common Stock | Number of Shares Outstanding at August 5, 2014 |
|-------------------------|--|
|-------------------------|--|

|                 |            |
|-----------------|------------|
| \$.01 Par Value | 36,858,556 |
|-----------------|------------|

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

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

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- the net interest margin is subject to material short-term fluctuation based upon market rates;
  - changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;

general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry may be less favorable than the Company currently anticipates;

legislation or regulatory changes may adversely affect the Company's business;

technological changes may be more difficult or expensive than the Company anticipates;

success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates;

litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and

The risks referred to in the section entitled "Risk Factors."

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

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Item 1. Condensed Consolidated Financial Statements  
DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
(Dollars in thousands except share amounts)

|  | June 30,<br>2014 | December<br>31, 2013 |
|--|------------------|----------------------|
| <b>ASSETS:</b>   |                  |                      |
| Cash and due from banks  | \$57,213         | \$45,777             |
| Total cash and cash equivalents  | 57,463           | 45,777               |
| Investment securities held-to-maturity (estimated fair value of \$6,125 and \$5,163 at June 30, 2014 and December 31, 2013, respectively)(fully unencumbered)  | 5,330            | 5,341                |
| Investment securities available-for-sale, at fair value (fully unencumbered)   | 3,766            | 18,649               |
| Mortgage-backed securities available-for-sale, at fair value (fully unencumbered)  | 29,015           | 31,543               |
| Trading securities   | 7,058            | 6,822                |
| <b>Loans:</b>  |                  |                      |
| Real estate, net   | 3,972,551        | 3,697,380            |
| Consumer loans   | 2,440            | 2,139                |
| Less allowance for loan losses   | (19,633 )        | (20,153 )            |
| Total loans, net   | 3,955,358        | 3,679,366            |
| Premises and fixed assets, net   | 25,875           | 26,077               |
| Premises held for sale   | -                | 3,624                |
| Federal Home Loan Bank of New York ("FHLBNY") capital stock  | 53,269           | 48,051               |
| Other Real Estate Owned ("OREO")   | 18               | 18                   |
| Goodwill   | 55,638           | 55,638               |
| Other assets   | 108,904          | 107,284              |
| Total Assets   | \$4,301,694      | \$4,028,190          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                      |
| <b>Liabilities:</b>  |                  |                      |
| <b>Due to depositors:</b>  |                  |                      |
| Interest bearing deposits  | \$2,480,204      | \$2,332,689          |
| Non-interest bearing deposits  | 172,876          | 174,457              |
| Total deposits   | 2,653,080        | 2,507,146            |
| Escrow and other deposits  | 76,930           | 69,404               |
| FHLBNY advances  | 1,018,150        | 910,000              |
| Trust Preferred securities payable   | 70,680           | 70,680               |
| Other liabilities  | 34,330           | 35,454               |
| Total Liabilities  | 3,853,170        | 3,592,684            |
| <b>Commitments and Contingencies</b>   |                  |                      |
| <b>Stockholders' Equity:</b>   |                  |                      |
| Preferred stock (\$ 0.01 par, 9,000,000 shares authorized, none issued or outstanding at June 30, 2014 and December 31, 2013)  | -                | -                    |
| Common stock (\$ 0.01 par, 125,000,000 shares authorized, 52,871,443 shares and 52,854,483 shares issued at June 30, 2014 and December 31, 2013, respectively, and 36,858,556 shares and 36,712,951 shares outstanding at June 30, 2014 and December 31, 2013, respectively) | 529              | 528                  |
| Additional paid-in capital   | 253,840          | 252,253              |
| Retained earnings  | 413,437          | 402,986              |
| Accumulated other comprehensive loss, net of deferred taxes  | (4,408 )         | (4,759 )             |
| Unallocated common stock of Employee Stock Ownership Plan ("ESOP")   | (2,660 )         | (2,776 )             |

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|  |             |             |
|--|-------------|-------------|
| Unearned Restricted Stock Award common stock   | (4,128 )    | (3,193 )    |
| Common stock held by Benefit Maintenance Plan ("BMP")  | (9,164 )    | (9,013 )    |
| Treasury stock, at cost (16,012,887 shares and 16,141,532 shares at June 30, 2014 and December 31, 2013, respectively) | (198,922 )  | (200,520 )  |
| Total Stockholders' Equity   | 448,524     | 435,506     |
| Total Liabilities And Stockholders' Equity   | \$4,301,694 | \$4,028,190 |

See notes to condensed consolidated financial statements.

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DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands except per share amounts)

|   | Three Months   |          | Six Months Ended |          |
|---|----------------|----------|------------------|----------|
|   | Ended June 30, |          | June 30,         |          |
|   | 2014           | 2013     | 2014             | 2013     |
| Interest income:                                    |                |          |                  |          |
| Loans secured by real estate                        | \$41,973       | \$44,692 | \$82,834         | \$87,840 |
| Other loans   | 29             | 25       | 54               | 50       |
| Mortgage-backed securities                          | 236            | 354      | 484              | 813      |
| Investment securities                               | 136            | 103      | 206              | 232      |
| Federal funds sold and other short-term investments | 536            | 462      | 1,058            | 1,006    |
| Total interest income                               | 42,910         | 45,636   | 84,636           | 89,941   |
| Interest expense:                                   |                |          |                  |          |
| Deposits and escrow                                 | 4,992          | 5,132    | 9,613            | 10,332   |
| Borrowed funds                                      | 7,324          | 6,752    | 14,174           | 13,542   |
| Total interest expense                              | 12,316         | 11,884   | 23,787           | 23,874   |
| Net interest income                                 | 30,594         | 33,752   | 60,849           | 66,067   |
| (Credit) Provision for loan losses                  | (1,130 )       | 28       | (849 )           | 185      |
| Net interest income after provision for loan losses | 31,724         | 33,724   | 61,698           | 65,882   |
| Non-interest income:                                |                |          |                  |          |
| Service charges and other fees                      | 769            | 827      | 1,424            | 1,539    |
| Net mortgage banking income                         | 82             | 112      | 1,082            | 273      |
| Net gain (loss) on securities                       | 63             | (17 )    | 77               | 193      |
| Net gain on the disposal of other assets            | -              | -        | 649              | -        |
| Income from bank owned life insurance               | 379            | 417      | 765              | 830      |
| Other   | 272            | 382      | 628              | 783      |
| Total non-interest income                           | 1,565          | 1,721    | 4,625            | 3,618    |
| Non-interest expense:                               |                |          |                  |          |
| Salaries and employee benefits                      | 8,146          | 8,338    | 16,665           | 17,271   |
| Stock benefit plan amortization expense             | 969            | 960      | 1,958            | 1,978    |
| Occupancy and equipment                             | 2,392          | 2,506    | 5,143            | 5,038    |
| Data processing costs                               | 815            | 863      | 1,653            | 1,675    |
| Federal deposit insurance premiums                  | 524            | 445      | 1,029            | 956      |
| Provision for losses on OREO                        | -              | -        | -                | 180      |
| Other   | 2,452          | 2,235    | 4,673            | 4,558    |
| Total non-interest expense                          | 15,298         | 15,347   | 31,121           | 31,656   |
| Income before income taxes                          | 17,991         | 20,098   | 35,202           | 37,844   |
| Income tax expense                                  | 7,531          | 8,059    | 14,708           | 15,235   |
| Net income  | \$10,460       | \$12,039 | \$20,494         | \$22,609 |
| Earnings per Share:                                 |                |          |                  |          |
| Basic   | \$0.29         | \$0.34   | \$0.57           | \$0.65   |
| Diluted   | \$0.29         | \$0.34   | \$0.57           | \$0.65   |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Net Income  | \$10,460 | \$12,039 | \$20,494 | \$22,609 |
| Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of deferred tax expense of \$8 and \$23 during the three months ended June 30, 2014 and 2013, respectively, and \$16 and \$50 during the six months ended June 30, 2014 | 10       | 28       | 22       | 62       |

and 2013, respectively

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Reduction in non-credit component of OTTI charge, net of deferred tax expense of \$4 and \$4 during the three months ended both June 30, 2014 and 2013, respectively, and \$8 and \$8 during the six months ended both June 30, 2014 and 2013, respectively                          | 4        | 4        | 8        | 8        |
| Reclassification adjustment for securities sold during the period, net of income tax expense of \$(50) during the six months ended June 30, 2013 (reclassified from net gain on securities)  | -        | -        | -        | (60 )    |
| Net unrealized securities gains (losses) arising during the period, net of deferred tax expense (benefit) of \$57 and \$(145) during the three months ended June 30, 2014 and 2013, respectively, and \$27 and \$51 during the six months ended June 30, 2014 and 2013, respectively | 70       | (175 )   | 33       | 66       |
| Change in pension and other postretirement obligations, net of deferred tax expense of \$117 during the three months ended June 30, 2014 and \$234 during the six months ended June 30, 2014   | 144      | -        | 288      | -        |
| Comprehensive Income   | \$10,688 | \$11,896 | \$20,845 | \$22,685 |

See notes to condensed consolidated financial statements.

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

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2014                         | 2013      |
| Common Stock (Par Value \$0.01):  |                              |           |
| Balance at beginning of period  | \$528                        | \$520     |
| Shares issued in exercise of options  | 1                            | 2         |
| Balance at end of period  | 529                          | 522       |
| Additional Paid-in Capital:   |                              |           |
| Balance at beginning of period  | 252,253                      | 239,041   |
| Stock options exercised   | 278                          | 2,283     |
| Excess tax benefit related to stock benefit plans   | 71                           | 201       |
| Amortization of excess fair value over cost- ESOP stock and stock options expense                       | 584                          | 566       |
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | 654                          | 514       |
| Balance at end of period  | 253,840                      | 242,605   |
| Retained Earnings:  |                              |           |
| Balance at beginning of period  | 402,986                      | 402,986   |
| Net income for the period   | 20,494                       | 22,609    |
| Cash dividends declared and paid  | (10,043 )                    | (9,786 )  |
| Balance at end of period  | 413,437                      | 391,989   |
| Accumulated Other Comprehensive Loss, Net of Deferred Taxes:  |                              |           |
| Balance at beginning of period  | (4,759 )                     | (9,640 )  |
| Other comprehensive income recognized during the period   | 351                          | 76        |
| Balance at end of period  | (4,408 )                     | (9,564 )  |
| Unallocated Common Stock of ESOP:   |                              |           |
| Balance at beginning of period  | (2,776 )                     | (3,007 )  |
| Amortization of earned portion of ESOP stock  | 116                          | 115       |
| Balance at end of period  | (2,660 )                     | (2,892 )  |
| Unearned Restricted Stock Award Common Stock:   |                              |           |
| Balance at beginning of period  | (3,193 )                     | (3,122 )  |
| Amortization of earned portion of restricted stock awards   | 995                          | 1,012     |
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | (1,930 )                     | (2,082 )  |
| Balance at end of period  | (4,128 )                     | (4,192 )  |
| Common Stock Held by BMP:   |                              |           |
| Balance at beginning of period  | (9,013 )                     | (8,800 )  |
| Award distribution  | 1                            | -         |
| Release from treasury stock for equity awards   | (152 )                       | (213 )    |
| Balance at end of period  | (9,164 )                     | (9,013 )  |
| Treasury Stock, at cost:  |                              |           |
| Balance at beginning of period  | (200,520)                    | (202,584) |
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | 1,598                        | 2,034     |
| Balance at end of period  | (198,922)                    | (200,550) |
| Total Stockholders' Equity  | \$448,524                    | \$408,905 |

See [notes to condensed consolidated financial statements](#).



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

|  | Six Months Ended |           |
|--|------------------|-----------|
|  | June 30,         |           |
|  | 2014             | 2013      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                  |           |
| Net Income   | \$20,494         | \$22,609  |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                  |           |
| Net gain on the sales of investment securities available-for-sale                        | -                | (110 )    |
| Net gain recognized on on trading securities   | (77 )            | (83 )     |
| Net gain on the sale of loans  | (27 )            | (11 )     |
| Net gain on the sale of OREO and other assets  | (649 )           | -         |
| Net depreciation, amortization and accretion   | 1,330            | 1,391     |
| Stock plan compensation (excluding ESOP)   | 1,059            | 849       |
| ESOP compensation expense  | 637              | 844       |
| Provision for loan losses  | (849 )           | 185       |
| Provision for losses on OREO   | -                | 180       |
| Credit to reduce the liability for loans sold with recourse                              | (1,040 )         | (194 )    |
| Increase in cash surrender value of BOLI   | (765 )           | (830 )    |
| Deferred income tax provision  | 3                | 55        |
| Excess tax benefit from stock benefit plans  | (71 )            | (201 )    |
| Changes in assets and liabilities:   |                  |           |
| Origination of loans held for sale during the period                                     | -                | (1,962 )  |
| Proceeds from sale of loans held for sale  | -                | 2,301     |
| (Increase) Decrease in other assets  | (598 )           | 7,673     |
| (Decrease) Increase in other liabilities   | (36 )            | 2,202     |
| Net cash provided by operating activities  | 19,411           | 34,898    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                  |           |
| Proceeds from maturities of investment securities held-to-maturity                       | 76               | 487       |
| Proceeds from calls and principal repayments of investment securities available-for-sale | 15,000           | 14,750    |
| Proceeds from sales of investment securities available-for-sale                          | -                | 366       |
| Proceeds from sales of trading securities  | -                | 131       |
| Purchases of investment securities available-for-sale                                    | (18 )            | (382 )    |
| Purchases of mortgage backed securities available-for-sale                               | (875 )           | -         |
| Purchases of trading securities  | (159 )           | (301 )    |
| Principal collected on mortgage backed securities available-for-sale                     | 3,344            | 10,782    |
| Proceeds from the sale of portfolio loans  | 12,970           | 6,331     |
| Purchases of loans   | (221,924)        | (34,373 ) |
| Loans originated, net of repayments  | (66,161 )        | (73,912 ) |
| Proceeds from the sale of premises   | 4,273            | -         |
| Purchases of fixed assets, net   | (1,120 )         | (743 )    |
| (Purchase) Redemption of FHLBNY capital stock  | (5,218 )         | 4,723     |
| Net cash used in investing activities  | (259,812)        | (72,141 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                  |           |
| Increase in due to depositors  | 145,934          | 128,230   |
| Increase in escrow and other deposits  | 7,526            | 3,275     |
| Repayment of FHLBNY advances   | (660,000)        | (105,000) |

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|   |           |           |
|---|-----------|-----------|
| Proceeds from FHLB NY advances  | 768,150   | -         |
| Proceeds from exercise of stock options   | 278       | 2,285     |
| Excess tax benefit of stock benefit plans   | 71        | 201       |
| BMP benefit distribution  | 1         | -         |
| Release of stock for benefit plan awards  | 170       | 253       |
| Cash dividends paid to stockholders   | (10,043 ) | (9,786 )  |
| Net cash provided by Financing Activities   | 252,087   | 19,458    |
| INCREASE IN CASH AND CASH EQUIVALENTS   | 11,686    | (17,785 ) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD  | 45,777    | 79,076    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | 57,463    | 61,291    |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:   |           |           |
| Cash paid for income taxes  | \$15,535  | \$15,608  |
| Cash paid for interest  | 23,470    | 23,839    |
| Loans transferred to OREO   | -         | 765       |
| Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity | 38        | 112       |
| Net decrease in non-credit component of OTTI  | 16        | 16        |

See notes to condensed consolidated financial statements.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands Except Per Share Amounts)

### 1. NATURE OF OPERATIONS

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Holding Company's direct subsidiaries are the Bank, 842 Manhattan Avenue Corp., and Dime Community Capital Trust 1. The Bank's direct subsidiaries are Boulevard Funding Corp., Dime Insurance Agency Inc., DSBW Preferred Funding Corporation, DSBW Residential Preferred Funding Corp., Dime Reinvestment Corp. and 195 Havemeyer Corp.

The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-five full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate and mixed used loans, as well as mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Enterprises ("GSEs"), and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

### 2. SUMMARY OF ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial condition as of June 30, 2014 and December 31, 2013, the results of operations and statements of comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, and the changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2014 and 2013. The results of operations for the three-month and six-month periods ended June 30, 2014 are not necessarily indicative of the results of operations for the remainder of the year ending December 31, 2014. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the U. S. Securities and Exchange Commission ("SEC").

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2013 and notes thereto.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU 2014-08 changes the criteria for reporting discontinued operations and provides financial statement users additional information related to the assets, liabilities, income, and expenses of discontinued operations. ASU 2014-08 also

seeks to both clarify existing confusion related to, and inconsistent financial reporting of, discontinued operations under existing GAAP guidance, and enhance convergence between GAAP and International Financial Reporting Standards. Under ASU 2014-08, only disposals that represent strategic shifts and have a major effect on the organization's operations and financial results are to be presented as discontinued operations. ASU 2014-08 further requires disclosure of the pretax income attributable to a disposal of a significant part of an organization that does not meet the criteria for discontinued operations reporting, providing users information about the ongoing trends in a reporting organization's results from continuing operations. Adoption of ASU 2014-08 is required for the quarterly period ended March 31, 2015, with early adoption permitted. Adoption of ASU 2014-08 is not expected to have a material impact upon the Company's consolidated financial condition or results of operations.

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In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers," (Topic 606) ("ASU 2014-09"). ASU 2014-09 impacts any entity that either enters into contracts with customers to transfer goods or services, or that enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (i.e. insurance contracts or lease contracts). Under ASU 2014-09, an entity is required to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, as well as qualitative and quantitative disclosure related to contracts with certain customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Adoption of ASU 2014-09 is not expected to have a material impact upon the Company's consolidated financial position or results of operations.

### 4. TREASURY STOCK

The Holding Company did not repurchase any of its common stock into treasury during the six months ended June 30, 2014 and 2013.

On April 30, 2014, 121,333 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under either the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan (the "2004 Equity Plan") or the Dime Community Bancshares, Inc. 2013 Equity and Incentive Plan (the "2013 Equity Plan"), and 9,364 shares of treasury stock were released in order to fulfill benefit obligations under the BMP. The closing price of the Holding Company's common stock on that date was \$16.30, and the shares were released utilizing the average historical cost method.

On April 30, 2013, 145,925 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under the 2004 Stock Incentive Plan and 15,049 shares of treasury stock were released in order to fulfill benefit obligations under the BMP. The closing price of the Holding Company's common stock on that date was \$14.27, and the shares were released utilizing the average historical cost method.

