DIME COMMUNITY BANCSHARES INC
Form 10-Q
May 08, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014
OR

o 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 x NO o

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 x NO o

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.

LARGE ACCELERATED FILER o	ACCELERATED FILER x	NON -ACCELERATED FILER o	SMALLER REPORTING COMPANY o

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

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 May 6, 2014
$0.001 Par Value	36,859,347

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)

	March 31, 2014	December 31, 2013
ASSETS:		
Cash and due from banks	$$66,120	$$45,777
Total cash and cash equivalents	66,120	45,777
Investment securities held-to-maturity (estimated fair value of $5,820 and $5,163 at March 31, 2014 and December 31, 2013, respectively)(fully unencumbered)	5,324	5,341
Investment securities available-for-sale, at fair value (fully unencumbered):	3,654	18,649
Mortgage-backed securities available-for-sale, at fair value (fully unencumbered):	30,652	31,543
Trading securities	6,948	6,822
Loans:		
Real estate, net	3,943,521	3,697,380
Consumer loans	1,873	2,139
Less allowance for loan losses	(20,429)	(20,153)
Total loans, net	3,924,965	3,679,366
Loans held for sale	-	0
Premises and fixed assets, net	26,067	26,077
Premises held for sale	-	3,624
Federal Home Loan Bank of New York ("FHLBNY") capital stock	53,593	48,051
Other Real Estate Owned ("OREO")	18	18
Goodwill	55,638	55,638
Other assets	107,390	107,284
Total Assets	$4,280,369	$4,028,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors:		
Interest bearing deposits	$2,410,338	$2,332,689
Non-interest bearing deposits	176,636	174,457
Total deposits	2,586,974	2,507,146
Escrow and other deposits	110,062	69,404
FHLBNY advances	1,033,150	910,000
Trust Preferred securities payable	70,680	70,680
Other liabilities	37,868	35,454
Total Liabilities	3,838,734	3,592,684
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock ($ 0.01 par, 9,000,000 shares authorized, none issued or outstanding at Match 31, 2014 and December 31, 2013)	-	-
Common stock ($ 0.01 par, 125,000,000 shares authorized, 52,862,963 shares and 52,854,483 shares issued at March 31, 2014 and December 31, 2013, respectively, and 36,720,170 shares and 36,712,951 shares outstanding at March 31, 2014 and December 31, 2013, respectively)	528	528
Additional paid-in capital	252,680	252,253
Retained earnings	408,009	402,986
Accumulated other comprehensive loss, net of deferred taxes	(4,637)	(4,759)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(2,718)	(2,776)

Unearned Restricted Stock Award common stock	(2,680)	(3,193)
Common stock held by Benefit Maintenance Plan ("BMP")	(9,012)	(9,013)
Treasury stock, at cost (16,142,793 shares and 16,141,532 shares at March 31, 2014 and December 31, 2013, respectively)	(200,535)	(200,520)
Total Stockholders' Equity	441,635	435,506
Total Liabilities And Stockholders' Equity	$4,280,369	$4,028,190

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest income:		
Loans secured by real estate	$40,861	$43,148
Other loans	25	25
Mortgage-backed securities	248	459
Investment securities	70	129
Federal funds sold and other short-term investments	522	544
Total interest income	41,726	44,305
Interest expense:		
Deposits and escrow	4,621	5,201
Borrowed funds	6,850	6,790
Total interest expense	11,471	11,991
Net interest income	30,255	32,314
Provision for loan losses	281	157
Net interest income after provision for loan losses	29,974	32,157
Non-interest income:		
Service charges and other fees	655	712
Net mortgage banking income	999	161
Net gain on securities	14	210
Net gain on the disposal of other assets	649	-
Income from bank owned life insurance	387	413
Other	356	402
Total non-interest income	3,060	1,898
Non-interest expense:		
Salaries and employee benefits	8,519	8,933
Stock benefit plan amortization expense	989	1,018
Occupancy and equipment	2,750	2,532
Data processing costs	838	812
Federal deposit insurance premiums	505	511
Provision for losses on OREO	-	180
Other	2,222	2,323
Total non-interest expense	15,823	16,309
Income before income taxes	17,211	17,746
Income tax expense	7,177	7,176
Net income	$10,034	$10,570
Earnings per Share:		
Basic	$0.28	$0.30
Diluted	$0.28	$0.30