### 5. OTHER COMPREHENSIVE INCOME (LOSS)

The before and after tax amounts allocated to each component of other comprehensive income (loss) are presented in the table below. Reclassification adjustments related to securities available-for-sale are included in the line entitled net gain on securities in the accompanying consolidated statements of income.

|   | Pre-tax<br>Amount | Tax<br>Expense<br>(Benefit) | After<br>tax<br>Amount |
|---|-------------------|-----------------------------|------------------------|
| Three Months Ended June 30, 2014  |                   |                             |                        |
| Securities held-to maturity and transferred securities:                             |                   |                             |                        |
| Change in non-credit component of OTTI  | \$ 8              | \$ 4                        | \$ 4                   |
| Change in unrealized loss on securities transferred to held to maturity             | 18                | 8                           | 10                     |
| Total securities held-to-maturity and transferred securities                        | 26                | 12                          | 14                     |
| Securities available-for-sale:  |                   |                             |                        |
| Reclassification adjustment for net gains included in net gain (loss) on securities | -                 | -                           | -                      |
| Change in net unrealized gain during the period                                     | 127               | 57                          | 70                     |
| Total securities available-for-sale   | 127               | 57                          | 70                     |
| Defined benefit plans:  |                   |                             |                        |
|   | 261               | 117                         | 144                    |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Reclassification adjustment for expense included in salaries and employee benefits expense |           |           |           |
| Total defined benefit plans  | 261       | 117       | 144       |
| Total other comprehensive income (loss)  | \$ 414    | \$ 186    | \$ 228    |
| Three Months Ended June 30, 2013   |           |           |           |
| Securities held-to-maturity and transferred securities:                                    |           |           |           |
| Change in non-credit component of OTTI   | \$ 8      | \$ 4      | \$ 4      |
| Change in unrealized loss on securities transferred to held to maturity                    | 51        | 23        | 28        |
| Total securities held-to-maturity and transferred securities                               | 59        | 27        | 32        |
| Securities available-for-sale:   |           |           |           |
| Reclassification adjustment for net gains included in net gain (loss) on securities        | -         | -         | -         |
| Change in net unrealized gain during the period  | (320 )    | (145 )    | (175 )    |
| Total securities available-for-sale  | (320 )    | (145 )    | (175 )    |
| Defined benefit plans:   |           |           |           |
| Reclassification adjustment for expense included in salaries and employee benefits expense | -         | -         | -         |
| Total defined benefit plans  | -         | -         | -         |
| Total other comprehensive income (loss)  | \$ (261 ) | \$ (118 ) | \$ (143 ) |

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|  | Pre-tax<br>Amount | Tax<br>Expense<br>(Benefit) | After<br>tax<br>Amount |
|--|-------------------|-----------------------------|------------------------|
| Six Months Ended June 30, 2014   |                   |                             |                        |
| Securities held-to-maturity and transferred securities                                     |                   |                             |                        |
| Change in non-credit component of OTTI   | \$ 16             | \$ 8                        | \$ 8                   |
| Change in unrealized loss on securities transferred to held to maturity                    | 38                | 16                          | 22                     |
| Total securities held-to-maturity and transferred securities                               | 54                | 24                          | 30                     |
| Securities available-for-sale  |                   |                             |                        |
| Reclassification adjustment for net gains included in net gain (loss) on securities        | \$ -              | \$ -                        | \$ -                   |
| Change in net unrealized gain during the period  | 60                | 27                          | 33                     |
| Total securities available-for-sale  | 60                | 27                          | 33                     |
| Defined benefit plans:   |                   |                             |                        |
| Reclassification adjustment for expense included in salaries and employee benefits expense | 522               | 234                         | 288                    |
| Total defined benefit plans  | 522               | 234                         | 288                    |
| Total other comprehensive income (loss)  | \$ 636            | \$ 285                      | \$ 351                 |
| Six Months Ended June 30, 2013   |                   |                             |                        |
| Securities held-to-maturity and transferred securities:                                    |                   |                             |                        |
| Change in non-credit component of OTTI   | \$ 16             | \$ 8                        | \$ 8                   |
| Change in unrealized loss on securities transferred to held to maturity                    | 112               | 50                          | 62                     |
| Total securities held-to-maturity and transferred securities                               | 128               | 58                          | 70                     |
| Securities available-for-sale:   |                   |                             |                        |
| Reclassification adjustment for net gains included in net gain (loss) on securities        | (110 )            | (50 )                       | (60 )                  |
| Change in net unrealized gain during the period  | 117               | 51                          | 66                     |
| Total securities available-for-sale  | 7                 | 1                           | 6                      |
| Defined benefit plans:   |                   |                             |                        |
| Reclassification adjustment for expense included in salaries and employee benefits expense | -                 | -                           | -                      |
| Total defined benefit plans  | -                 | -                           | -                      |
| Total other comprehensive income (loss)  | \$ 135            | \$ 59                       | \$ 76                  |

Activity in accumulated other comprehensive gain (loss), net of tax, was as follows:

|  | Securities<br>Held-to-Maturity<br>and<br>Transferred<br>Securities | Securities<br>Available-for-Sale | Defined<br>Benefit<br>Plans | Total<br>Accumulated<br>Other<br>Comprehensive<br>Gain (Loss) |
|--|--|----------------------------------|-----------------------------|---|
| Balance as of January 1, 2014                                  | \$ (878 )  | \$ 1,319                         | \$ (5,200)                  | \$ (4,759 )   |
| Other comprehensive income before reclassifications            | 30   | 33                               | -                           | 63  |
| Amounts reclassified from accumulated other comprehensive loss | -  | -                                | 288                         | 288   |
| Net other comprehensive income during the period               | 30   | 33                               | 288                         | 351   |
| Balance as of June 30, 2014                                    | \$ (848 )  | \$ 1,352                         | \$ (4,912)                  | \$ (4,408 )   |
| Balance as of January 1, 2013                                  | \$ (1,043 )  | 1,178                            | \$ (9,775)                  | \$ (9,640 )   |
| Other comprehensive income before reclassifications            | 70   | 66                               | -                           | 136   |
|  | -  | (60 )                            | -                           | (60 )   |

Amounts reclassified from accumulated other comprehensive loss

|  |         |            |           |             |
|--|---------|------------|-----------|-------------|
| Net other comprehensive income during the period | 70      | 6          | 0         | 76          |
| Balance as of June 30, 2013                      | \$ (973 | ) \$ 1,184 | \$(9,775) | \$ (9,564 ) |

6. EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing income attributable to common stock by the weighted-average common shares outstanding during the reporting period. Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if "in the money" stock options were exercised and converted into common stock. In determining the weighted average shares outstanding for basic and diluted EPS, treasury stock and unallocated ESOP shares are excluded. Vested restricted stock award shares are included in the calculation of the weighted average shares outstanding for basic and diluted EPS. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

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

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2014                        | 2013       | 2014                      | 2013       |
| Net income per the Consolidated Statements of Income                           | \$ 10,460                   | \$ 12,039  | \$ 20,494                 | \$ 22,609  |
| Less: Dividends paid and earnings allocated to participating securities        | (42 )                       | (45 )      | (86 )                     | (91 )      |
| Income attributable to common stock  | \$ 10,418                   | \$ 11,994  | \$ 20,408                 | \$ 22,518  |
| Weighted average common shares outstanding, including participating securities | 36,181,381                  | 35,295,926 | 36,138,178                | 35,222,298 |
| Less: weighted average participating securities                                | (304,243 )                  | (320,852 ) | (310,989 )                | (322,855 ) |
| Weighted average common shares outstanding                                     | 35,877,138                  | 34,975,074 | 35,827,189                | 34,899,443 |
| Basic EPS  | \$0.29                      | \$0.34     | \$0.57                    | \$0.65     |
| Income attributable to common stock  | \$ 10,418                   | \$ 11,994  | \$ 20,408                 | \$ 22,518  |
| Weighted average common shares outstanding                                     | 35,877,138                  | 34,975,074 | 35,827,189                | 34,899,443 |
| Weighted average common equivalent shares outstanding                          | 80,153                      | 72,989     | 96,160                    | 64,806     |
| Weighted average common and equivalent shares outstanding                      | 35,957,291                  | 35,048,063 | 35,923,349                | 34,964,249 |
| Diluted EPS  | \$0.29                      | \$0.34     | \$0.57                    | \$0.65     |

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

There were 246,774 and 1,275,586 weighted-average stock options outstanding for the three-month periods ended June 30, 2014 and 2013, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period. There were 342,056 and 1,300,026 weighted-average stock options outstanding for the six-month periods ended June 30, 2014 and 2013, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period.

## 7. ACCOUNTING FOR STOCK BASED COMPENSATION

During the three-month and six-month periods ended June 30, 2014 and 2013, the Holding Company and Bank maintained the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees, the 2004 Equity Plan and the 2013 Equity Plan (collectively the "Stock Plans"), which are discussed more fully in Note 15 to the Company's audited consolidated financial statements for the year ended December 31, 2013, and which are subject to the accounting requirements of ASC 505-50 and ASC 718.

### Stock Option Awards

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

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|   | At or for the Three<br>Months Ended June<br>30, |           | At or for the Six Months<br>Ended June 30, |            |
|---|---|-----------|--|------------|
|   | 2014  | 2013      | 2014                                       | 2013       |
| Options outstanding – beginning of period                         | 988,396   | 2,295,372 | 1,615,771                                  | 2,456,137  |
| Options granted   | -   | -         | -  | -          |
| Options exercised   | (8,480 )  | (19,952 ) | (16,960 )                                  | (177,622 ) |
| Options forfeited   | -   | (1,687 )  | (618,895 )                                 | (4,782 )   |
| Options outstanding – end of period                               | 979,916   | 2,273,733 | 979,916                                    | 2,273,733  |
| Intrinsic value of options exercised                              | \$1   | \$67      | \$6  | \$217      |
| Compensation expense recognized                                   | 27  | 48        | 63   | 122        |
| Remaining unrecognized compensation expense                       | 77  | 213       | 77   | 213        |
| Intrinsic value of outstanding options at period end              | 1,301   | 2,050     | 1,301                                      | 2,050      |
| Intrinsic value of vested options at period end                   | 1,295   | 2,015     | 1,295                                      | 2,015      |
| Weighted average exercise price of vested options – end of period | 14.73   | 15.87     | 14.73                                      | 15.87      |

There were no grants of stock options during the three-month and six-month periods ended June 30, 2014 and 2013.

#### Restricted Stock Awards

The Company, from time to time, issues restricted stock awards to outside directors and certain officers under either the 2004 Equity Plan or the 2013 Equity Plan. Typically, awards to outside directors fully vest on the first anniversary of the grant date, while awards to officers vest in equal annual installments over a four-year period.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Equity Plan and 2013 Equity Plan during the periods indicated:

|   | At or for the Three<br>Months Ended June<br>30, |            | At or for the Six<br>Months Ended June<br>30, |            |
|---|---|------------|---|------------|
|   | 2014  | 2013       | 2014  | 2013       |
| Unvested allocated shares – beginning of period | 317,053   | 321,148    | 318,314                                       | 328,003    |
| Shares granted                                  | 121,333   | 145,925    | 121,333                                       | 145,925    |
| Shares vested                                   | (141,361 )                                      | (148,759 ) | (141,361 )                                    | (155,614 ) |
| Shares forfeited                                | (1,981 )  | -          | (3,242 )                                      | -          |
| Unvested allocated shares – end of period       | 295,044   | 318,314    | 295,044                                       | 318,314    |
| Compensation recorded to expense                | \$502   | \$487      | \$995   | \$1,012    |

#### 8. LOANS RECEIVABLE AND CREDIT QUALITY

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

The Bank paid an aggregate premium of \$13,163 on real estate loans repurchased during the six months ended June 30, 2014. The premium will be amortized as an adjustment to interest income throughout the remaining estimated life of the loans.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying them as to credit risk. This analysis includes all non-homogeneous loans, such as multifamily residential, mixed use residential (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the residential units), mixed use commercial real estate (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the commercial units), commercial real estate and construction and land acquisition loans, as well as one-to four family residential and cooperative and condominium apartment loans with balances in excess of the Fannie Mae ("FNMA") conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") that are deemed to meet the definition of impaired. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

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

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

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

At December 31, 2013, the Bank had a portion of one loan classified as doubtful, with a full reserve applied against the balance deemed doubtful. Due to favorable events occurring during the six months ended June 30, 2014, the Bank upgraded the entire loan balance to a substandard rating as of June 30, 2014.

All real estate loans not classified as Special Mention, Substandard or Doubtful were deemed pass loans at both June 30, 2014 and December 31, 2013.

The following is a summary of the credit risk profile of real estate loans (including deferred costs) by internally assigned grade as of the dates indicated:

| Grade           | Balance at June 30, 2014   |                       |                                  |                        |              |                         |
|-----------------|--|-----------------------|----------------------------------|------------------------|--------------|-------------------------|
|                 | One- to Four-Family Residential, Including Multifamily Condominiums and Cooperative Apartments | Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate Loans |
| Not Graded(1)   | \$10,246   | \$-                   | \$-                              | \$-                    | \$-          | \$10,246                |
| Pass            | 54,486   | 3,143,010             | 312,749                          | 386,816                | -            | 3,897,061               |
| Special Mention | 7,386  | 15,182                | 5,143                            | 14,390                 | -            | 42,101                  |
| Substandard     | 2,324  | 3,788                 | 6,435                            | 10,596                 | -            | 23,143                  |
| Doubtful        | -  | -                     | -                                | -                      | -            | -                       |
| Total           | \$74,442   | \$3,161,980           | \$324,327                        | \$411,802              | \$-          | \$3,972,551             |

(1) Amount comprised of fully performing one- to four-family residential and condominium and cooperative unit loans with balances equal to or less than the FNMA Limits.

| Grade         | Balance at December 31, 2013   |                       |                                  |                        |              |                         |
|---------------|--|-----------------------|----------------------------------|------------------------|--------------|-------------------------|
|               | One- to Four-Family Residential, Including Multifamily Condominiums and Cooperative Apartments | Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate Loans |
| Not Graded(1) | \$11,370   | \$-                   | \$-                              | \$-                    | \$-          | \$11,370                |

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|                 |          |             |            |            |        |             |
|-----------------|----------|-------------|------------|------------|--------|-------------|
| Pass            | 53,472   | 2,900,979   | 364,808    | 299,122    | -      | 3,618,381   |
| Special Mention | 6,651    | 17,938      | 5,203      | 4,420      | -      | 34,212      |
| Substandard     | 2,463    | 3,633       | 4,579      | 21,154     | 268    | 32,097      |
| Doubtful        | -        | -           | 1,320      | -          | -      | 1,320       |
| Total           | \$73,956 | \$2,922,550 | \$ 375,910 | \$ 324,696 | \$ 268 | \$3,697,380 |

<sup>(1)</sup> Amount comprised of fully performing one- to four-family residential and condominium and cooperative unit loans with balances equal to or less than the FNMA Limits.

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

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

|             | Balance<br>at June<br>30,<br>2014 | Balance at<br>December<br>31, 2013 |
|-------------|-----------------------------------|------------------------------------|
| Grade       |                                   |                                    |
| Performing  | \$ 2,435                          | \$ 2,136                           |
| Non-accrual | 5                                 | 3                                  |
| Total       | \$ 2,440                          | \$ 2,139                           |

The following is a breakdown of the past due status of the Company's investment in loans (excluding accrued interest and loans held for sale) as of the dates indicated:

At June 30, 2014

|  | 30 to<br>59<br>Days<br>Past<br>Due | 60 to<br>89<br>Days<br>Past<br>Due | Loans 90<br>Days or<br>More<br>Past Due<br>and Still<br>Accruing<br>Interest | Non-accrual<br>(1) | Total<br>Past<br>Due | Current      | Total<br>Loans |
|--|------------------------------------|------------------------------------|--|--------------------|----------------------|--------------|----------------|
| Real Estate:   |                                    |                                    |  |                    |                      |              |                |
| One- to four-family residential,<br>including condominium and<br>cooperative apartment | \$ 129                             | \$ 82                              | \$ -   | \$ 1,422           | \$ 1,633             | \$ 72,809    | \$ 74,442      |
| Multifamily residential and residential<br>mixed use                                   | -                                  | 575                                | 348  | 1,431              | 2,354                | 3,159,626    | 3,161,980      |
| Commercial mixed use real estate   | -                                  | -                                  | -  | 4,400              | 4,400                | 319,927      | 324,327        |
| Commercial real estate   | 1,484                              | -                                  | 2,256  | 5,047              | 8,787                | 403,015      | 411,802        |
| Construction   | -                                  | -                                  | -  | -                  | -                    | -            | -              |
| Total real estate  | \$ 1,613                           | \$ 657                             | \$ 2,604   | \$ 12,300          | \$ 17,174            | \$ 3,955,377 | \$ 3,972,551   |
| Consumer   | \$ 4                               | \$ -                               | \$ -   | \$ 5               | \$ 9                 | \$ 2,431     | \$ 2,440       |

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of June 30, 2014.

At December 31, 2013

|  | 30 to<br>59<br>Days<br>Past<br>Due | 60 to<br>89<br>Days<br>Past<br>Due | Loans 90<br>Days or<br>More<br>Past Due<br>and Still<br>Accruing<br>Interest | Non-accrual<br>(1) | Total<br>Past<br>Due | Current   | Total<br>Loans |
|--|------------------------------------|------------------------------------|--|--------------------|----------------------|-----------|----------------|
| Real Estate:   |                                    |                                    |  |                    |                      |           |                |
| One- to four-family residential,<br>including condominium and<br>cooperative apartment | \$ 143                             | \$ 302                             | \$ -   | \$ 1,242           | \$ 1,687             | \$ 72,269 | \$ 73,956      |
| Multifamily residential and residential<br>mixed use                                   | 744                                | -                                  | 1,031  | 1,197              | 2,972                | 2,919,578 | 2,922,550      |
| Commercial mixed use real estate   | -                                  | -                                  | -  | 4,400              | 4,400                | 371,510   | 375,910        |
| Commercial real estate   | 404                                | -                                  | -  | 5,707              | 6,111                | 318,585   | 324,696        |



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|                   |         |       |         |          |          |             |             |
|-------------------|---------|-------|---------|----------|----------|-------------|-------------|
| Construction      | -       | -     | -       | -        | -        | 268         | 268         |
| Total real estate | \$1,291 | \$302 | \$1,031 | \$12,546 | \$15,170 | \$3,682,210 | \$3,697,380 |
| Consumer          | \$6     | \$4   | \$-     | \$3      | \$13     | \$2,126     | \$2,139     |

<sup>(1)</sup> Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2013.

Accruing Loans 90 Days or More Past Due:

The Bank continued accruing interest on three real estate loans with an aggregate outstanding balance of \$2,604 at June 30, 2014, and five real estate loans with an aggregate outstanding balance of \$1,031 at December 31, 2013, all of which were 90 days or more past due on their respective contractual maturity dates. These loans continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payments due at

maturity. These loans were well secured and were expected to be refinanced, and, therefore, remained on accrual status and were deemed performing assets at the dates indicated above.

#### Troubled Debt Restructured Loans ("TDRs")

The following table summarizes outstanding TDRs by underlying collateral type as of the dates indicated:

|  | As of June<br>30, 2014 |          | As of<br>December<br>31, 2013 |          |
|--|------------------------|----------|-------------------------------|----------|
|  | No.<br>of<br>Loans     | Balance  | No.<br>of<br>Loans            | Balance  |
| One- to four-family residential, including condominium and cooperative apartment | 2                      | \$609    | 3                             | \$934    |
| Multifamily residential and residential mixed use                                | 4                      | 1,126    | 4                             | 1,148    |
| Commercial mixed use real estate   | 1                      | 4,400    | -                             | -        |
| Commercial real estate   | 4                      | 12,080   | 5                             | 22,245   |
| Total real estate  | 11                     | \$18,215 | 12                            | \$24,327 |

The following table summarizes outstanding TDRs by accrual status as of the dates indicated:

|   | As of June 30,<br>2014 |          | As of<br>December 31,<br>2013 |          |
|---|------------------------|----------|-------------------------------|----------|
|   | No.<br>of<br>Loans     | Balance  | No.<br>of<br>Loans            | Balance  |
| Outstanding principal balance at period end | 11                     | \$18,215 | 12                            | \$24,327 |
| TDRs on accrual status at period end        | 8                      | 8,768    | 10                            | 18,620   |
| TDRs on non-accrual status at period end    | 3                      | 9,447    | 2                             | 5,707    |

Accrual status for TDRs is determined separately for each TDR in accordance with the Bank's policies for determining accrual or non-accrual status. At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be on either accrual or non-accrual status. If a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under the Bank's policy and agency regulations.

The Company has not restructured troubled consumer loans, as its consumer loan portfolio has not experienced any problem issues warranting restructuring. Therefore, all TDRs were collateralized by real estate at both June 30, 2014 and December 31, 2013.

During the three-month and six-month periods ended June 30, 2014, the Company reduced the interest rate on a commercial mixed use real estate loan with a recorded balance of \$4,400 in a manner that met the criteria of a TDR. At the time of modification, this loan was impaired, on non-accrual status, and had a reserve of \$1,320 allocated within the allowance for loans losses. Upon modification, the borrower paid all contractual amounts due, and the allocated reserve of \$1,320 was eliminated. As of June 30, 2014, the loan remained on non-accrual status pending a timely payment history of at least six months. There were no other loan modifications during the three-month or six-month periods ended June 30, 2014 that met the definition of a TDR, and there were no loan modifications during

the three-month or six-month periods ended June 30, 2013 that met the definition of a TDR.

The Bank's allowance for loan losses at June 30, 2014 reflected \$56 of allocated reserve associated with TDRs. The Bank's allowance for loan losses at December 31, 2013 reflected \$451 of allocated reserve associated with TDRs.

During the three-month and six-month periods ended June 30, 2014, one TDR was fully satisfied in accordance with its contractual terms. The allocated reserve associated with this loan was thus eliminated, and accounted for the great majority of the reduction in the allocated reserves associated with TDRs from December 31, 2013 to June 30, 2014. Otherwise, activity related to reserves associated with TDRs was immaterial during the three-month and six-month periods ended June 30, 2014 and 2013.

As of June 30, 2014 and December 31, 2013, the Bank had no loan commitments to borrowers with outstanding TDRs.

A TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any.

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There were no TDRs which defaulted within twelve months following the modification during the six-month period ended June 30, 2014 or the year ended December 31, 2013 (thus no significant impact to the allowance for loan losses during those periods).

### Impaired Loans

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

The Bank considers TDRs and non-accrual multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans in excess of the FNMA Limits, to be impaired. Non-accrual one-to four-family loans equal to or less than the FNMA Limits, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment unless considered a TDR.

Impairment is typically measured using the difference between the outstanding loan principal balance and either: 1) the likely realizable value of a note sale; 2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or 3) the present value of estimated future cash flows (using the loan's pre-modification rate for certain performing TDRs). If a TDR is substantially performing in accordance with its restructured terms, management will look to either the potential net liquidation proceeds of the underlying collateral or the present value of the expected cash flows from the debt service in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, generally the likely realizable net proceeds from either a note sale or the liquidation of the collateral is considered when measuring impairment. Measured impairment is either charged off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses.

Please refer to Note 9 for tabular information related to impaired loans.

### Delinquent Serviced Loans Subject to a Recourse Obligation

Until February 20, 2014, the Bank serviced a pool of multifamily loans sold to FNMA, and retained an obligation (off-balance sheet contingent liability) to absorb a portion of any losses (as defined in the seller/servicer agreement) incurred by FNMA in connection with the loans sold (the "First Loss Position"). This pool of loans was re-acquired on February 20, 2014, and the First Loss Position was extinguished. At December 31, 2013, delinquencies within this pool of loans were immaterial. On February 20, 2014, all of the loans in the repurchased pool were performing. Any delinquencies related to these loans as of June 30, 2014 are reported in the table on page 13.

## 9. ALLOWANCE FOR LOAN LOSSES AND LIABILITY FOR FIRST LOSS POSITION

The allowance for loan losses may consist of specific and general components. The Bank's periodic evaluation of its allowance for loan losses (specific or general) is comprised of four primary components: (1) impaired loans; (2) non-impaired substandard loans; (3) non-impaired special mention loans; and (4) pass graded loans. Within these components, the Company has identified the following portfolio segments for purposes of assessing its allowance for loan losses (specific or general): (1) real estate loans; and (2) consumer loans. Within these segments, the Bank analyzes the allowance for loan losses based upon the underlying collateral type (classes). Consumer loans represent a

nominal portion of the Company's loan portfolio, and were thus evaluated in aggregate as of both June 30, 2014 and December 31, 2013.

#### Impaired Loan Component

All multifamily residential, mixed use, commercial real estate and construction loans that are deemed to meet the definition of impaired are individually evaluated for impairment. In addition, all condominium or cooperative apartment and one- to four-family residential real estate loans in excess of the FNMA Limits are individually evaluated for impairment. Impairment is typically measured using the difference between the outstanding loan principal balance and either: (1) the likely realizable value of a note sale; (2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or (3) the present value of estimated future cash

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flows (using the loan's pre-modification rate in the case of certain performing TDRs). For impaired loans on non-accrual status, either of the initial two measurements is utilized.

All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any. If a TDR is substantially performing in accordance with its restructured terms, management will look to either the present value of the expected cash flows from the debt service or the potential net liquidation proceeds of the underlying collateral in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, the likely realizable net proceeds from either a note sale or the liquidation of the collateral is generally considered when measuring impairment. While measured impairment is generally charged off immediately, impairment attributed to a reduction in the present value of expected cash flows of a performing TDR was reflected as an allocated reserve within the allowance for loan losses at both June 30, 2014 and December 31, 2013.

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

#### Non-Impaired Substandard Loan Component

At both June 30, 2014 and December 31, 2013, the reserve allocated within the allowance for loan losses associated with non-impaired loans internally classified as Substandard reflected expected loss percentages on the Bank's pool of such loans that were derived based upon an analysis of historical losses over a measurement timeframe. The loss percentage resulting from this analysis was then applied to the aggregate pool of non-impaired Substandard loans at June 30, 2014 and December 31, 2013. Based upon this methodology, increases or decreases in the amount of either non-impaired Substandard loans or charge-offs associated with such loans, or a change in the measurement timeframe utilized to derive the expected loss percentage, would impact the level of reserves determined on non-impaired Substandard loans. As a result, the allowance for loan losses associated with non-impaired Substandard loans is subject to volatility.

The portion of the allowance for loan losses attributable to non-impaired Substandard loans was \$123 at June 30, 2014 and \$53 at December 31, 2013. The increase resulted from both growth of \$549 in the balance of such loans from December 31, 2013 to June 30, 2014, as well as the application of a higher loss percentage on these loans at June 30, 2014 compared to December 31, 2013 under the methodology employed.

All non-impaired Substandard loans were deemed sufficiently well secured and performing to have remained on accrual status both prior and subsequent to their downgrade to the Substandard internal loan grade.

#### Non-Impaired Special Mention Loan Component

At both June 30, 2014 and December 31, 2013, the reserve allocated within the allowance for loan losses associated with non-impaired loans internally classified as Special Mention reflected an expected loss percentage on the Bank's pool of such loans that was derived based upon an analysis of historical losses over a measurement timeframe. The loss percentage resulting from this analysis was then applied to the aggregate pool of non-impaired Special Mention loans at June 30, 2014 and December 31, 2013. Based upon this methodology, increases or decreases in the amount of either non-impaired Special Mention loans or charge-offs associated with such loans, or a change in the measurement timeframe utilized to derive the expected loss percentage, would impact the level of reserves determined on non-impaired Special Mention loans. As a result, the allowance for loan losses associated with non-impaired Special Mention loans is subject to volatility.

The portion of the allowance for loan losses attributable to non-impaired Special Mention loans increased from \$185 at December 31, 2013 to \$274 at June 30, 2014, due to both an increase of \$7,889 in the balance of such loans and an increase in the expected loss percentage applied to such loans, from December 31, 2013 to June 30, 2014.

Pass Graded Loan Component

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

- (i) Charge-off experience (including peer charge-off experience)
- (ii) Economic conditions

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- (iii) Underwriting standards or experience
- (iv) Loan concentrations
- (v) Regulatory climate
- (vi) Nature and volume of the portfolio
- (vii) Changes in the quality and scope of the loan review function

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

(i) Charge-off experience - Loans within the pass graded loan portfolio are segmented by significant common characteristics, against which historical loss rates are applied. The Bank also reviews and considers the charge-off experience of peer banks in its lending marketplace in order to determine whether there may exist potential losses that have taken a longer period to flow through its allowance for loan losses.

(ii) Economic conditions - At both June 30, 2014 and December 31, 2013, the Bank assigned a loss allocation to its entire pass graded real estate loan portfolio based, in part, upon a review of economic conditions affecting the local real estate market. Specifically, the Bank considered both the level of, and recent trends in: 1) the local and national unemployment rate, 2) residential and commercial vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank's loan portfolio.

(iii) Underwriting standards or experience - Underwriting standards are reviewed to ensure that changes in the Bank's lending policies and practices are adequately evaluated for risk and reflected in its analysis of potential credit losses. Loss expectations associated with changes in the Bank's lending policies and practices, if any, are then incorporated into the methodology.

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

(v) Regulatory climate – Consideration is given to public statements made by the banking regulatory agencies that have a potential impact on the Bank's loan portfolio and allowance for loan losses.

(vi) Nature and volume of the portfolio – The Bank considers any significant changes in the overall nature and volume of its loan portfolio.

(vii) Changes in the quality and scope of the loan review function – The Bank considers the potential impact upon its allowance for loan losses of any favorable or adverse change in the quality and scope of the loan review function.

#### Consumer Loans

Due to their small individual balances, the Bank does not evaluate individual consumer loans for impairment. Loss percentages are applied to aggregate consumer loans based upon both their delinquency status and loan type. These loss percentages are derived from a combination of the Company's historical loss experience and/or nationally published loss data on such loans. Consumer loans in excess of 120 days delinquent are typically fully charged off against the allowance for loan losses.

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



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At or for the Three Months Ended June 30, 2014

|   | Real Estate Loans   |                       |                                  |                        |              | Consumer Loans    |       |
|---|---|-----------------------|----------------------------------|------------------------|--------------|-------------------|-------|
|   | One- to Four Family Residential, Including Multifamily Condominiums and Cooperative Apartment | Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate |       |
| Beginning balance   | \$277   | \$14,311              | \$2,767                          | \$3,048                | \$1          | \$20,404          | \$25  |
| Provision (credit) for loan losses(1)   | (79 )   | 16                    | (1,500 )                         | 430                    | (1 )         | (1,134 )          | 4     |
| Charge-offs   | (14 )   | (13 )                 | -                                | (102 )                 | -            | (129 )            | (5 )  |
| Recoveries  | 120   | 5                     | 342                              | 1                      | -            | 468               | -     |
| Ending balance  | \$304   | \$14,319              | \$1,609                          | \$3,377                | \$-          | \$19,609          | \$24  |
| Ending balance – loans individually evaluated for impairment                  | \$609   | \$2,557               | \$4,400                          | \$12,080               | \$-          | \$19,646          | \$-   |
| Ending balance – loans collectively evaluated for impairment                  | 73,833  | 3,159,423             | 319,927                          | 399,722                | -            | 3,952,905         | 2,440 |
| Allowance balance associated with loans individually evaluated for impairment | -   | -                     | -                                | 56                     | -            | 56                | -     |
| Allowance balance associated with loans collectively evaluated for impairment | 304   | 14,319                | 1,609                            | 3,321                  | -            | 19,553            | 24    |
| Total Ending balance  | \$304   | \$14,319              | \$1,609                          | \$3,377                | \$-          | \$19,609          | \$24  |

At December 31, 2013

|  | Real Estate Loans   |                       |                                  |                        |              | Consumer Loans    |       |
|--|---|-----------------------|----------------------------------|------------------------|--------------|-------------------|-------|
|  | One- to Four Family Residential, Including Multifamily Condominiums and Cooperative Apartment | Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate |       |
| Ending balance – loans individually evaluated for impairment | \$1,199   | \$2,345               | \$4,400                          | \$22,245               | \$-          | \$30,189          | \$-   |
| Ending balance – loans collectively evaluated for            | 72,757  | 2,920,205             | 371,510                          | 302,451                | 268          | 3,667,191         | 2,139 |

impairment

|   |       |          |         |         |     |          |      |
|---|-------|----------|---------|---------|-----|----------|------|
| Allowance balance associated<br>with loans individually<br>evaluated for impairment | -     | -        | 1,320   | 451     | -   | 1,771    | -    |
| Allowance balance associated<br>with loans collectively<br>evaluated for impairment | 236   | 13,840   | 1,683   | 2,596   | 3   | 18,358   | 24   |
| Total Ending balance  | \$236 | \$13,840 | \$3,003 | \$3,047 | \$3 | \$20,129 | \$24 |

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At or for the Three Months Ended June 30, 2013

|                                    | Real Estate Loans  |   |  |                           |              |                         | Consumer Loans |
|------------------------------------|--|---|--|---------------------------|--------------|-------------------------|----------------|
|                                    | One-<br>to<br>Four<br>Family<br>Residential,<br>Including<br>Multifamily<br>Condominiums<br>and<br>Cooperative<br>Apartments | Multifamily<br>Residential<br>Mixed Use | Commercial<br>Mixed Use<br>Real Estate | Commercial<br>Real Estate | Construction | Total<br>Real<br>Estate |                |
| Beginning balance                  | \$350  | \$ 13,890                               | \$2,590                                | \$ 3,652                  | \$ 22        | \$20,504                | \$ 26          |
| Provision (credit) for loan losses | 12   | 755                                     | (360 )                                 | (374 )                    | (10 )        | 23                      | 5              |
| Charge-offs                        | (11)   | (46 )                                   | (15 )                                  | -                         | -            | (72 )                   | (7 )           |
| Recoveries                         | 1  | 21                                      | -                                      | 1                         | -            | 23                      | -              |
| Ending balance                     | \$352  | \$ 14,620                               | \$2,215,000                            | \$ 3,279                  | \$ 12        | \$20,478                | \$ 24          |

At or for the Six Months Ended June 30, 2014

|                                    | Real Estate Loans  |   |  |                           |              |                         | Consumer Loans |
|------------------------------------|--|---|--|---------------------------|--------------|-------------------------|----------------|
|                                    | One-<br>to<br>Four<br>Family<br>Residential,<br>Including<br>Multifamily<br>Condominiums<br>and<br>Cooperative<br>Apartments | Multifamily<br>Residential<br>Mixed Use | Commercial<br>Mixed Use<br>Real Estate | Commercial<br>Real Estate | Construction | Total<br>Real<br>Estate |                |
| Beginning balance                  | \$236  | \$ 13,840                               | \$ 3,003                               | \$ 3,047                  | \$ 3         | \$20,129                | \$ 24          |
| Provision (credit) for loan losses | (30 )  | 354                                     | (1,706 )                               | 532                       | (3 )         | (853 )                  | 4              |
| Charge-offs                        | (23)   | (50 )                                   | (30 )                                  | (210 )                    | -            | (313 )                  | (4 )           |
| Recoveries                         | 121  | 175                                     | 342                                    | 8                         | -            | 646                     | -              |
| Ending balance                     | \$304  | \$ 14,319                               | \$ 1,609                               | \$ 3,377                  | \$ -         | \$19,609                | \$ 24          |

At or for the Six Months Ended June 30, 2013

|                                    | Real Estate Loans   |   |                           |                           |              | Consumer Loans          |
|------------------------------------|---|---|---------------------------|---------------------------|--------------|-------------------------|
|                                    | One-<br>to<br>Four<br>Family<br>Residential<br>and<br>Cooperative | Multifamily<br>Residential<br>Mixed Use | Commercial<br>Real Estate | Commercial<br>Real Estate | Construction | Total<br>Real<br>Estate |
| Beginning balance                  | \$236   | \$ 13,840                               | \$ 3,003                  | \$ 3,047                  | \$ 3         | \$20,129                |
| Provision (credit) for loan losses | (30 )   | 354                                     | (1,706 )                  | 532                       | (3 )         | (853 )                  |
| Charge-offs                        | (23)  | (50 )                                   | (30 )                     | (210 )                    | -            | (313 )                  |
| Recoveries                         | 121   | 175                                     | 342                       | 8                         | -            | 646                     |
| Ending balance                     | \$304   | \$ 14,319                               | \$ 1,609                  | \$ 3,377                  | \$ -         | \$19,609                |

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|                                    | Unit  |           |          |          |       |          |       |  |
|------------------------------------|-------|-----------|----------|----------|-------|----------|-------|--|
| Beginning balance                  | \$344 | \$ 14,299 | \$ 2,474 | \$ 3,382 | \$ 24 | \$20,523 | \$ 27 |  |
| Provision (credit) for loan losses | 104   | 456       | (273 )   | (101 )   | (12 ) | 174      | 10    |  |
| Charge-offs                        | (99)  | (156 )    | (15 )    | (4 )     | -     | (274 )   | (13 ) |  |
| Recoveries                         | 3     | 21        | 29       | 2        | -     | 55       | -     |  |
| Ending balance                     | \$352 | \$ 14,620 | \$ 2,215 | \$ 3,279 | \$ -  | \$20,478 | \$ 24 |  |

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The following tables summarize impaired real estate loans as of or for the periods indicated (by collateral type within the real estate loan segment):

|  | At June 30, 2014                                      |  | Reserve<br>Balance<br>Allocated<br>within the<br>Allowance<br>for Loan<br>Losses at<br>Period<br>End |
|--|---|--|--|
|  | Unpaid<br>Principal<br>Balance<br>at<br>Period<br>End | Recorded<br>Investment<br>at<br>Period<br>End(1) |  |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment |   |  |  |
| With no allocated reserve  | \$ 651  | \$ 609   | \$ -   |
| With an allocated reserve  | -   | -  | -  |
| Multifamily Residential and Residential Mixed Use                                |   |  |  |
| With no allocated reserve  | 2,557   | 2,557  | -  |
| With an allocated reserve  | -   | -  | -  |
| Commercial Mixed Use Real Estate   |   |  |  |
| With no allocated reserve  | -   | -  | -  |
| With an allocated reserve  | 4,464   | 4,400  | -  |
| Commercial Real Estate   |   |  |  |
| With no allocated reserve  | 7,641   | 6,531  | -  |
| With an allocated reserve  | 5,549   | 5,549  | 56   |
| Construction   |   |  |  |
| With no allocated reserve  | -   | -  | -  |
| With an allocated reserve  | -   | -  | -  |
| Total  |   |  |  |
| With no allocated reserve  | \$ 15,313   | \$ 14,097  | \$ -   |
| With an allocated reserve  | \$ 5,549  | \$ 5,549   | \$ 56  |

(1) The recorded investment excludes accrued interest receivable and loan origination fees, net, due to immateriality.

|  | At December 31, 2013                                  |  | Reserve<br>Balance<br>Allocated<br>within the<br>Allowance<br>for Loan<br>Losses at<br>Period<br>End |
|--|---|--|--|
|  | Unpaid<br>Principal<br>Balance<br>at<br>Period<br>End | Recorded<br>Investment<br>at<br>Period<br>End(1) |  |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment |   |  |  |
| With no allocated reserve  | \$ 1,066  | \$ 987   | \$ -   |
| With an allocated reserve  | 255   | 212  | -  |
| Multifamily Residential and Residential Mixed Use                                |   |  |  |
| With no allocated reserve  | 2,494   | 2,345  | -  |
| With an allocated reserve  | -   | -  | -  |

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|                                  |          |           |          |
|----------------------------------|----------|-----------|----------|
| Commercial Mixed Use Real Estate |          |           |          |
| With no allocated reserve        | -        | -         | -        |
| With an allocated reserve        | 4,500    | 4,400     | 1,320    |
| Commercial Real Estate           |          |           |          |
| With no allocated reserve        | 8,316    | 7,203     | -        |
| With an allocated reserve        | 15,042   | 15,042    | 451      |
| Construction                     |          |           |          |
| With no allocated reserve        | -        | -         | -        |
| With an allocated reserve        | -        | -         | -        |
| Total                            |          |           |          |
| With no allocated reserve        | \$11,876 | \$ 10,535 | \$ -     |
| With an allocated reserve        | \$19,797 | \$ 19,654 | \$ 1,771 |

(1) The recorded investment excludes accrued interest receivable and loan origination fees, net, due to immateriality.