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

Net Income	$10,034	$10,570
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of $8 and $27 during the three months ended March 31, 2014 and 2013, respectively	12	34

Reduction in non-credit component of OTTI charge, net of taxes of $4 and $4 during the three months ended both March 31, 2014 and 2013	4	4
Reclassification adjustment for securities sold during the period, net of taxes of (50) during the three months ended March 31, 2013 (reclassified from net gain on securities)	-	(60)
Net unrealized securities gains (losses) arising during the period, net of (tax benefits) taxes of $(30) and $196 during the three months ended March 31, 2014 and 2013, respectively	(37)	241
Defined benefit plan adjustments, net of taxes of $118 during the three months ended March 31, 2014	143	-
Comprehensive Income	$10,156	$10,789

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2014	2013
Common Stock (Par Value $0.01):		
Balance at beginning of period	$528	$520
Shares issued in exercise of options	-	2
Balance at end of period	528	522
Additional Paid-in Capital:		
Balance at beginning of period	252,253	239,041
Stock options exercised	139	2,060
Excess tax (expense) benefit related to stock benefit plans	(14)	71
Amortization of excess fair value over cost- ESOP stock and stock option expense	305	292
Return of shares to treasury for forfeited shares	(3)	-
Balance at end of period	252,680	241,464
Retained Earnings:		
Balance at beginning of period	402,986	402,986
Net income for the period	10,034	10,570
Cash dividends declared and paid	(5,011)	(4,881)
Balance at end of period	408,009	384,855
Accumulated Other Comprehensive Loss, net of tax:		
Balance at beginning of period	(4,759)	(9,640)
Other comprehensive income recognized during the period	122	219
Balance at end of period	(4,637)	(9,421)
ESOP:		
Balance at beginning of period	(2,776)	(3,007)
Amortization of earned portion of ESOP stock	58	57
Balance at end of period	(2,718)	(2,950)
Unearned Restricted Stock Award Common Stock:		
Balance at beginning of period	(3,193)	(3,122)
Amortization of earned portion of restricted stock awards	495	526
Return of shares to treasury for forfeited shares	18	-
Balance at end of period	(2,680)	(2,596)
Common Stock Held by BMP:		
Balance at beginning of period	(9,013)	(8,800)
Award distribution	1	-
Balance at end of period	(9,012)	(8,800)
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	(15)	10
Balance at end of period	(200,535)	(202,574)
Total Stockholders' Equity	$441,635	$400,500

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$10,034	$10,570
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	(14)	(100)
Net gain on the sale of loans	(27)	(12)
Net gain on the sale of OREO and other assets	(649)	-
Net depreciation, amortization and accretion	673	720
Stock plan compensation (excluding ESOP)	531	599
ESOP compensation expense	327	286
Provision for loan losses	281	157
Provision for losses on OREO	-	180
Credit to reduce the liability for loans sold with recourse	(1,040)	(92)
Increase in cash surrender value of BOLI	(387)	(413)
Deferred income tax credit	(29)	55
Excess tax expense (benefit) of stock benefit plans	14	(71)
Changes in assets and liabilities:		
Origination of loans held for sale	-	(1,393)
Proceeds from sale of loans held for sale	-	-
Decrease in other assets	-	-
Increase in other liabilities	3,478	4,507
Net cash provided by operating activities	13,623	18,279
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal repayments of investment securities held-to-maturity	52	279
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	(4)	(372)
Purchases of mortgage backed securities available-for-sale	(875)	-
Purchases of trading securities	(112)	(135)
Principal collected on mortgage backed securities available-for-sale	1,682	5,911
Proceeds from the sale of portfolio loans	12,970	4,079
Purchases of loans	(221,924)	(3,750)
Net increase in loans	(36,898)	(41,817)
Proceeds from the sale of premises	4,273	-
Purchases of fixed assets, net	(653)	(253)
(Purchase) Redemption of FHLBNY capital stock	(5,542)	4,275
Net cash used in investing activities	(232,031)	(16,536)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in due to depositors	79,828	121,886
Increase in escrow and other deposits	40,658	36,699
Repayment of FHLBNY advances	(645,000)	(95,000)