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|   | Three Months<br>Ended June 30,<br>2014 |                        | Three Months<br>Ended June 30,<br>2013 |                        | Six Months Ended<br>June 30, 2014 |                        | Six Months Ended<br>June 30, 2013 |                        |
|---|--|------------------------|--|------------------------|-----------------------------------|------------------------|-----------------------------------|------------------------|
|   | Average<br>Recorded<br>Investmen       | Interest<br>Recognized | Average<br>Recorded<br>Investment      | Interest<br>Recognized | Average<br>Recorded<br>Investmen  | Interest<br>Recognized | Average<br>Recorded<br>Investmen  | Interest<br>Recognized |
| One- to Four Family<br>Residential, Including<br>Condominium and Cooperative<br>Apartment |  |                        |  |                        |                                   |                        |                                   |                        |
| With no allocated reserve   | \$769                                  | \$ 20                  | \$996                                  | \$ 6                   | \$842                             | \$ 35                  | \$1,024                           | \$ 17                  |
| With an allocated reserve   | -                                      | -                      | 212                                    | 5                      | 70                                | -                      | 211                               | 9                      |
| Multifamily Residential and<br>Residential Mixed Use                                      |  |                        |  |                        |                                   |                        |                                   |                        |
| With no allocated reserve   | 2,483                                  | 34                     | 2,779                                  | 32                     | 2,437                             | 55                     | 2,673                             | 80                     |
| With an allocated reserve   | -                                      | -                      | -                                      | -                      | -                                 | -                      | -                                 | -                      |
| Mixed Use Commercial Mixed<br>Use Real Estate   |  |                        |  |                        |                                   |                        |                                   |                        |
| With no allocated reserve   | 2,200                                  | 148                    | 1,875                                  | 40                     | 1,467                             | 149                    | 1,883                             | 92                     |
| With an allocated reserve   | 2,200                                  | -                      | -                                      | -                      | 2,933                             | -                      | -                                 | -                      |
| Commercial Real Estate  |  |                        |  |                        |                                   |                        |                                   |                        |
| With no allocated reserve   | 6,864                                  | 10                     | 27,179                                 | 364                    | 6,976                             | 41                     | 28,858                            | 762                    |
| With an allocated reserve   | 10,259                                 | 165                    | 15,198                                 | 138                    | 11,854                            | 350                    | 15,225                            | 396                    |
| Construction  |  |                        |  |                        |                                   |                        |                                   |                        |
| With no allocated reserve   | -                                      | -                      | -                                      | -                      | -                                 | -                      | -                                 | -                      |
| With an allocated reserve   | -                                      | -                      | -                                      | -                      | -                                 | -                      | -                                 | -                      |
| Total   |  |                        |  |                        |                                   |                        |                                   |                        |
|   |  |                        | \$                                     |                        |                                   |                        |                                   |                        |
| With no allocated reserve   | \$12,316                               | \$ 212                 | \$32,829                               | \$ 442                 | \$11,722                          | \$ 280                 | \$34,438                          | \$ 951                 |
|   |  |                        | \$                                     |                        |                                   |                        |                                   |                        |
| With an allocated reserve   | \$12,459                               | \$ 165                 | \$15,410                               | \$ 143                 | \$14,857                          | \$ 350                 | \$15,436                          | \$ 405                 |

## Reserve Liability for First Loss Position

Until February 20, 2014, the Bank serviced a pool of loans that it sold to FNMA and was subject to the First Loss Position. The Bank maintained a reserve liability in relation to the First Loss Position that reflected estimated losses on this loan pool. On February 20, 2014, the Bank repurchased the remaining loans within this pool and extinguished both the First Loss Position and related reserve liability.

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

|  | At or for the<br>Three Months<br>Ended June 30,<br>2014 |           | At or for the Six<br>Months Ended June<br>30,<br>2013 |           |
|--|---|-----------|---|-----------|
|  | 2014  | 2013      | 2014  | 2013      |
| Outstanding balance of multifamily loans serviced for FNMA at period end | \$-   | \$229,165 | \$-   | \$229,165 |
| Total First Loss Position at end of period                               | -   | 15,428    | -   | 15,428    |
| Liability on the First Loss Position                                     |   |           |   |           |
| Balance at beginning of period   | \$-   | \$1,291   | \$1,040   | \$1,383   |

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|   |        |            |          |            |
|---|--------|------------|----------|------------|
| Credit for losses on problem loans <sup>(1)</sup> | -      | (102 )     | (1,040 ) | (194 )     |
| Charge-offs and other net reductions in balance   | -      | (1 )       | -        | (1 )       |
| Balance at period end                             | \$\$ - | \$\$ 1,188 | \$\$ -   | \$\$ 1,188 |

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

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## 10. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following is a summary of major categories of securities owned by the Company (excluding trading securities) at June 30, 2014:

|   | Purchase<br>Amortized /<br>Historical<br>Cost | Recorded<br>Amortized/<br>Historical<br>Cost <sup>(1)</sup> | Unrealized Gains or Losses<br>Recognized in<br>Accumulated Other<br>Comprehensive Loss |                     |                      | Book<br>Value | Other<br>Unrecognized<br>Losses | Fair<br>Value |
|---|---|---|--|---------------------|----------------------|---------------|---------------------------------|---------------|
|   |   |   | Non-Credit<br>OTTI   | Unrealized<br>Gains | Unrealized<br>Losses |               |                                 |               |
| Investment securities<br>held-to-maturity:                        |   |   |  |                     |                      |               |                                 |               |
| Pooled bank trust preferred<br>securities ("TRUPS")               | \$15,819                                      | \$6,874   | \$(585)  | -                   | \$(959)              | \$5,330       | \$795                           | \$6,125       |
| Available for sale securities:                                    |   |   |  |                     |                      |               |                                 |               |
| Investment securities   |   |   |  |                     |                      |               |                                 |               |
| Registered Mutual Funds   | 2,883   | 2,777   | -  | 925                 | (6)                  | 3,696         | -                               | 3,696         |
| Agency notes  | 70  | 70  | -  | 0                   | -                    | 70            | -                               | 70            |
| MBS   |   |   |  |                     |                      |               |                                 |               |
| Pass-through MBS issued<br>by GSEs                                | 26,473  | 26,473  | -  | 1,529               | -                    | 28,002        | -                               | 28,002        |
| Collateralized mortgage<br>obligations ("CMOs") issued<br>by GSEs | 17  | 17  | -  | 0                   | -                    | 17            | -                               | 17            |
| Private issuer pass through<br>MBS                                | 535   | 535   | -  | 7                   | -                    | 542           | -                               | 542           |
| Private issuer CMOs   | 447   | 447   | -  | 7                   | -                    | 454           | -                               | 454           |

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

(2) Amount represents the unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

The following is a summary of major categories of securities owned by the Company at December 31, 2013:

|  | Purchase<br>Amortized /<br>Historical<br>Cost | Recorded<br>Amortized/<br>Historical<br>Cost <sup>(1)</sup> | Unrealized Gains or Losses<br>Recognized in<br>Accumulated Other<br>Comprehensive Loss |                     |                      | Book<br>Value | Other<br>Unrecognized<br>Gains | Fair<br>Value |
|--|---|---|--|---------------------|----------------------|---------------|--------------------------------|---------------|
|  |   |   | Non-Credit<br>OTTI   | Unrealized<br>Gains | Unrealized<br>Losses |               |                                |               |
| Investment securities<br>held-to-maturity: |   |   |  |                     |                      |               |                                |               |

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|                                 |           |          |         |       |                          |          |           |          |
|---------------------------------|-----------|----------|---------|-------|--------------------------|----------|-----------|----------|
| TRUPS                           | \$ 15,885 | \$ 6,939 | \$(601) | -     | \$ (997 ) <sup>(2)</sup> | \$ 5,341 | \$ (178 ) | \$ 5,163 |
| Available for sale securities:  |           |          |         |       |                          |          |           |          |
| Investment securities           |           |          |         |       |                          |          |           |          |
| Registered Mutual Funds         | 2,866     | 2,760    | -       | 815   | (17 )                    | 3,558    | -         | 3,558    |
| Agency notes                    | 15,070    | 15,070   | -       | 21    | -                        | 15,091   | -         | 15,091   |
| MBS                             |           |          |         |       |                          |          |           |          |
| Pass-through MBS issued by GSEs | 28,407    | 28,407   | -       | 1,552 | -                        | 29,959   | -         | 29,959   |
| CMOs issued by GSEs             | 319       | 319      | -       | 2     | -                        | 321      | -         | 321      |
| Private issuer pass through MBS | 662       | 662      | -       | 18    | -                        | 680      | -         | 680      |
| Private issuer CMOs             | 574       | 574      | -       | 9     | -                        | 583      | -         | 583      |

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

(2) Amount represents the unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

At June 30, 2014, the agency note investments in the table above had contractual maturities as follows::

|  | Amortized Cost | Estimated Fair Value |
|--|----------------|----------------------|
| Due after three years through five years | 70             | 70                   |
| TOTAL                                    | \$ 70          | \$ 70                |

The held-to-maturity TRUPS had a weighted average term to maturity of 20.5 years at June 30, 2014. At June 30, 2014, MBS available-for-sale (which included pass-through MBS issued by GSEs, CMOs issued by GSEs, one private issuer pass through MBS and one private issuer CMO) possessed a weighted average contractual maturity of 16.7 years and a weighted average estimated duration of 1.3 years. There were no sales of either investment securities held-to-maturity or MBS available-for-sale during the six months ended June 30, 2014 or 2013.

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There were no sales of investment securities available-for-sale during the six months ended June 30, 2014 and the three months ended June 30, 2013. Proceeds from the sales of investment securities available-for-sale totaled \$366 during the six months ended June 30, 2013. A net gain of \$110 was recognized on these sales.

As of each reporting period through June 30, 2014, the Company has applied the protocol established by ASC 320-10-65 ("ASC 320-10-65") in order to determine whether OTTI existed for its TRUPS and/or to measure, for TRUPS that have been determined to be other than temporarily impaired, the credit related and non-credit related components of OTTI. As of June 30, 2014, five TRUPS were determined to meet the criteria for OTTI based upon this analysis. At June 30, 2014, these five securities had credit ratings ranging from "C" to "Caa3."

The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's TRUPS:

|   | At or for the Three Months Ended June 30, 2014 |  |            | At or for the Three Months Ended June 30, 2013 |  |            |
|---|--|--|------------|--|--|------------|
|   | Credit Related OTTI Recognized in Earnings     | Non-Credit OTTI Recognized in Comprehensive Loss | Total OTTI | Credit Related OTTI Recognized in Earnings     | Non-Credit OTTI Recognized in Comprehensive Loss | Total OTTI |
| Cumulative balance at the beginning of the period | \$8,945  | \$ 593   | \$9,538    | \$8,946  | \$ 625   | \$9,571    |
| Amortization of previously recognized OTTI        | -  | (8 )   | (8 )       | 1  | (8 )   | (7 )       |
| Cumulative balance at end of the period           | \$8,945  | \$ 585   | \$9,530    | \$8,947  | \$ 617   | \$9,564    |

  

|   | At or for the Six Months Ended June 30, 2014 |  |            | At or for the Six Months Ended June 30, 2013 |  |            |
|---|--|--|------------|--|--|------------|
|   | Credit Related OTTI Recognized in Earnings   | Non-Credit OTTI Recognized in Comprehensive Loss | Total OTTI | Credit Related OTTI Recognized in Earnings   | Non-Credit OTTI Recognized in Comprehensive Loss | Total OTTI |
| Cumulative balance at the beginning of the period | \$9,571                                      | \$ 601   | \$9,546    | \$8,945                                      | \$ 634   | \$9,579    |
| Amortization of previously recognized OTTI        | (7 )   | (16 )  | (16 )      | 2  | (17 )  | (15 )      |
| Cumulative balance at end of the period           | \$9,564                                      | \$ 585   | \$9,530    | \$8,947                                      | \$ 617   | \$9,564    |

The following table summarizes the gross unrealized losses and fair value of investment securities as of June 30, 2014, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position:

|  | Less than 12 Months Consecutive |            | 12 Months or More Consecutive |            | Total                   |
|--|---------------------------------|------------|-------------------------------|------------|-------------------------|
|  | Gross Unrealized Losses         | Fair Value | Gross Unrealized Losses       | Fair Value |                         |
|  | Unrecognized/                   |            | Unrecognized/                 |            | Gross Unrealized Losses |

Held-to-Maturity Securities:

|                      |      |      |         |          |         |          |
|----------------------|------|------|---------|----------|---------|----------|
| TRUPS <sup>(1)</sup> | \$ - | \$ - | \$3,672 | \$ 1,096 | \$3,672 | \$ 1,096 |
|----------------------|------|------|---------|----------|---------|----------|

Available for Sale Securities

|                         |   |   |     |   |     |   |
|-------------------------|---|---|-----|---|-----|---|
| Registered Mutual Funds | - | - | 550 | 6 | 550 | 6 |
|-------------------------|---|---|-----|---|-----|---|

(1) At June 30, 2014, the recorded balance of these securities was \$3,804. This balance reflected the remaining unrealized loss of \$959 that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day these securities were transferred from available-for-sale to held-to-maturity). In accordance with both ASC 320-10-35-17 and 320-10-65, this unrealized loss is currently being amortized over the remaining estimated life of these securities.

TRUPS That Have Maintained an Unrealized Holding Loss for 12 or More Consecutive Months

At June 30, 2014, impairment of three of the TRUPS, with an amortized cost of \$4,768, was deemed temporary. These securities remained in an unrealized loss position for 12 or more consecutive months, and their cumulative unrealized loss was \$1,096 at June 30, 2014, reflecting both illiquidity in the marketplace and concerns over future bank failures. At June 30, 2014, these securities had ratings ranging from "BB-" to "A." Despite both the significant decline in market value and the duration of their impairment, management believed that the unrealized losses on these securities at

June 30, 2014 were temporary, and that the full value of the investments would be realized once the market dislocations have been removed, or as the securities continued to make their contractual payments of principal and interest. In making this determination, management considered the following:

- Based upon an internal review of the collateral backing the TRUPS portfolio, which accounted for current and prospective deferrals, the securities could reasonably be expected to continue making all contractual payments
- The Company does not intend to sell these securities prior to full recovery of their impairment
- There were no cash or working capital requirements nor contractual or regulatory obligations that would compel the Company to sell these securities prior to their forecasted recovery or maturity
- The securities have a pool of underlying issuers comprised primarily of banks
- None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
- The securities feature either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
- The securities are adequately collateralized

The following table summarizes the gross unrealized losses and fair value of investment securities and MBS as of December 31, 2013, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

|                                       | Less than 12<br>Months Consecutive<br>Unrealized Losses |  | 12 Months or More<br>Consecutive<br>Unrealized Losses |  | Total         |  |
|---------------------------------------|---|--|---|--|---------------|--|
|                                       | Fair<br>Value   | Gross<br>Unrecognized/<br>Unrealized<br>Losses | Fair<br>Value   | Gross<br>Unrecognized/<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrecognized/<br>Unrealized<br>Losses |
| <b>Held-to-Maturity Securities:</b>   |   |  |   |  |               |  |
| TRUPS <sup>(1)</sup>                  | \$-\$   | \$ -   | \$5,163   | \$ 1,775                                       | \$5,163       | \$ 1,775                                       |
| <b>Available-for-Sale Securities:</b> |   |  |   |  |               |  |
| Registered Mutual Funds               | \$536   | \$ 17  | \$ -  | \$ -   | \$536         | \$ 17  |

(1) At December 31, 2013, the recorded balance of these securities was \$3,551. This balance reflected the remaining unrealized loss of \$997 that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day these securities were transferred from available-for-sale to held-to-maturity). In accordance with both ASC 320-10-35-17 and 320-10-65, this unrealized loss is currently being amortized over the remaining estimated life of these securities.

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy established under ASC 820-10 is summarized as follows:

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

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

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

The following tables present the assets that are reported on the consolidated statements of financial condition at fair value as of the date indicated segmented by level within the fair value hierarchy. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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Assets Measured at Fair Value on a Recurring Basis at June 30, 2014

| Description                                   | Total   | Fair Value Measurements Using |                |                |
|---|---------|-------------------------------|----------------|----------------|
|   |         | Level 1 Inputs                | Level 2 Inputs | Level 3 Inputs |
| Trading securities (Registered Mutual Funds): |         |                               |                |                |
| Domestic Equity Mutual Funds                  | \$1,368 | \$1,368                       | \$-            | \$ -           |
| International Equity Mutual Funds             | 169     | 169                           | -              | -              |
| Fixed Income Mutual Funds                     | 5,521   | 5,521                         | -              | -              |
| Investment securities available-for-sale:     |         |                               |                |                |
| Agency notes                                  | 70      | -                             | 70             | -              |
| Registered Mutual Funds:                      |         |                               |                |                |
| Domestic Equity Mutual Funds                  | 2,106   | 2,106                         | -              | -              |
| International Equity Mutual Funds             | 442     | 442                           | -              | -              |
| Fixed Income Mutual Funds                     | 1,148   | 1,148                         | -              | -              |
| Pass-through MBS issued by GSEs               | 28,002  | -                             | 28,002         | -              |
| CMOs issued by GSEs                           | 17      | -                             | 17             | -              |
| Private issuer pass through MBS               | 542     | -                             | 542            | -              |
| Private issuer CMOs                           | 454     | -                             | 454            | -              |

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

| Description                                   | Total   | Fair Value Measurements Using |                |                |
|---|---------|-------------------------------|----------------|----------------|
|   |         | Level 1 Inputs                | Level 2 Inputs | Level 3 Inputs |
| Trading securities (Registered Mutual Funds): |         |                               |                |                |
| Domestic Equity Mutual Funds                  | \$1,311 | \$1,311                       | \$-            | \$ -           |
| International Equity Mutual Funds             | 164     | 164                           | -              | -              |
| Fixed Income Mutual Funds                     | 5,347   | 5,347                         | -              | -              |
| Investment securities available-for-sale:     |         |                               |                |                |
| Agency notes                                  | 15,091  | -                             | 15,091         | -              |
| Registered Mutual Funds:                      |         |                               |                |                |
| Domestic Equity Mutual Funds                  | 2,016   | 2,016                         | -              | -              |
| International Equity Mutual Funds             | 427     | 427                           | -              | -              |
| Fixed Income Mutual Funds                     | 1,115   | 1,115                         | -              | -              |
| Pass-through MBS issued by GSEs               | 29,959  | -                             | 29,959         | -              |
| CMOs issued by GSEs                           | 321     | -                             | 321            | -              |
| Private issuer pass through MBS               | 680     | -                             | 680            | -              |
| Private issuer CMOs                           | 583     | -                             | 583            | -              |

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

The agency notes owned by the Company possessed the highest possible credit rating published by at least one established credit rating agency as of both June 30, 2014 and December 31, 2013. Obtaining market values as of June 30, 2014 and December 31, 2013 for these securities utilizing significant observable inputs was not difficult due to their continued marketplace demand. The pass-through MBS and CMOs issued by GSEs all possessed the highest possible credit rating published by at least one established credit rating agency as of both June 30, 2014 and December 31, 2013. Obtaining market values as of June 30, 2014 and December 31, 2013 for these securities utilizing significant observable inputs was not difficult due to their considerable demand.

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Assets Measured at Fair Value on a Non-Recurring Basis at June 30, 2014

| Description  | Total | Fair Value Measurements Using |                |                |
|--|-------|-------------------------------|----------------|----------------|
|  |       | Level 1 Inputs                | Level 2 Inputs | Level 3 Inputs |
| Impaired loans:  |       |                               |                |                |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment | \$477 | -                             | -              | \$477          |
| Commercial Mixed Use Real Estate   | 4,400 | -                             | -              | 4,400          |
| Commercial Real Estate   | 207   | -                             | -              | 207            |

Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2013

| Description  | Total | Fair Value Measurements Using |                |                |
|--|-------|-------------------------------|----------------|----------------|
|  |       | Level 1 Inputs                | Level 2 Inputs | Level 3 Inputs |
| Impaired loans:  |       |                               |                |                |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment | \$477 | \$-                           | \$-            | \$477          |
| Multifamily Residential and Residential Mixed Use Real Estate                    | 325   | -                             | -              | 325            |
| Commercial Mixed Use Real Estate   | 4,400 | -                             | -              | 4,400          |
| Commercial Real Estate   | 5,707 | -                             | -              | 5,707          |

Impaired Loans - Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired under ASC 310-10-35 when, based upon existing information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at June 30, 2014 and December 31, 2013 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the collateral. Fair value is estimated through either a negotiated note sale value (Level 3 input), or, more commonly, a recent real estate appraisal (Level 3 input). The appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

An appraisal is generally ordered for all impaired multifamily residential, mixed use and commercial real estate loans for which the most recent appraisal is more than one year old. The Bank never adjusts independent appraisal data upward. Occasionally, management will adjust independent appraisal data downward based upon its own lending expertise and/or experience with the subject property, utilizing such factors as potential note sale values, or a more refined estimate of costs to repair and time to lease the property. Adjustments for potential disposal costs are also considered when determining the final appraised value.

As of June 30, 2014, impaired loans measured for impairment using the estimated fair value of the collateral had an aggregate principal balance of \$5,277, and no valuation allowance within the allowance for loan losses. As of December 31, 2013, impaired loans measured for impairment using the estimated fair value of the collateral had an aggregate principal balance of \$12,392, and a valuation allowance of \$1,320 within the allowance for loan losses. The removal of the valuation allowance favorably impacted the provision for loan losses during the three-month and six-month periods ended June 30, 2014. Such loans had no impact upon the provision for loan losses during the

three-month or six-month periods ended June 30, 2013.

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The following table presents quantitative information about Level 3 fair value measurements for impaired loans measured at fair value on a non-recurring basis at June 30, 2014:

| Fair Value | Valuation Technique Utilized                   | Significant Unobservable Input(s)   | Maximum Value | Minimum Value | Weighted Average Value |
|------------|--|---|---------------|---------------|------------------------|
| \$ 4,607   | Income approach only                           | Capitalization rate   | N/A           | (1)           | 7.5 %                  |
|            |  | Reduction for planned expedited disposal  | N/A           | (1)           | 0.4 %                  |
| 477        | Blended income and sales comparison approaches | Reduction to the sales comparison value to reconcile differences between comparable sales | 0.0 %         | 15.0 %        | 8.3 %                  |
|            |  | Capitalization rate (income approach component)   | 7.8 %         | 8.5 %         | 8.1 %                  |
|            |  | Reduction for planned expedited disposal  | 20.0 %        | 27.5 %        | 23.3 %                 |

(1) Only one loan in this population.

The following table presents quantitative information about Level 3 fair value measurements for impaired loans measured at fair value on a non-recurring basis at December 31, 2013:

| Fair Value | Valuation Technique Utilized                   | Significant Unobservable Input(s)   | Maximum Value | Minimum Value | Weighted Average Value |
|------------|--|---|---------------|---------------|------------------------|
| \$ 4607    | Income approach only                           | Capitalization rate   | N/A           | (1)           | 7.5 %                  |
|            |  | Reduction for planned expedited disposal  | N/A           | (1)           | 0.4 %                  |
| 802        | Blended income and sales comparison approaches | Reduction to the sales comparison value to reconcile differences between comparable sales                                   | 0.0 %         | 15.0 %        | 5.0 %                  |
|            |  | Capitalization rate (income approach component)   | 7.8 %         | 8.5 %         | 8.3 %                  |
|            |  | Reduction for planned expedited disposal  | 20.0 %        | 30.0 %        | 26.0 %                 |
| 5,500      | Previously negotiated note sales               | Discount to unpaid principal balance from likely realizable value of a note sale based upon comparable note sale experience | N/A           | (1)           | 17.0 %                 |

(1) Only one loan in this population.

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The carrying amounts and estimated fair values of financial instruments other than those measured at fair value on either a recurring or non-recurring basis at March 31, 2014 and December 31, 2013 were as follows:

| At June 30, 2014                               | Carrying Amount | Fair Value at June 30, 2014 Using     |                |                |      |      |      | Total       |
|--|-----------------|---------------------------------------|----------------|----------------|------|------|------|-------------|
|  |                 | Level 1 Inputs                        | Level 2 Inputs | Level 3 Inputs |      |      |      |             |
| Assets:  |                 |                                       |                |                |      |      |      |             |
| Cash and due from banks                        | \$57,213        | \$57,213                              | \$-            | \$-            |      |      |      | \$57,213    |
| Investment securities held to maturity (TRUPS) | 5,330           | -                                     | -              | 6,125          |      |      |      | 6,125       |
| Loan, net                                      | 3,955,358       | -                                     | -              | 4,056,915      |      |      |      | 4,056,915   |
| Accrued interest receivable                    | 12,494          | 1                                     | 115            | 12,378         |      |      |      | 12,494      |
| Mortgage Servicing Rights ("MSR")              | 415             | -                                     | 415            | -              |      |      |      | 415         |
| FHLB NY capital stock                          | 53,269          | N/                                    | A N/           | A N/           | A N/ | A N/ | A N/ | A           |
| Liabilities:                                   |                 |                                       |                |                |      |      |      |             |
| Savings, money market and checking accounts    | \$1,786,064     | \$1,786,064                           | \$-            | \$-            |      |      |      | \$1,786,064 |
| Certificates of Deposit ("CDs")                | 867,016         | -                                     | 878,535        | -              |      |      |      | 878,535     |
| Escrow and other deposits                      | 76,930          | 76,930                                | -              | -              |      |      |      | 76,930      |
| FHLB NY Advances                               | 1,018,150       | -                                     | 1,037,962      | -              |      |      |      | 1,037,962   |
| Trust Preferred securities payable             | 70,680          | -                                     | 70,680         | -              |      |      |      | 70,680      |
| Accrued interest payable                       | 2,959           | -                                     | 2,959          | -              |      |      |      | 2,959       |
|  |                 |                                       |                |                |      |      |      |             |
| At December 31, 2013                           | Carrying Amount | Fair Value at December 31, 2013 Using |                |                |      |      |      | Total       |
|  |                 | Level 1 Inputs                        | Level 2 Inputs | Level 3 Inputs |      |      |      |             |
| Assets:  |                 |                                       |                |                |      |      |      |             |
| Cash and due from banks                        | \$45,777        | \$45,777                              | \$-            | \$-            |      |      |      | \$45,777    |
| Investment securities held to maturity (TRUPS) | 5,341           | -                                     | -              | 5,163          |      |      |      | 5,163       |
| Loans, net                                     | 3,679,366       | -                                     | -              | 3,718,604      |      |      |      | 3,718,604   |
| Premises held for sale                         | 3,624           | -                                     | 4,400          | -              |      |      |      | 4,400       |
| Accrued interest receivable                    | 12,066          | -                                     | 178            | 11,888         |      |      |      | 12,066      |
| MSR  | 628             | -                                     | 1,006          | -              |      |      |      | 1,006       |
| FHLB NY capital stock                          | 48,051          | N/                                    | A N/           | A N/           | A N/ | A N/ | A N/ | A           |
| Liabilities:                                   |                 |                                       |                |                |      |      |      |             |
| Savings, money market and checking accounts    | \$1,678,737     | \$1,678,737                           | \$-            | \$-            |      |      |      | \$1,678,737 |
| CDs  | 828,409         | -                                     | 839,059        | -              |      |      |      | 839,059     |
| Escrow and other deposits                      | 69,404          | 69,404                                | -              | -              |      |      |      | 69,404      |
| FHLB NY Advances                               | 910,000         | -                                     | 934,336        | -              |      |      |      | 934,336     |
| Trust Preferred securities payable             | 70,680          | -                                     | 70,680         | -              |      |      |      | 70,680      |
| Accrued interest payable                       | 2,642           | -                                     | 2,642          | -              |      |      |      | 2,642       |

Cash and Due From Banks – The fair value is assumed to be equal to their carrying value as these amounts are due upon demand (deemed a Level 1 valuation).

Federal Funds Sold and Other Short Term Investments – As a result of their short duration to maturity, the fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due (deemed a Level 1 valuation).

TRUPS Held to Maturity – At both June 30, 2014 and December 31, 2013, the Company owned seven TRUPS classified as held-to-maturity for which the estimated fair value was obtained utilizing a blended valuation approach

(Level 3 pricing). Under the blended valuation approach, the Bank utilized the following valuation sources: 1) broker quotations, which were deemed to meet the criteria of "distressed sale" pricing under the guidance of ASC 820-10-65-4, were given a minor 10% weighting (deemed to be a Level 2 valuation); 2) an internally created cash flow valuation model that considered the creditworthiness of each individual issuer underlying the collateral pools, and utilized default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation"), was given a 45% weighting (deemed to be a Level 3 valuation); and 3) a minimum of two of three available independent cash flow valuation models were averaged and given a 45% weighting (deemed to be a Level 3 valuation for which the Company is not provided detailed information regarding the significant unobservable inputs utilized by the third party).

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

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

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Purchase discount rate – the rate used to determine the "credit" based valuation of the security. The purchase (1) discount rates utilized to compute fair value as of June 30, 2014 ranged from 1.6% to 2.4%, with a weighted average value of 2.2%.

Current discount rate – the current discount rate utilized was derived from the Bloomberg fair market value curve for debt offerings of similar credit rating. In the event that a security had a split credit rating, separate cash flow (2) valuations were made utilizing the appropriate discount rate and were averaged in order to determine the Internal Cash Flow Valuation. In addition, the discount rate was interpolated from the Bloomberg fair market value curve for securities possessing a credit rating below "B." The current discount rates utilized to compute fair value as of June 30, 2014 ranged from 5.3% to 9.2%, with a weighted average value of 6.3%.

(ii) Defaults – The Company utilized the most recently published measures of capital adequacy and/or problematic assets to estimate potential defaults in the collateral pool of performing issuers underlying the seven securities. In instances where problematic assets equaled or exceeded the issuer's regulatory capital, or the issuer's capital level fell below the limits established by the regulatory agencies, defaults were deemed probable to occur. Based upon the application of this methodology, the computed default rates utilized in the determination of the fair value of the TRUPS as of June 30, 2014 ranged from 0% to 4.5% of the performing security pool balance, with a weighted average rate of 1.1%. The Company additionally utilized a standard default rate of 1.2% every three years, which was applied uniformly.

(iii) Cash Flows – The expected payments for the tranche of each security owned by the Company, as adjusted to assume that all estimated defaults occur immediately. The cash flows further assumed an estimated recovery rate of 10% per annum to occur one year after initial default, which was applied uniformly.

As discussed above, in addition to the Internal Cash Flow Valuation and broker quotations, at June 30, 2014 and December 31, 2013, the Company utilized two additional independent cash flow valuation models in order to estimate the fair value of TRUPS. The two independent cash flow valuation models utilized a methodology similar to the Internal Cash Flow Valuation, differing only in the underlying assumptions utilized to derive estimated cash flows, individual bank defaults and discount rate. Weighting was applied, as deemed appropriate, to all valuations utilized at each period end, including the Internal Cash Flow Valuation.

Loans, Net – The fair value of impaired loans that are measured at fair value is determined in the manner described commencing on page 26. For adjustable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value of all remaining loans receivable is determined by discounting anticipated future cash flows of the loans, net of anticipated prepayments, using a discount rate reflecting current market rates for loans with similar terms to borrowers of similar credit quality. The valuation method used for loans does not necessarily represent an exit price valuation methodology as defined under ASC 820. However, since the valuation methodology is deemed to be akin to a Level 3 valuation methodology, the fair values of loans receivable other than impaired loans measured at fair value and adjustable rate loans, are shown under the Level 3 valuation column.

Premises Held For Sale – The fair value of premises held for sale is determined utilizing an executed sales price (pending closing) or an independent property appraisal utilizing comparable sales data (either deemed a Level 2 valuation).

Accrued Interest Receivable – The estimated fair value of accrued interest receivable approximates its carrying amount, and is deemed to be valued at an input level comparable to its underlying financial asset.

MSR – On a quarterly basis, the aggregate balance of the MSR is evaluated for impairment based upon the fair value of the rights as compared to their carrying amount. If the aggregate carrying amount of the MSR exceeds fair value, impairment is recorded on the MSR so that they are carried at fair value. Fair value is determined based on the

present value of estimated future net servicing income, utilizing assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2 input).

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

Deposits – The fair value of savings, money market, and checking accounts is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), which has been deemed a Level 1 valuation. The fair value of CDs is based upon the present value of contractual cash flows using current interest rates for instruments of the same remaining maturity (deemed a Level 2 valuation).

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Escrow and Other Deposits – The fair value of escrow and other deposits is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), which has been deemed a Level 1 valuation.

FHLBNY Advances –The carrying amount of accrued interest payable on FHLBNY advances is its fair value and is deemed a Level 2 valuation.

Trust Preferred Securities Payable – The fair value of trust preferred securities payable is estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements (deemed a Level 2 valuation), and is provided to the Company quarterly independently by a market maker in the underlying security.

Accrued Interest Payable – The estimated fair value of accrued interest payable approximates its carrying amount, and is deemed to be valued at an input level comparable to its underlying financial liability.

12. RETIREMENT AND  
POSTRETIREMENT PLANS

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

|                                 | Three Months Ended<br>June 30, 2014                                   |                        | Three Months Ended<br>June 30, 2013                                   |                        |
|---------------------------------|---|------------------------|---|------------------------|
|                                 | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |                        | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |                        |
|                                 | Postretirement<br>Plan  | Postretirement<br>Plan | Postretirement<br>Plan  | Postretirement<br>Plan |
| Service cost                    | \$-   | \$ 10                  | \$-   | \$ 15                  |
| Interest cost                   | 338   | 58                     | 290   | 57                     |
| Expected return on assets       | (444)   | -                      | (380)   | -                      |
| Amortization of unrealized loss | 261   | -                      | 587   | 12                     |
| Net periodic cost               | \$155   | \$ 68                  | \$497   | \$ 84                  |

|                           | Six Months Ended<br>June 30, 2014                                     |                        | Six Months Ended<br>June 30, 2013                                     |                        |
|---------------------------|---|------------------------|---|------------------------|
|                           | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |                        | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |                        |
|                           | Postretirement<br>Plan  | Postretirement<br>Plan | Postretirement<br>Plan  | Postretirement<br>Plan |
| Service cost              | \$-   | \$ 20                  | \$-   | \$ 30                  |
| Interest cost             | 676   | 116                    | 579   | 114                    |
| Expected return on assets | (888)   | -                      | (759 )  | -                      |



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|                                 |       |        |       |        |
|---------------------------------|-------|--------|-------|--------|
| Amortization of unrealized loss | 522   | -      | 1,174 | 24     |
| Net periodic cost               | \$310 | \$ 136 | \$994 | \$ 168 |

The Company disclosed in its consolidated financial statements for the year ended December 31, 2013 that it expected to make contributions to, or benefit payments on behalf of, benefit plans during 2014 as follows: Employee Retirement Plan - \$30, BMP - \$538, Outside Director Retirement Plan - \$190, and Postretirement Plan - \$169. The Company made contributions of \$10 to the Employee Retirement Plan during the six months ended June 30, 2014, and expects to make the remainder of the estimated contributions during 2014. The Company made benefit payments of \$91 on behalf of the Outside Director Retirement Plan during the six months ended June 30, 2014, and expects to make the remainder of the estimated net contributions or benefit payments during 2014. The Company made benefit payments totaling \$37 on behalf of the Postretirement Plan during the six months ended June 30, 2014, and expects to make the remainder of the estimated contributions or benefit payments during 2014. The Company did not make any defined benefit contributions to, or benefit payments on behalf of, the BMP during the six months ended June 30, 2014, and does not currently expect to make benefit payments on behalf of the BMP during 2014, since anticipated retirements that formed the basis for these expected benefit payments in 2014 are presently not expected to occur.

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## 13. INCOME TAXES

During the three months ended June 30, 2014 and 2013, the Company's consolidated effective tax rates were 41.9% and 40.1%, respectively. During the six months ended June 30, 2014 and 2013, the Company's consolidated effective tax rates were 41.8% and 40.3%, respectively, approximating the expected 41% normalized rate for each period. There were no significant unusual income tax items during either the three-month or six-month periods ended June 30, 2014 and 2013.