Proceeds from FHLBNY advances	768,150	-
Proceeds from exercise of stock options	139	2,062
Excess tax (expense) benefit of stock benefit plans	(14)	71
BMP benefit distribution	1	-
Cash dividends paid to stockholders	(5,011)	(4,881)
Net cash provided by Financing Activities	238,751	60,837
INCREASE IN CASH AND DUE FROM BANKS	20,343	62,580
CASH AND DUE FROM BANKS, BEGINNING OF PERIOD	45,777	79,076
CASH AND DUE FROM BANKS, END OF PERIOD	66,120	141,656
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$3,413	$7,623
Cash paid for interest	11,144	11,998
Loans transferred to OREO	-	765
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	12	34
Net decrease in non-credit component of OTTI	4	4

See notes to condensed consolidated financial statements.

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 March 31, 2014 and December 31, 2013, the results of operations and statements of comprehensive income for the three-month periods ended March 31, 2014 and 2013, and the changes in stockholders' equity and cash flows for the three-month period ended March 31, 2014 and 2013. The results of operations for the three-month periods ended March 31, 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.

4. TREASURY STOCK

The Holding Company did not repurchase any of its common stock into treasury during the three months ended March 31, 2014 and 2013.

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 Amount	Tax Expense (Benefit)	After tax Amount
Three Months Ended March 31, 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	20	8	12
Total securities held-to-maturity and transferred securities	28	12	16
Securities available-for-sale:			
Reclassification adjustment for net gains included in net income	-	-	0
Change in net unrealized gain during the period	(67)	(30)	(37)
Total securities available-for-sale	(67)	(30)	(37)
Defined benefit plans:			
Reclassification adjustment for expense included in salaries and employee benefits expense	261	118	143
Total defined benefit plans	261	118	143
Total other comprehensive income	$ 222	$ 100	$ 122
Three Months Ended March 31, 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	61	27	34
Total securities held-to-maturity and transferred securities	69	31	38
Securities available-for-sale:			
Reclassification adjustment for net gains included in net income	(110)	(50)	(60)
Change in net unrealized gain during the period	437	196	241
Total securities available-for-sale	327	146	181
Defined benefit plans:			
Reclassification adjustment for expense included in salaries and employee benefits expense	-	-	-
Total defined benefit plans	-	-	-
Total other comprehensive income	$ 396	$ 177	$ 219

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

	Securities Held-to-Maturity and Transferred	Securities Available-for-Sale	Defined Benefit Plans	Total Accumulated Other Comprehensive

	Securities			Gain (Loss)
Balance as of January 1, 2014	$ (878)	$ 1,319	$(5,200)	$ (4,759)
Other comprehensive income before reclassifications	16	(37)	-	(21)
Amounts reclassified from accumulated other comprehensive loss	-	-	143	143
Net other comprehensive income (loss) during the period	16	(37)	143	122
Balance as of March 31, 2014	$ (862)	$ 1,282	$(5,057)	$ (4,637)
Balance as of January 1, 2013	$ (1,043)	1,178	$(9,775)	$ (9,640)
Other comprehensive income before reclassifications	38	241	-	279
Amounts reclassified from accumulated other comprehensive loss	-	(60)	-	(60)
Net other comprehensive income during the period	38	181	0	219
Balance as of March 31, 2013	$ (1,005)	$ 1,359	$(9,775)	$ (9,421)