## 14. NET MORTGAGE BANKING INCOME

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

|   | Three<br>Months<br>Ended<br>June 30, |        | Six Months<br>Ended June<br>30, |       |
|---|--------------------------------------|--------|---------------------------------|-------|
|   | 2014                                 | 2013   | 2014                            | 2013  |
| Gain (loss) on the sale of loans                | \$-                                  | \$(1 ) | \$27                            | \$11  |
| Credit to the liability for First Loss Position | -                                    | 102    | 1,040                           | 194   |
| Mortgage banking fees recognized                | 82                                   | 11     | 15                              | 68    |
| Net mortgage banking income                     | \$82                                 | \$112  | \$1,082                         | \$273 |

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

## General

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-five full service retail banking offices located in the NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate and mixed use loans, MBS, obligations of the U.S. government and GSEs, and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

## Executive Summary

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

The Bank's primary strategy is generally to seek to increase its product and service utilization for each individual depositor, and increase its household and deposit market shares in the communities that it serves. In addition, the

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

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

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## Recent Regulatory Developments

### New York State Tax Reforms

On March 31, 2014, New York State ("NYS") enacted several reforms (the "Tax Reform Package") to its tax structure, including changes to the franchise, sales, estate and personal income taxes. These changes are generally effective on January 1, 2015. The Tax Reform Package is intended to simplify the existing corporate tax code for NYS businesses while remaining relatively neutral in relation to corporate tax receipts.

Under the Tax Reform Package, the NYS corporate income tax rate drops, effective January 1, 2016, from 7.10% to 6.50%. Effective January 1, 2015, the metropolitan commuter transportation district surcharge ("MTA Tax") increases from 17.0% to 25.6% of the surcharge tax base. The MTA Tax rate for years beginning on or after January 1, 2016 will be adjusted based upon future Metropolitan Transit Authority budget projections.

Some of the most significant elements of the Tax Reform Package include the merger of the bank tax into the general corporate franchise tax, expanded application of economic nexus, adoption of water's-edge unitary reporting, and apportionment of source income solely by reference to customer location.

#### Merger of the Bank Tax into the Corporate Franchise Tax

NYS has historically imposed a franchise tax on general business corporations, commonly referred to as the "Article 9-A Corporate Franchise Tax," and a separate franchise tax on banking corporations, commonly referred to as the "Article 32 Bank Tax." Under these statutes, NYS financial service companies and banks are taxed under different regimes.

The Tax Reform Package repeals the Article 32 Bank Tax, merging it into the Article 9-A Corporate Franchise Tax. It also makes several subtraction modifications to the Article 9-A Corporate Franchise Tax to accommodate the merger, most notably by providing a choice between three potential financial tax subtraction modifications: 1) a subtraction modification equal to 32% of NYS entire net income available to all thrifts and community banks with assets that do not exceed \$8 billion; 2) a subtraction modification, available to both small thrifts and community banks with assets that do not exceed \$8 billion, based upon 50% of the net interest income from loans multiplied by the fraction of interest received from loans secured by real estate located in NYS or small business loans made to NYS borrowers with a principal amount of \$5 million or less divided by total interest income from loans; and 3) both small thrifts and community banks with assets that do not exceed \$8 billion that owned a captive real estate investment trust ("REIT") as of April 1, 2014, may, for tax years beginning on or after January 1, 2015, subtract up to 160% of dividends received from the REIT in determining NYS taxable income. Small thrifts and community banks with assets that do not exceed \$8 billion and that continue to maintain grandfathered REITs are prohibited from claiming the first two subtraction modifications described above. Consequently, under the revised Article 9-A Corporate Franchise Tax structure, for tax years beginning on or after January 1, 2015, the Bank will be required to claim the 160% subtraction for dividends received from its captive REIT subsidiary for any year the REIT remains in existence (in lieu of a dividends paid deduction to the REIT). If the REIT is no longer maintained, then the Bank will be entitled to choose on an annual basis between option 1) or 2) above.

#### Adoption of a Full Water's-Edge Unitary Combined Filing

The Tax Reform Package requires all firms meeting an ownership test of 50% or more be deemed a unitary business and required to file a combined tax return. Substantial intercompany transactions are eliminated, and a domestic corporation without any assets or customers in NYS, but engaged in a unitary business with a related New York taxpayer, could become part of the NYS unitary group.

#### Source Income Solely by Reference to the Location of the Customer

The Tax Reform Package requires business income to be apportioned to and taxed by NYS using a single receipts factor based on the customer's location. These provisions also contain favorable apportionment rules for asset-backed

securities that will be beneficial to the Bank.

During the three-month and six-month periods ended June 30, 2014, the Company adjusted both its deferred tax asset and income tax expense to reflect the expected adjustment in its NYS tax rate resulting from the Tax Reform Package. Such adjustments were not material to its consolidated financial condition and results of operations. The Company is evaluating the impact of the Tax Reform Package upon its future consolidated financial condition and results of operations. The ultimate impact of the Tax Reform Package upon future tax expense and tax planning policies implemented by the Company will be influenced by several factors including, but not limited to, the election of NYC to conform its tax laws to the reformed NYS law.

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

|   | At or For the Three<br>Months Ended June<br>30, |          | At or For the Six<br>Months Ended June<br>30, |          |
|---|---|----------|---|----------|
|   | 2014  | 2013     | 2014  | 2013     |
| <b>Performance and Other Selected Ratios:</b>                           |   |          |   |          |
| Return on Average Assets  | 0.97 %  | 1.20 %   | 0.97 %  | 1.14 %   |
| Return on Average Stockholders' Equity                                  | 9.36  | 11.93    | 9.24  | 11.29    |
| Stockholders' Equity to Total Assets                                    | 10.43   | 10.35    | 10.43   | 10.35    |
| Loans to Deposits at End of Period                                      | 149.83  | 138.32   | 149.83  | 138.32   |
| Loans to Earning Assets at End of Period                                | 96.82   | 96.60    | 96.82   | 96.60    |
| Net Interest Spread   | 2.77  | 3.34     | 2.81  | 3.28     |
| Net Interest Margin   | 2.96  | 3.55     | 3.01  | 3.49     |
| Average Interest Earning Assets to Average Interest Bearing Liabilities | 116.48  | 116.89   | 116.16  | 116.34   |
| Non-Interest Expense to Average Assets                                  | 1.42  | 1.53     | 1.47  | 1.59     |
| Efficiency Ratio  | 47.66   | 43.24    | 48.06   | 45.55    |
| Effective Tax Rate  | 41.86   | 40.10    | 41.78   | 40.26    |
| Dividend Payout Ratio   | 48.28   | 41.18    | 49.12   | 43.08    |
| <b>Per Share Data:</b>  |   |          |   |          |
| Reported EPS (Diluted)  | \$0.29  | \$0.34   | \$0.57  | \$0.65   |
| Cash Dividends Paid Per Share   | 0.14  | 0.14     | 0.28  | 0.28     |
| Stated Book Value   | 12.17   | 11.34    | 12.17   | 11.34    |
| <b>Asset Quality Summary:</b>   |   |          |   |          |
| Net (Recoveries) Charge-offs  | \$(334 )  | \$56     | \$(329 )                                      | \$232    |
| Non-performing Loans  | 12,305  | 9,507    | 12,305  | 9,507    |
| Non-performing Loans/Total Loans  | 0.31 %  | 0.26 %   | 0.31 %  | 0.26 %   |
| Non-performing Assets   | \$13,224  | \$10,987 | \$13,224                                      | \$10,987 |
| Non-performing Assets/Total Assets                                      | 0.31 %  | 0.28 %   | 0.31 %  | 0.28 %   |
| Allowance for Loan Loss/Total Loans                                     | 0.49  | 0.57     | 0.49  | 0.57     |
| Allowance for Loan Loss/Non-performing Loans                            | 159.55  | 215.65   | 159.55  | 215.65   |
| <b>Earnings to Fixed Charges Ratios (1)</b>                             |   |          |   |          |
| Including Interest on Deposits  | 2.43 x  | 2.65 x   | 2.45 x  | 2.55 x   |
| Excluding Interest on Deposits  | 3.37  | 3.86     | 3.39  | 3.68     |

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

### Critical Accounting Policies

The Company's policies with respect to (1) the methodologies it uses to determine the allowance for loan losses (including reserves for loan commitments), and (2) accounting for defined benefit plans, are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions or estimates could result in material variations in the Company's consolidated results of operations or financial condition.

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

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

Accounting for Defined Benefit Plans. Defined benefit plans are accounted for in accordance with ASC 715, which requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of such benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited

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exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

### Liquidity and Capital Resources

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

During the six months ended June 30, 2014, the Company repurchased \$221.9 million of loans it had previously sold to third parties and was servicing. The Company utilized a combination of borrowings, deposit growth and additional mortgagor escrow deposits to fund the repurchase. This was a non-recurring transaction for purposes of liquidity and capital resources.

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

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

Retail branch and Internet banking deposits increased \$145.9 million during the six months ended June 30, 2014, compared to an increase of \$128.2 million during the six months ended June 30, 2013. Within deposits, core deposits (i.e., non-CDs) increased \$107.3 million during the six months ended June 30, 2014 and \$145.1 million during the six months ended June 30, 2013. These increases were due to successful gathering efforts tied to promotional money market offerings. CDs increased \$38.6 million during the six months ended June 30, 2014 and declined by \$16.9 million during the six months ended June 30, 2013. The increase during the six months ended June 30, 2014 resulted primarily from successful promotional activities related to 30-month and 5-year traditional CDs as well as Individual Retirement Account CDs. The reduction during the six months ended June 30, 2013 was due to the attrition of maturing CDs from prior period promotional activities, as CD promotional activities were de-emphasized during that period. Deposit gathering was given greater emphasis during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, and thus resulted in increased deposit inflows during the six months ended June 30, 2014.



The Bank increased its outstanding FHLBNY advances by \$108.2 million during the six months ended June 30, 2014, reflecting a need for additional borrowings in order to fund the \$221.9 million of loan repurchases that occurred during the period. The Bank elected not to replace \$105.0 million of FHLBNY advances that matured during the six months ended June 30, 2013, as it experienced only nominal balance sheet growth during that period and utilized cash balances liquidity or deposit inflows instead to fund its balance sheet growth.

During the six months ended June 30, 2014, principal repayments totaled \$332.3 million on real estate loans (including refinanced loans) and \$3.3 million on MBS. During the six months ended June 30, 2013, principal repayments totaled \$496.7 million on real estate loans (including refinanced loans) and \$10.8 million on MBS. The decrease in principal repayments on real estate loans reflected reduced loan refinancing activity during the six months ended June 30, 2014, as such levels were historically high during the six months ended June 30, 2013. The decline in principal repayments on MBS resulted from a reduction of \$13.6 million in their average balance from the six months ended June 30, 2013 to the six months ended June 30, 2014.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through its borrowing line at the FHLBNY. At June 30, 2014, the Bank had an additional potential borrowing capacity of \$482.2 million through the FHLBNY, subject to customary minimum FHLBNY common stock ownership requirements (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

The Bank is subject to minimum regulatory capital requirements imposed by its primary federal regulator. As a general matter, these capital requirements are based on the amount and composition of an institution's assets. At June 30, 2014, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury, the payment of quarterly cash dividends to holders of the Holding Company's common stock and the payment of quarterly interest to holders of its outstanding trust preferred debt. During the six months ended June 30, 2014 and 2013, real estate loan originations totaled \$399.8 million and \$570.0 million, respectively. The decrease from the six months ended June 30, 2013 to the six months ended June 30, 2014 reflected the Company's election to compete less aggressively for new loans during the six months ended June 30, 2014 as a result of the \$221.9 million of loans repurchased during the period. Security purchases were de-emphasized during the six months ended both June 30, 2014 and 2013 due to their lack of beneficial yield above cash balances.

The Holding Company did not repurchase any shares of its common stock during the six months ended June 30, 2014 or 2013. As of June 30, 2014, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the \$15.79 per share closing price of its common stock as of June 30, 2014, the Holding Company would utilize \$17.8 million in order to purchase all of the remaining authorized shares.

The Holding Company paid \$10.0 million in cash dividends on its common stock during the six months ended June 30, 2014, and \$9.8 million during the six months ended June 30, 2013. The increase in payment resulted from a net increase of 803,743 shares outstanding from June 30, 2013 to June 30, 2014.

#### Contractual Obligations

The Bank is obligated for rental payments under leases on certain of its branches and equipment. In addition, the Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances, as well as customer CDs with fixed contractual interest rates. The Holding Company also has \$70.7 million of callable trust preferred borrowings from third parties due to mature in April 2034, which became callable at any time commencing in April 2009. The Holding Company does not currently intend to call this debt. The facts and circumstances surrounding these obligations have not changed materially since December 31, 2013.

#### Off-Balance Sheet Arrangements

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

The following table presents off-balance sheet arrangements as of June 30, 2014:

|                                      | Less than<br>One Year | One<br>Year<br>to<br>Three<br>Years | Over<br>Three<br>Years<br>to<br>Five<br>Years | Over<br>Five<br>Years | Total     |
|--------------------------------------|-----------------------|-------------------------------------|---|-----------------------|-----------|
| (Dollars in thousands)               |                       |                                     |   |                       |           |
| Credit Commitments:                  |                       |                                     |   |                       |           |
| Available lines of credit            | \$40,328              | \$ -                                | \$ -  | \$ -                  | \$40,328  |
| Other loan commitments               | 115,757               | -                                   | -   | -                     | 115,757   |
| Total Off-Balance Sheet Arrangements | \$156,085             | \$ -                                | \$ -  | \$ -                  | \$156,085 |

### Asset Quality

#### General

At both June 30, 2014 and December 31, 2013, the Company had neither whole loans nor loans underlying MBS that would have been considered subprime loans at origination, i.e., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See [Note 10](#) to the condensed consolidated financial statements for a discussion of impaired investment securities and MBS.

#### Monitoring and Collection of Delinquent Loans

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

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of multifamily residential or commercial real estate loans, or fifteen days late in connection with one- to four-family or consumer loans. A second letter is sent to the borrower if payment has not been received within 30 days of the due date. Thereafter, periodic letters are mailed and phone calls placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Accrual of interest is generally discontinued on a loan that meets any of the following three criteria: (i) full payment of principal or interest is not expected; (ii) principal or interest has been in default for a period of 90 days or more (unless the loan is both deemed to be well secured and in the process of collection); or (iii) an election has otherwise been made to maintain the loan on a cash basis due to deterioration in the financial condition of the borrower. Such non-accrual determination practices are applied consistently to all loans regardless of their internal classification or designation. Upon entering non-accrual status, the Bank reverses all outstanding accrued interest receivable.

The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status based upon non-payment, and typically does not accept partial payments once foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO status. The Bank generally attempts to utilize all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans and OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a

non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

#### Non-accrual Loans

Within the Bank's permanent portfolio, non-accrual loans totaled \$12.3 million and \$12.5 million at June 30, 2014 and December 31, 2013, respectively, representing 0.31% and 0.34% of total loans at June 30, 2014 and December 31, 2013, respectively. During the six months ended June 30, 2014, principal amortization of \$682,000 was recognized on seven non-accrual loans, and three non-accrual loans totaling \$443,000 were either disposed of or satisfied.

Partially offsetting

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these reductions were six loans totaling \$881,000 that were added to non-accrual status during the six months ended June 30, 2014.

### Impaired Loans

The recorded investment in loans deemed impaired (as defined in Note 8 to the condensed consolidated financial statements) was approximately \$19.6 million, consisting of fourteen loans, at June 30, 2014, compared to \$30.2 million, consisting of sixteen loans, at December 31, 2013. During the six months ended June 30, 2014, two impaired loans totaling \$9.7 million were satisfied by the respective borrowers, a \$325,000 impaired loan was disposed of at a value at or below its recorded balance and a \$265,000 loan was removed from impaired status. Additionally during the six months ended June 30, 2014, principal amortization totaling \$800,000 was recognized on eleven impaired loans. Partially offsetting these declines was the addition of two loans totaling \$564,000 to impaired status during the six months ended June 30, 2014.

The following is a reconciliation of non-accrual and impaired loans at June 30, 2014:

|   | (Dollars in<br>Thousands) |
|---|---------------------------|
| Non-accrual loans   | \$ 12,305                 |
| Non-accrual one- to four-family and consumer loans deemed homogeneous loans | (1,399 )                  |
| TDRs retained on accrual status   | 8,767                     |
| Impaired loans  | \$ 19,646                 |

### TDRs

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

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

In instances in which the interest rate has been reduced, management would not deem the modification a TDR in the event that the reduction in interest rate reflected either a general decline in market interest rates or an effort to maintain a relationship with a borrower who could readily obtain funds from other sources at the current market interest rate, and the terms of the restructured loan are comparable to the terms offered by the Bank to non-troubled debtors. The Bank modified one loan in a manner that met the criteria for a TDR during the three-month and six-month periods ended June 30, 2014. The Bank did not modify any loans in a manner that met the criteria for a TDR during the three-month or six-month periods ended June 30, 2013.

Accrual status for TDRs is determined separately for each TDR in accordance with the policies for determining accrual or non-accrual status that are outlined on page 36. At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be either on accrual or non-accrual status. If a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under the Bank's policy, as disclosed on page 36 and agency regulations.

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

At both June 30, 2014 and December 31, 2013, all TDRs were collateralized by real estate that generated rental income. For TDRs that demonstrated conditions sufficient to warrant accrual status, the present value of the expected net cash flows of the underlying property was utilized as the primary means of determining impairment. Any shortfall in the present value of the expected cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected cash flows at the time of the original loan agreement was recognized as either an allocated reserve (in the event that it related to lower expected interest payments) or a charge-off (if related to lower expected principal payments). For TDRs on non-accrual status, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment, and any shortfall in valuation from the recorded balance

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is accounted for through a charge-off. In the event that either an allocated reserve or a charge-off is recognized on TDRs, the periodic loan loss provision is impacted.

Please refer to Note 8 to the condensed consolidated financial statements for a further discussion of TDRs.

## OREO

Property acquired by the Bank, or a subsidiary, as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses its likely realizable value quarterly thereafter. OREO is carried at the lower of the fair value or book balance, with any write downs recognized through a provision recorded in non-interest expense. Only the appraised value, or either contractual or formal marketed values that fall below the appraised value, are used when determining the likely realizable value of OREO at each reporting period. The Bank typically seeks to dispose of OREO properties in a timely manner. As a result, OREO properties have generally not warranted subsequent independent appraisals.

The Bank did not recognize any write-downs on OREO properties during the three-month or six-month periods ended June 30, 2014. OREO properties totaled \$18,000 at both June 30, 2014 and December 31, 2013. The Bank did not recognize any write-downs on OREO properties during the three months ended June 30, 2013. During the six months ended June 30, 2013, a write down in value of \$180,000 was recognized on an OREO property acquired during the period.

The following table sets forth information regarding non-accrual loans and certain other non-performing assets (including OREO) at the dates indicated:

|   | At June<br>30,<br>2014    | At<br>December<br>31, 2013 |      |   |
|---|---------------------------|----------------------------|------|---|
|   | (Dollars in<br>Thousands) |                            |      |   |
| Non-accrual loans:  |                           |                            |      |   |
| One- to four-family residential including condominium and cooperative apartment | \$1,422                   | \$ 1,242                   |      |   |
| Multifamily residential and residential mixed use real estate                   | 1,431                     | 1,197                      |      |   |
| Commercial real estate and commercial mixed use real estate                     | 9,447                     | 10,107                     |      |   |
| Consumer  | 5                         | 3                          |      |   |
| Sub-total   | 12,305                    | 12,549                     |      |   |
| Non-accrual loans held for sale   | -                         | -                          |      |   |
| Total non-accrual loans   | 12,305                    | 12,549                     |      |   |
| Non-performing TRUPS  | 901                       | 898                        |      |   |
| OREO  | 18                        | 18                         |      |   |
| Total non-performing assets   | 13,224                    | 13,465                     |      |   |
| Ratios:   |                           |                            |      |   |
| Total non-accrual loans to total loans  | 0.31                      | %                          | 0.34 | % |
| Total non-performing assets to total assets                                     | 0.31                      |                            | 0.33 |   |

## TDRs and Impaired Loans

|                    |          |           |
|--------------------|----------|-----------|
| TDRs               | \$18,215 | \$ 24,327 |
| Impaired loans (1) | 19,646   | 30,189    |

(1) Amount includes all TDRs at both June 30, 2014 and December 31, 2013. See the discussion entitled "Impaired Loans" commencing on page 37 for a reconciliation of non-accrual and impaired loans.