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

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outstanding for basic and diluted EPS. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

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

	Three Months Ended March 31,	
	2014	2013
Net income per the Consolidated Statements of Income	$10,034	$10,570
Less: Dividends paid and earnings allocated to participating securities	(45)	(46)
Income attributable to common stock	$9,989	$10,524
Weighted average common shares outstanding, including participating securities	36,094,495	35,147,851
Less: weighted average participating securities	(317,810)	(324,880)
Weighted average common shares outstanding	35,776,685	34,822,971
Basic EPS	$0.28	$0.30
Income attributable to common stock	$9,989	$10,524
Weighted average common shares outstanding	35,776,685	34,822,971
Weighted average common equivalent shares outstanding	112,899	56,268
Weighted average common and equivalent shares outstanding	35,889,584	34,879,239
Diluted EPS	$0.28	$0.30

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 364,715 and 1,300,035 weighted-average stock options outstanding for the three-month periods ended March 31, 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 periods ended March 31, 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 Stock Incentive Plan and the Dime Community Bancshares, Inc. 2013 Equity And Incentive 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:

	At or for the Three Months Ended March 31,	
	2014	2013
Options outstanding – beginning of period	1,615,771	2,456,137
Options granted	-	-

Options exercised	(8,480)	(157,670)
Options forfeited	(618,895)	(3,095)
Options outstanding – end of period	988,396	2,295,372
Intrinsic value of options exercised	$5	$150
Compensation expense recognized	36	73
Remaining unrecognized compensation expense	105	261
Intrinsic value of outstanding options at period end	2,294	1,070
Intrinsic value of vested options at period end	2,177	841
Weighted average exercise price of vested options – end of period	14.76	15.98

There were no grants of stock options during the three-month periods ended March 31, 2014 and 2013.

Restricted Stock Awards

The Company, from time to time, issues restricted stock awards to outside directors and certain officers under the 2004 Stock Incentive 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 Stock Incentive Plan during the periods indicated:

	At or for the Three Months Ended March 31,	
	2014	2013
Unvested allocated shares – beginning of period	318,314	328,003
Shares granted	-	-
Shares vested	-	(6,855)
Shares forfeited	(1,261)	-
Unvested allocated shares – end of period	317,053	321,148
Compensation recorded to expense	$495	$526

8. LOANS RECEIVABLE AND CREDIT QUALITY

Loans are reported at the principal amount outstanding, 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 Company paid an aggregate premium of $13,163 on real estate loans repurchased during the three months ended March 31, 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:

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 March 31, 2014 and December 31, 2013, the Bank had a portion of one loan classified as doubtful, with a full reserve applied against the balance deemed doubtful. All real estate loans not classified as Special Mention, Substandard or Doubtful were deemed pass loans at both March 31, 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:

	Balance at March 31, 2014					
Grade	One- to Four-Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed Use	Commercial Mixed Use Real Estate	Commercial Real Estate	Construction	Total Real Estate Loans
Not Graded(1)	$7,996	$ -	$ -	$ -	$ -	$7,996
Pass	58,807	3,158,734	296,484	353,786	-	3,867,811
Special Mention	7,517	13,703	5,428	17,529	222	44,399
Substandard	2,452	3,692	4,571	11,280	-	21,995
Doubtful	-	-	1,320	-	-	1,320
Total	$76,772	$3,176,129	$ 307,803	$ 382,595	$ 222	$3,943,521

(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.

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

(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.

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.