Other Potential Problem Loans

(i) Loans Delinquent 30 to 89 Days

The Bank had seven real estate loans, totaling \$2.3 million, that were delinquent between 30 and 89 days at June 30, 2014, a net increase of approximately \$700,000 compared to six such loans totaling \$1.6 million at December 31, 2013. The 30 to 89 day delinquency levels fluctuate monthly, and are generally considered a less accurate indicator of near-term credit quality trends than non-accrual loans.

(ii) Temporary Loan Modifications

There were no temporary modifications entered into during the three-month or six-month periods ended June 30, 2014 and 2013. At both June 30, 2014 and December 31, 2013, the Bank had 3 loans totaling \$1.8 million that were deemed temporary loan modifications. Please refer to pages 15 and 16 of the Holding Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of temporary loan modifications.



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

Until February 20, 2014, the Bank serviced a pool of multifamily loans sold to FNMA. The loans were subject to the First Loss Position totaling \$15.4 million as of December 31, 2013. Against the First Loss Position, the Bank, as of December 31, 2013, had a recorded liability of \$1.0 million. On February 20, 2014, the Bank repurchased all remaining loans within this pool. As a result of the repurchase, the First Loss Position and related liability were extinguished.

## Reserve for Loan Commitments

At June 30, 2014 and December 31, 2013, the Bank maintained a reserve of \$25,000 associated with unfunded loan commitments accepted by the borrower. This reserve is determined based upon the outstanding volume of loan commitments at each period end. Any increases or reductions in this reserve are recognized in periodic non-interest expense.

## Allowance for Loan Losses

The methodology utilized to determine the Company's allowance for loan losses on real estate and consumer loans, along with periodic associated activity, remained constant during the periods ended June 30, 2014 and December 31, 2013. The following is a summary of the components of the allowance for loan losses as of the following dates:

|  | At                     |                      |                            |
|--|------------------------|----------------------|----------------------------|
|  | At June<br>30,<br>2014 | March<br>31,<br>2014 | At<br>December<br>31, 2013 |
|  | (Dollars in Thousands) |                      |                            |
| Real Estate Loans:   |                        |                      |                            |
| Impaired loans   | \$56                   | \$1,739              | \$ 1,771                   |
| Substandard loans not deemed impaired or evaluated individually for impairment | 123                    | 100                  | 53                         |
| Special Mention loans not deemed impaired                                      | 274                    | 231                  | 185                        |
| Pass graded loans  | 19,156                 | 18,334               | 18,120                     |
| Sub-total real estate loans  | 19,609                 | 20,404               | 20,129                     |
| Consumer loans   | 24                     | 25                   | 24                         |
| TOTAL  | \$19,633               | \$20,429             | \$ 20,153                  |

Activity related to the allowance for loan losses is summarized for the periods indicated as follows:

|                              | Three Months<br>Ended June<br>30,<br>2014 |        | Six Months<br>Ended June<br>30,<br>2013 |         |
|------------------------------|---|--------|---|---------|
|                              | 2014                                      | 2013   | 2014                                    | 2013    |
|                              | (Dollars in Thousands)                    |        |   |         |
| Net recoveries (charge-offs) | \$334                                     | \$(57) | \$329                                   | \$(233) |
| (Credit) Provision           | (1,130)                                   | 28     | (849)                                   | 185     |

The Company recognized a net credit (negative provision) to its allowance for loan losses during the three-month and six-month periods ended June 30, 2014, primarily reflecting a significant reduction in the estimated reserves on impaired loans, which was partially offset by an increase in the estimated reserves on pass graded loans. The reduction in the estimated reserves on impaired loans reflected the removal of \$1.6 million of reserves allocated to two large impaired loans during the three months ended June 30, 2014. One of these loans, with a reserve allocated of

\$345,000, was satisfied with the Bank receiving all contractual amounts due. The second loan, with a reserve allocated of \$1.3 million, paid all of its arrears in accordance with a restructuring agreement that the Bank completed with the principal borrower during the three months ended June 30, 2014. The increase in the estimated reserves on pass graded loans reflected growth in the outstanding aggregate balance of loans during the three-month and six-month periods ended June 30, 2014.

For a further discussion of the allowance for loan losses and related activity during the three-month and six-month periods ended June 30, 2014 and 2013, please see Note 9 to the condensed consolidated financial statements. Period-end balances of all Substandard, Special Mention, Doubtful and pass graded real estate loans are summarized in Note 8 to the condensed consolidated financial statements.

#### Comparison of Financial Condition at June 30, 2014 and December 31, 2013

Assets. Assets totaled \$4.3 billion at June 30, 2014, \$273.5 million above their level at December 31, 2013.

Real estate loans increased \$275.2 million during the six months ended June 30, 2014. During the six months ended June 30, 2014, the Bank originated \$399.8 million of real estate loans (including refinancing of existing loans) and purchased \$221.9 million of real estate loans, which exceeded the \$13.0 million of sales and \$332.3 million of aggregate amortization on such loans (also including refinancing of existing loans).

Cash and due from banks increased by \$11.4 million during the six months ended June 30, 2014, due primarily to the inflows of retail deposits and mortgagor escrow funds. The Company also increased its investment in FHLBNY common stock by \$5.2 million during the six months ended June 30, 2014 as a result of a \$108.2 million growth in its outstanding FHLBNY borrowings during the period.

Investment securities available-for-sale declined \$14.9 million during the six months ended June 30, 2014, due to a \$15.0 million agency security that was called and not replaced during the period. During the six months ended June 30, 2014, the Company also completed the sale of a \$3.6 million real estate parcel that had historically been earmarked for utilization as office space.

Liabilities. Total liabilities increased \$260.5 million during the six months ended June 30, 2014. Retail deposits (due to depositors) increased \$145.9 million and FHLBNY advances increased \$108.2 million during the period. Please refer to "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the increases in retail deposits and FHLBNY advances during the six months ended June 30, 2014. Mortgagor escrow and other deposits grew \$7.5 million during the six months ended June 30, 2014 as a result of the growth in loans during the period.

Stockholders' Equity. Stockholders' equity increased \$13.0 million during the six months ended June 30, 2014, due primarily to net income of \$20.5 million, an aggregate increase to stockholders' equity of \$1.8 million related to either expense amortization or income tax benefits associated with stock benefit plans, a \$351,000 reduction in the accumulated other comprehensive loss component (a negative component) of stockholders' equity from both the improved valuation of available-for-sale securities and a reduction in the estimated unfunded balance of defined benefit plans, and \$278,000 of stockholders' equity added from the exercise of stock options. Partially offsetting these additions to stockholders' equity were \$10.0 million in cash dividends paid during the period.

#### Comparison of Operating Results for the Three Months Ended June 30, 2014 and 2013

General. Net income was \$10.5 million during the three months ended June 30, 2014, a reduction of \$1.5 million from net income of \$12.0 million during the three months ended June 30, 2013. During the comparative period, net interest income and non-interest income declined by \$3.2 million and \$156,000, respectively. Partially offsetting these reductions to net income were reductions of \$1.2 million in the provision for loan losses and \$528,000 of income tax expense experienced during the comparative period.

Net Interest Income. The discussion of net interest income for the three months ended June 30, 2014 and 2013 presented below should be read in conjunction with the following tables, which set forth certain information related to the consolidated statements of income for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

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## Analysis of Net Interest Income

|  | Three Months Ended June 30,<br>2014 |          |                           | 2013               |             |                           |        |   |
|--|-------------------------------------|----------|---------------------------|--------------------|-------------|---------------------------|--------|---|
|  | Average<br>Balance                  | Interest | Average<br>Yield/<br>Cost | Average<br>Balance | Interest    | Average<br>Yield/<br>Cost |        |   |
| (Dollars In Thousands)   |                                     |          |                           |                    |             |                           |        |   |
| Assets:  |                                     |          |                           |                    |             |                           |        |   |
| Interest-earning assets:   |                                     |          |                           |                    |             |                           |        |   |
| Real estate loans  | \$3,943,414                         | \$41,973 | 4.26                      | %                  | \$3,600,154 | \$44,692                  | 4.97   | % |
| Other loans  | 1,873                               | 29       | 6.19                      |                    | 2,095       | 25                        | 4.77   |   |
| MBS  | 28,487                              | 236      | 3.31                      |                    | 39,669      | 354                       | 3.57   |   |
| Investment securities  | 15,585                              | 136      | 3.49                      |                    | 29,101      | 103                       | 1.42   |   |
| Federal funds sold and other short-term investments              | 138,524                             | 536      | 1.55                      |                    | 132,507     | 462                       | 1.39   |   |
| Total interest-earning assets                                    | 4,127,883                           | \$42,910 | 4.16                      | %                  | 3,803,526   | \$45,636                  | 4.80   | % |
| Non-interest earning assets                                      | 183,818                             |          |                           |                    | 205,711     |                           |        |   |
| Total assets   | \$4,311,701                         |          |                           |                    | \$4,009,237 |                           |        |   |
| Liabilities and Stockholders' Equity:                            |                                     |          |                           |                    |             |                           |        |   |
| Interest-bearing liabilities:                                    |                                     |          |                           |                    |             |                           |        |   |
| Interest bearing checking accounts                               | \$79,490                            | \$60     | 0.30                      | %                  | \$92,502    | \$70                      | 0.30   | % |
| Money Market accounts  | 1,114,169                           | 1,548    | 0.56                      |                    | 1,082,789   | 1,406                     | 0.52   |   |
| Savings accounts   | 379,819                             | 47       | 0.05                      |                    | 381,137     | 64                        | 0.07   |   |
| CDs  | 873,733                             | 3,337    | 1.53                      |                    | 883,881     | 3,592                     | 1.63   |   |
| Borrowed Funds   | 1,096,742                           | 7,324    | 2.68                      |                    | 813,565     | 6,752                     | 3.33   |   |
| Total interest-bearing liabilities                               | 3,543,953                           | \$12,316 | 1.39                      | %                  | 3,253,874   | \$11,884                  | 1.46   | % |
| Non-interest bearing checking accounts                           | 176,175                             |          |                           |                    | 174,904     |                           |        |   |
| Other non-interest-bearing liabilities                           | 144,788                             |          |                           |                    | 176,855     |                           |        |   |
| Total liabilities  | 3,864,916                           |          |                           |                    | 3,605,633   |                           |        |   |
| Stockholders' equity   | 446,785                             |          |                           |                    | 403,604     |                           |        |   |
| Total liabilities and stockholders' equity                       | 4,311,701                           |          |                           |                    | 4,009,237   |                           |        |   |
| Net interest income  |                                     | \$30,594 |                           |                    |             | \$33,752                  |        |   |
| Net interest spread  |                                     |          | 2.77                      | %                  |             |                           | 3.34   | % |
| Net interest-earning assets                                      | \$583,930                           |          |                           |                    | \$549,652   |                           |        |   |
| Net interest margin  |                                     |          | 2.96                      | %                  |             |                           | 3.55   | % |
| Ratio of interest-earning assets to interest-bearing liabilities |                                     |          | 116.48                    | %                  |             |                           | 116.89 | % |

## Rate/Volume Analysis

Three Months Ended June  
30, 2014  
Compared to Three  
Months Ended June 30,  
2013  
Increase/ (Decrease) Due  
to:  
Volume Rate Total

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(Dollars In thousands)

Interest-earning assets:

|   |         |           |           |
|---|---------|-----------|-----------|
| Real Estate Loans                                   | \$3,966 | \$(6,685) | \$(2,719) |
| Other loans   | (3 )    | 7         | 4         |
| MBS   | (96 )   | (22 )     | (118 )    |
| Investment securities                               | (83 )   | 116       | 33        |
| Federal funds sold and other short-term investments | 21      | 53        | 74        |
| Total   | \$3,805 | \$(6,531) | \$(2,726) |

Interest-bearing liabilities:

|                                    |         |           |           |
|------------------------------------|---------|-----------|-----------|
| Interest bearing checking accounts | \$(10 ) | \$-       | \$(10 )   |
| Money market accounts              | 38      | 104       | 142       |
| Savings accounts                   | 1       | (18 )     | (17 )     |
| CDs                                | (38 )   | (217 )    | (255 )    |
| Borrowed funds                     | 2,120   | (1,548)   | 572       |
| Total                              | \$2,111 | \$(1,679) | \$432     |
| Net change in net interest income  | \$1,694 | \$(4,852) | \$(3,158) |

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The Company's net interest income and net interest margin during the three months ended June 30, 2014 and 2013 were impacted by the following factors:

During the period January 1, 2009 through June 30, 2014, Federal Open Market Committee monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%, helping deposit and borrowing costs remain at historically low levels.

Increased marketplace competition and refinancing activity on real estate loans, particularly during the years ended December 31, 2012 and 2013, has resulted in an ongoing reduction in the average yield on real estate loans.

**Interest Income.** Interest income was \$42.9 million during the three months ended June 30, 2014, a reduction of \$2.7 million from the three months ended June 30, 2013, primarily reflecting reductions of \$2.7 million and \$118,000 in interest income on real estate loans and MBS, respectively. Prepayment and refinancing on real estate loans at reduced interest rates over the 24-month period ended June 30, 2014 lowered the Company's average yield on real estate loans by 71 basis points during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Partially offsetting the decline in interest income on real estate loans during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 that was attributable to the 71 basis point reduction in their average yield, was an increase of \$343.3 million in their average balance during the comparative period, reflecting the implementation of a measured balance sheet growth strategy during the period January 1, 2013 through June 30, 2014. The decline in interest income on MBS resulted from a reduction of \$11.2 million in their average balance from the three months ended June 30, 2013 to the three months ended June 30, 2014. During the period July 1, 2013 through June 30, 2014, purchases of MBS were limited, and were exceeded by principal repayments of existing MBS. The average yield on MBS also declined 26 basis points during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as higher yielding MBS continued to amortize.

**Interest Expense.** Interest expense increased \$432,000, to \$12.3 million, during the three months ended June 30, 2014, from \$11.9 million during the three months ended June 30, 2013. The increase resulted primarily from higher interest expense of \$572,000 on borrowings and \$142,000 on money market deposits during the comparative period, which was partially offset by a lower interest expense of \$255,000 on CDs. The additional interest expense recognized on borrowings and money markets reflected increases in their respective average balances of \$283.2 million and \$31.4 million during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The average cost of borrowings declined by 65 basis points during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as the Company utilized some short-term borrowing carrying a very low average cost as a temporary source of funding during the first six months of June 30, 2014. The average balance of CDs declined by \$10.1 million during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as the Company did not elect to compete aggressively for these deposits during the period July 1, 2013 through June 30, 2014, and experienced attrition in the promotional balances that matured between July 1, 2013 and June 30, 2014. The average cost of CDs also declined by 10 basis points during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, reflecting reductions in offering rates between July 1, 2013 and June 30, 2014.

**Provision for Loan Losses.** The Company recognized a credit (negative provision) for loan losses of \$1.1 million during the three months ended June 30, 2014, compared to a provision of \$28,000 during the three months ended June 30, 2013. See "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Allowance for Loan Losses" for a further discussion of the provision (credit) for loan losses during the three months ended June 30, 2014.

**Non-Interest Income.** Total non-interest income declined \$156,000 from the three months ended June 30, 2013 to the three months ended June 30, 2014, due to several minor reductions in individual non-interest income items.

Non-Interest Expense. Non-interest expense was \$15.3 million during the three months ended June 30, 2014, relatively unchanged from the three months ended June 30, 2013.

Non-interest expense was 1.42% of average assets during the three months ended June 30, 2014, compared to 1.53% during the three months ended June 30, 2013, reflecting an increase of \$302.5 million in average assets from the three months ended June 30, 2013 to the three months ended June 30, 2014.

Income Tax Expense. Income tax expense was \$7.5 million during the three months ended June 30, 2014 compared to \$8.1 million during the three months ended June 30, 2013. The reduction resulted from a \$2.1 million decline in pre-tax income during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The Company's consolidated tax rate was 41.9% during the three months ended June 30, 2014, up from 40.1% during the three months ended June 30, 2013.

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Comparison of Operating Results for the Six Months Ended June 30, 2014 and 2013

General. Net income was \$20.5 million during the six months ended June 30, 2014, a reduction of \$2.1 million from net income of \$22.6 million during the six months ended June 30, 2013. Net interest income declined \$5.2 million during the comparative period. Partially offsetting the decline in net interest income was an increase of \$1.0 million in non-interest income, and reductions of \$1.0 million in the provision for loan losses, \$535,000 in non-interest expense and \$527,000 in income tax expense during the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Net Interest Income. The discussion of net interest income for the six months ended June 30, 2014 and 2013 presented below should be read in conjunction with the following tables, which set forth certain information related to the consolidated statements of income for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

Analysis of Net Interest Income

|   | Six Months Ended June 30, |          |                        | 2013            |          |                        |  |  |
|---|---------------------------|----------|------------------------|-----------------|----------|------------------------|--|--|
|   | Average Balance           | Interest | Average Yield/<br>Cost | Average Balance | Interest | Average Yield/<br>Cost |  |  |
| (Dollars In Thousands)                              |                           |          |                        |                 |          |                        |  |  |
| Assets:   |                           |          |                        |                 |          |                        |  |  |
| Interest-earning assets:                            |                           |          |                        |                 |          |                        |  |  |
| Real estate loans                                   | \$3,881,312               | \$82,834 | 4.27 %                 | \$3,552,900     | \$87,840 | 4.94 %                 |  |  |
| Other loans   | 1,927                     | 54       | 5.60                   | 2,140           | 50       | 4.67                   |  |  |
| MBS   | 28,981                    | 484      | 3.34                   | 42,573          | 813      | 3.82                   |  |  |
| Investment securities                               | 22,591                    | 206      | 1.82                   | 35,954          | 232      | 1.29                   |  |  |
| Federal funds sold and other short-term investments | 103,780                   | 1,058    | 2.04                   | 148,085         | 1,006    | 1.36                   |  |  |
| Total interest-earning assets                       | 4,038,591                 | \$84,636 | 4.19 %                 | 3,781,652       | \$89,941 | 4.76 %                 |  |  |
| Non-interest earning assets                         | 188,564                   |          |                        | 195,627         |          |                        |  |  |
| Total assets  | \$4,227,155               |          |                        | \$3,977,279     |          |                        |  |  |
| Liabilities and Stockholders' Equity:               |                           |          |                        |                 |          |                        |  |  |
| Interest-bearing liabilities:                       |                           |          |                        |                 |          |                        |  |  |
| Interest bearing checking accounts                  | \$82,228                  | \$119    | 0.29 %                 | \$92,861        | \$140    | 0.30 %                 |  |  |
| Money Market accounts                               | 1,083,425                 | 2,864    | 0.53                   | 1,071,012       | 2,896    | 0.55                   |  |  |
| Savings accounts                                    | 378,762                   | 93       | 0.05                   | 378,256         | 165      | 0.09                   |  |  |
| CDs   | 857,931                   | 6,537    | 1.54                   | 882,882         | 7,131    | 1.63                   |  |  |
| Borrowed Funds                                      | 1,074,263                 | 14,174   | 2.66                   | 825,484         | 13,542   | 3.31                   |  |  |
| Total interest-bearing liabilities                  | 3,476,609                 | \$23,787 | 1.38 %                 | 3,250,495       | \$23,874 | 1.48 %                 |  |  |
| Non-interest bearing checking accounts              | 174,602                   |          |                        | 168,481         |          |                        |  |  |
| Other non-interest-bearing liabilities              | 132,408                   |          |                        | 157,704         |          |                        |  |  |
| Total liabilities                                   | 3,783,619                 |          |                        | 3,576,680       |          |                        |  |  |
| Stockholders' equity                                | 443,536                   |          |                        | 400,599         |          |                        |  |  |
| Total liabilities and stockholders' equity          | 4,227,155                 |          |                        | 3,977,279       |          |                        |  |  |
| Net interest income                                 |                           | \$60,849 |                        |                 | \$66,067 |                        |  |  |
| Net interest spread                                 |                           |          | 2.81 %                 |                 |          | 3.28 %                 |  |  |
| Net interest-earning assets                         | \$561,982                 |          |                        | \$531,157       |          |                        |  |  |



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|  |          |          |
|--|----------|----------|
| Net interest margin  | 3.01 %   | 3.49 %   |
| Ratio of interest-earning assets to interest-bearing liabilities | 116.16 % | 116.34 % |

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## Rate/Volume Analysis

|   | Six Months Ended June 30,<br>2014             |            |           |
|---|---|------------|-----------|
|   | Compared to Six Months<br>Ended June 30, 2013 |            |           |
|   | Increase/ (Decrease) Due to:                  |            |           |
|   | Volume  | Rate       | Total     |
|   | (Dollars In thousands)                        |            |           |
| Interest-earning assets:                            |   |            |           |
| Real Estate Loans                                   | \$7,508                                       | \$(12,515) | \$(5,007) |
| Other loans   | (6 )  | 11         | 5         |
| MBS   | (243 )  | (86 )      | (329 )    |
| Investment securities                               | (104 )  | 78         | (26 )     |
| Federal funds sold and other short-term investments | (376 )  | 428        | 52        |
| Total   | \$6,779                                       | \$(12,084) | \$(5,305) |
| Interest-bearing liabilities:                       |   |            |           |
| Interest bearing checking accounts                  | \$(16 )                                       | \$(5 )     | \$(21 )   |
| Money market accounts                               | 54  | (86 )      | (32 )     |
| Savings accounts                                    | 2   | (74 )      | (72 )     |
| CDs   | (201 )  | (393 )     | (594 )    |
| Borrowed funds                                      | 3,687   | (3,055 )   | 632       |
| Total   | \$3,526                                       | \$(3,613 ) | \$(87 )   |
| Net change in net interest income                   | \$3,253                                       | \$(8,471 ) | \$(5,218) |

The Company's net interest income and net interest margin during the six months ended June 30, 2014 and 2013 were impacted by the following factors:

During the period January 1, 2009 through June 30, 2014, Federal Open Market Committee monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%, helping deposit and borrowing costs remain at historically low levels.

Increased marketplace competition and refinancing activity on real estate loans, particularly during the years ended December 31, 2012 and 2013, has resulted in an ongoing reduction in the average yield on real estate loans.

**Interest Income.** Interest income was \$84.6 million during the six months ended June 30, 2014, a reduction of \$5.3 million from the six months ended June 30, 2013, primarily reflecting reductions of \$5.0 million and \$329,000 in interest income on real estate loans and MBS, respectively. Prepayment and refinancing on real estate loans at reduced interest rates over the 24-month period ended June 30, 2014 lowered the Company's average yield on real estate loans by 67 basis points during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Partially offsetting the decline in interest income on real estate loans during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 that was attributable to the 67 basis point reduction in their average yield, was an increase of \$328.4 million in their average balance during the comparative period, reflecting both the repurchase of \$221.9 million of real estate loans during the six months ended June 30, 2014 and the implementation of a measured balance sheet growth strategy during the period January 1, 2013 through June 30, 2014. The decline in interest income on MBS resulted from a reduction of \$13.6 million in their average balance from the six months ended June 30, 2013 to the six months ended June 30, 2014. During the period July 1, 2013 through June 30, 2014, purchases of MBS were limited, and were exceeded by principal repayments of existing MBS. The average yield on MBS also declined 48 basis points during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, as higher yielding MBS continued to amortize.

Interest Expense. Interest expense decreased \$87,000 to \$23.8 million, during the six months ended June 30, 2014, from \$23.9 million during the six months ended June 30, 2013. The decline resulted primarily from reductions of \$32,000, \$72,000 and \$594,000 in interest expense on money market deposits, savings deposits and CDs, respectively, during the comparative period, that were partially offset by increased interest expense on borrowings of \$632,000. The lower interest expense recognized on money markets, savings accounts and CDs reflected declines in their average cost of 2 basis points, 4 basis points, and 9 basis points, respectively, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, from reductions in offering rates made between July 1, 2013 and June 30, 2014. The reduction in interest expense on CDs also reflected a decline of \$25.0 million in their average balance during the comparative period, as the Company did not elect to compete aggressively for these deposits during the period July 1, 2013 through June 30, 2014, and experienced attrition in the promotional balances that matured between July 1, 2013 and June 30, 2014. The higher interest expense recognized on borrowed funds resulted from an increase of \$248.8 million in their average balance from the six months ended June 30, 2013 to the six months ended June 30, 2014, as borrowings were utilized to fund a portion of the balance sheet growth experienced from July 1, 2013 to June 30, 2014.

Provision for Loan Losses. The Company recognized a credit (negative provision) for loan losses of \$849,000 during the six months ended June 30, 2014, compared to a provision of \$185,000 during the six months ended June 30, 2013. See "Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Allowance for Loan Losses" for a further discussion of the provision (credit) for loan losses during the six months ended June 30, 2014.

Non-Interest Income. Total non-interest income increased \$1.0 million from the six months ended June 30, 2013 to the six months ended June 30, 2014, due primarily to an increase of \$809,000 in mortgage banking income and a \$649,000 gain on the sale of real estate recognized during the six months ended June 30, 2014. The increase in mortgage banking income reflected primarily a credit of \$1.0 million recognized during the six months ended June 30, 2014 to eliminate the liability in relation to the First Loss Position. Partially offsetting these items was a non-recurring net gain of \$110,000 on the sale of securities that was recognized during the six months ended June 30, 2013.

Non-Interest Expense. Non-interest expense was \$31.1 million during the six months ended June 30, 2014, a reduction of \$535,000 from \$31.7 million during the six months ended June 30, 2013, reflecting lower actuarial expenses on benefit plans, and a \$180,000 write down of OREO that was recognized in non-interest expense during the six months ended June 30, 2013.

Non-interest expense was 1.47% of average assets during the six months ended June 30, 2014, compared to 1.59% during the six months ended June 30, 2013, reflecting both the reduction in non-interest expense and an increase of \$249.9 million in average assets from the six months ended June 30, 2013 to the six months ended June 30, 2014.

Income Tax Expense. Income tax expense was \$14.7 million during the six months ended June 30, 2014 compared to \$15.2 million during the six months ended June 30, 2013. The reduction resulted from a \$2.6 million decline in pre-tax income during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The Company's consolidated tax rate was 41.8% during the six months ended June 30, 2014, up from 40.4% during the six months ended June 30, 2013.

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

Quantitative and qualitative disclosures about market risk were presented at December 31, 2013 in Item 7A of the Holding Company's Annual Report on Form 10-K, filed with the SEC on March 13, 2014. The following is an update of the discussion provided therein.

General. Virtually all of the Company's market risk continues to reside at the Bank level. The Bank's largest component of market risk remains interest rate risk. The Company is not subject to foreign currency exchange or commodity price risk. At June 30, 2014, the Company owned nine mutual fund investments totaling \$6.9 million that were designated as trading. At June 30, 2014, the Company did not conduct transactions involving derivative instruments requiring bifurcation in order to hedge interest rate or market risk.

Assets, Deposit Liabilities and Wholesale Funds. There was no material change in the composition of assets, deposit liabilities or wholesale funds from December 31, 2013 to June 30, 2014. See "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of deposit and borrowing activity during the period.

#### Interest Rate Risk Exposure Analysis

Economic Value of Equity ("EVE") Analysis. In accordance with agency regulatory guidelines, the Bank simulates the impact of interest rate volatility upon EVE using several interest rate scenarios. EVE is the difference between the present value of the expected future cash flows of the Bank's assets and liabilities plus the value of any off-balance sheet items, such as firm commitments to originate loans, or derivatives, if applicable.

Traditionally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. Increases in interest rates thus result in decreases in the fair value of interest-earning assets, which could adversely affect the Company's consolidated results of operations in the event they were to be sold, or, in the case of interest-earning assets classified as available-for-sale, reduce the Company's consolidated stockholders' equity, if retained. The changes in the value of assets and liabilities due to fluctuations in interest rates measure the interest rate sensitivity of those assets and liabilities.

In order to measure the Bank's sensitivity to changes in interest rates, EVE is calculated under market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under various other interest rate scenarios ("Rate Shock Scenarios") representing immediate, permanent, parallel shifts in the term structure of interest rates from the actual term structure observed in the Pre-Shock Scenario. An increase in the EVE is considered favorable, while a decline is considered unfavorable. The changes in EVE between the Pre-Shock Scenario and various Rate Shock Scenarios due to

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fluctuations in interest rates reflect the interest rate sensitivity of the Bank's assets, liabilities, and off-balance sheet items that are included in the EVE. Management reports the EVE results to the Bank's Board of Directors on a quarterly basis. The report compares the Bank's estimated Pre-Shock Scenario EVE to the estimated EVEs calculated under the various Rate Shock Scenarios.

The calculated EVEs incorporate some asset and liability values derived from the Bank's valuation model, such as those for mortgage loans and time deposits, and some asset and liability values provided by reputable independent sources, such as values for the Bank's MBS and CMO portfolios, as well as all borrowings. The Bank's valuation model makes various estimates regarding cash flows from principal repayments on loans and deposit decay rates at each level of interest rate change. The Bank's estimates for loan repayment levels are influenced by the recent history of prepayment activity in its loan portfolio, as well as the interest rate composition of the existing portfolio, especially in relation to the existing interest rate environment. In addition, the Bank considers the amount of fee protection inherent in the loan portfolio when estimating future repayment cash flows. Regarding deposit decay rates, the Bank tracks and analyzes the decay rate of its deposits over time, with the assistance of a reputable third party, and over various interest rate scenarios. Such results are utilized in determining estimates of deposit decay rates in the valuation model. The Bank also generates a series of spot discount rates that are integral to the valuation of the projected monthly cash flows of its assets and liabilities. The Bank's valuation model employs discount rates that it considers representative of prevailing market rates of interest, with appropriate adjustments it believes are suited to the heterogeneous characteristics of the Bank's various asset and liability portfolios. No matter the care and precision with which the estimates are derived, however, actual cash flows could differ significantly from the Bank's estimates, resulting in significantly different EVE calculations.

The analysis that follows presents, as of June 30, 2014 and December 31, 2013, the estimated EVE at both the Pre-Shock Scenario and the +200 Basis Point Rate Shock Scenario. The analysis additionally presents the percentage change in EVE from the Pre-Shock Scenario to the +200 Basis Point Rate Shock Scenario at both June 30, 2014 and December 31, 2013.

|  | At June 30, 2014 |               |                   | At December 31, 2013 |               |                   |   |
|--|------------------|---------------|-------------------|----------------------|---------------|-------------------|---|
|  | EVE              | Dollar Change | Percentage Change | EVE                  | Dollar Change | Percentage Change |   |
| Rate Shock Scenario (Dollars in Thousands) |                  |               |                   |                      |               |                   |   |
| + 200 Basis Points                         | \$494,386        | \$(42,936)    | -8.0              | % \$445,618          | \$(56,896)    | -11.3             | % |
| Pre-Shock Scenario                         | 537,322          | -             | -                 | 502,514              | -             | -                 |   |

The Bank's Pre-Shock EVE increased from \$502.5 million at December 31, 2013 to \$537.3 million at June 30, 2014. The increase resulted from more favorable valuations ascribed to the Bank's real estate portfolio due to both a decline in market lending rates from December 31, 2013 to June 30, 2014 and growth in the Bank's real estate portfolio during the six months ended June 30, 2014 from loans carrying above market interest rates. Partially offsetting these increases was a less favorable valuation on core deposits resulting from a change in the projected re-pricing schedule for various money market accounts.

The Bank's EVE in the +200 basis point Rate Shock Scenario increased from \$445.6 million at December 31, 2013 to \$494.4 million at June 30, 2014. The factors contributing to the more favorable valuation included both an increase in the value of the Bank's real estate loans as discussed in the Pre-Shock EVE Scenario above, and a more favorable valuation on the Bank's wholesale borrowing portfolio resulting from an increase in its duration from December 31, 2013 to June 30, 2014.

**Income Simulation Analysis.** As of the end of each quarterly period, the Bank also monitors the impact of interest rate changes through a net interest income simulation model. This model estimates the impact of interest rate changes on the Bank's net interest income over forward-looking periods typically not exceeding 36 months (a considerably

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shorter period than measured through the EVE analysis). Management reports the net interest income simulation results to the Bank's Board of Directors on a quarterly basis. The following table discloses the estimated changes to the Bank's net interest income assuming instantaneous changes in interest rates for the given Rate Shock Scenarios:

|   | Percentage Change<br>in Net Interest<br>Income for the<br>12-Month Period<br>Ending |                           |
|---|---|---------------------------|
|   | June<br>30,<br>2015   | December<br>31, 2014<br>* |
| Instantaneous Change in interest rate of: |   |                           |
| + 200 Basis Points                        | (9.1)%  | (12.9 )%                  |
| + 100 Basis Points                        | (4.9)   | (7.0 )                    |
| -100 Basis Points                         | 2.8   | 3.6                       |

\* Measured as of December 31, 2013.

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Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness as of June 30, 2014, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2014 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes from the risks disclosed in the Risk Factors section of the Holding Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

(c) The Holding Company did not repurchase any shares of its common stock into treasury during the three months ended June 30, 2014. No existing repurchase programs expired during the three months ended June 30, 2014, nor did the Company terminate any repurchase programs prior to expiration during the period. As of June 30, 2014, the Holding Company had an additional 1,124,549 shares remaining eligible for repurchase under its twelfth stock repurchase program, which was publicly announced in June 2007.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits



Exhibit Number

- 3(i) Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1)
- 3(ii) Amended and Restated Bylaws of Dime Community Bancshares, Inc. (18)
- 4.1 Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto]
- 4.2 Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto]
- 4.3 Draft Stock Certificate of Dime Community Bancshares, Inc. (2)

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- 4.4 Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company as Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I and the holders from time to time of undivided beneficial interests in the assets of Dime Community Capital Trust I (5)
- 4.5 Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (5)
- 4.6 Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (5)
- 10.1 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (12)
- 10.2 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (12)
- 10.3 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (12)
- 10.4 Employment Agreement between Dime Community Bancshares, Inc. and Vincent F. Palagiano (12)
- 10.5 Employment Agreement between Dime Community Bancshares, Inc. and Michael P. Devine (12)
- 10.6 Employment Agreement between Dime Community Bancshares, Inc. and Kenneth J. Mahon (12)
- 10.7 Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (14)
- 10.8 The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (11)
- 10.9 Severance Pay Plan of The Dime Savings Bank of Williamsburgh (9)
- 10.10 Retirement Plan for Board Members of Dime Community Bancorp, Inc. (9)
- 10.12 Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (3)
- 10.13 Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001  
Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan. (3)
- 10.14 Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan (3)
- 10.20 Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (13)
- 10.21 Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (8)
- 10.22 Waiver executed by Vincent F. Palagiano (7)
- 10.23 Waiver executed by Michael P. Devine (7)
- 10.24 Waiver executed by Kenneth J. Mahon (7)
- 10.25 Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (6)
- 10.27 Form of restricted stock award notice for outside directors under the 2004 Stock Incentive Plan (6)
- 10.28 Employee Retention Agreement between The Dime Savings Bank of Williamsburgh, Dime Community Bancshares, Inc. and Daniel Harris (9)
- 10.29 Dime Community Bancshares, Inc. Annual Incentive Plan (9)
- 10.30 The Dime Savings Bank of Williamsburgh 401(K) Savings Plan (Amended and Restated Effective January 1, 2010) (10)
- 10.31 Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (9)
- 10.32 Amendment to the Benefit Maintenance Plan (15)
- 10.33 Amendments to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (16)

- 10.34 Dime Community Bancshares, Inc. 2013 Equity And Incentive Plan (17)
- 10.35 Form of restricted stock award notice for officers and employees under the 2013 Equity and Incentive Plan
- 10.36 Form of restricted stock award notice for outside directors under the 2013 Equity and Incentive Plan
- 12.1 Computation of ratio of earnings to fixed charges
- 31(i).1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31(i).2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350  
Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014 is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Income for the three-month and six-month periods ended June 30, 2014 and 2013, (iii) the Consolidated Statements of Comprehensive Income for the three-month and six-month periods ended June 30, 2014 and 2013, (iv) the Consolidated Statements of Changes in Stockholders' Equity for the six-month periods ended June 30, 2014 and 2013, (v) the Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2014 and 2013, and (vi) the Notes to Consolidated Financial Statements.

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\*\* Furnished, not filed, herewith.

- (1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.
- (2) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.
- (3) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997, and the Current Reports on Form 8-K filed on March 22, 2004 and March 29, 2005.
- (4) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.
- (5) Incorporated by reference to Exhibits to the registrant's Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.
- (6) Incorporated by reference to the registrant's Current Report on Form 8-K filed on March 22, 2005.
- (7) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 10, 2005.
- (8) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed on August 8, 2008.
- (9) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 16, 2009.
- (10) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed on May 10, 2010.
- (11) Incorporated by reference to the registrant's Current Report on Form 8-K filed on April 4, 2011.
- (12) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 filed on May 10, 2011.
- (13) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed on August 9, 2011.
- (14) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed on May 9, 2012.
- (15) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed on November 13, 2012.
- (16) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013.
- (17) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed on August 9, 2013.
- (18) Incorporated by reference to the registrant's Current Report on Form 8-K filed on April 1, 2014.

SIGNATURES

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

Dime Community Bancshares, Inc.

Dated: August 5, 2014 By: /s/ VINCENT F. PALAGIANO  
Vincent F. Palagiano  
Chairman of the Board and Chief Executive Officer

Dated: August 5, 2014 By: /s/ Michael Pucella  
Michael Pucella  
Executive Vice President and Chief Accounting Officer (Principal Financial Officer)

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