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

Grade	Balance at March 31, 2014	Balance at December 31, 2013
Performing	$ 1,857	$ 2,136

Non-accrual	16	3
Total	$ 1,873	$ 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 March 31, 2014

	30 to 59 Days Past Due	60 to 89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing Interest	Non-accrual [(1)]	Total Past Due	Current	Total Loans
Real Estate:							
One- to four-family residential, including condominium and cooperative apartment	$264	$200	$ -	$ 1,382	$1,846	$74,926	$76,772
Multifamily residential and residential mixed use	-	-	2,699	1,271	3,970	3,172,159	3,176,129
Commercial mixed use real estate	-	-	-	4,400	4,400	303,403	307,803
Commercial real estate	-	-	-	5,707	5,707	376,888	382,595
Construction	-	-	-	-	-	222	222
Total real estate	$264	$200	$ 2,699	$ 12,760	$15,923	$3,927,598	$3,943,521
Consumer	$1	$5	$ -	$ 16	$22	$1,851	$1,873

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of March 31, 2014.

At December 31, 2013

	30 to 59 Days Past Due	60 to 89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing Interest	Non-accrual [(1)]	Total Past Due	Current	Total Loans
Real Estate:							
One- to four-family residential, including condominium and cooperative apartment	$143	$302	$ -	$ 1,242	$1,687	$72,269	$73,956
Multifamily residential and residential 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
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

(1) 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 seven real estate loans with an aggregate outstanding balance of $2,699 at March 31, 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 March 31, 2014		As of December 31, 2013	
	No. of Loans	Balance	No. of Loans	Balance
One- to four-family residential, including condominium and cooperative apartment	3	$930	3	$934
Multifamily residential and residential mixed use	4	1,137	4	1,148
Commercial mixed use real estate	-	-	-	-
Commercial real estate	5	22,165	5	22,245
Total real estate	12	$24,232	12	$24,327

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

	As of March 31, 2014		As of December 31, 2013	
	No. of Loans	Balance	No. of Loans	Balance
Outstanding principal balance at period end	12	$24,232	12	$24,327
TDRs on accrual status at period end	10	18,525	10	18,620
TDRs on non-accrual status at period end	2	5,707	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 March 31, 2014 and December 31, 2013.

There were no loan modifications during the three months ended March 31, 2014 or March 31, 2013 that met the definition of a TDR.

The Bank's allowance for loan losses at March 31, 2014 reflected $419 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. Activity related to reserves associated with TDRs was immaterial during the three-months ended March 31, 2014 and 2013.

As of March 31, 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.

There were no TDRs which defaulted within twelve months following the modification during the three month periods ended March 31, 2014 or 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 some of the 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 March 31, 2014 are reported in the table on page 12.

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 March 31, 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 flows (using the loan's pre-modification rate in the case of some 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 March 31, 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 March 31, 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 March 31, 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 $100 at March 31, 2014 and $53 at December 31, 2013. The increase resulted from both growth of $540 in the balance of such loans from December 31, 2013 to March 31, 2014, as well as the application of a higher loss percentage on these loans at March 31, 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 March 31, 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 March 31, 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 $231 at March 31, 2014, due to both an increase of $790 in the balance of such loans and an increase in the expected loss percentage applied to such loans, from December 31, 2013 to March 31, 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
(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 March 31, 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 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 table presents 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:

At or for the Three Months Ended March 31, 2014

	Real Estate Loans						Consumer Loans
	One- to Four Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed Use	Commercial Mixed Use Real Estate	Commercial Real Estate	Construction	Total Real Estate	
Beginning balance	$236	$13,840	$3,003	$3,047	$ 3	$20,129	$ 24
Provision (credit) for loan losses	49	338	(206)	102	(2)	281	1
Charge-offs	(9)	(37)	(30)	(108)	-	-184	-
Recoveries	1	170	0	7	-	178	-
Ending balance	$277	$14,311	$2,767	$3,048	$ 1	$20,404	$ 25

Ending balance – loans individually evaluated for impairment	$930	$2,408	$4,400	$22,164	$ 0	$29,902	$ -
Ending balance – loans collectively evaluated for impairment	75,842	3,173,721	303,403	360,431	222	3,913,619	1,873
Allowance balance associated with loans individually evaluated for impairment	-	-	1,320	419	-	1,739	-
Allowance balance associated with loans collectively evaluated for impairment	277	14,311	1,447	2,629			