DIME COMMUNITY BANCSHARES INC
Form 10-K
March 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Year Ended December 31, 2015

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

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NQ

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2015 was approximately $517.6 million based upon the $16.94 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2015.

As of March 11, 2016, there were 37,371,992 shares of the registrant's common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be distributed on behalf of the Board of Directors of Registrant in connection with the Annual Meeting of Shareholders to be held on May 26, 2016 and any adjournment thereof, are incorporated by reference in Part III.

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	
General	F-3
Market Area and Competition	F-4
Lending Activities	F-5
Asset Quality	F-11
Allowance for Loan Losses	F-15
Investment Activities	F-17
Sources of Funds	F-21
Subsidiary Activities	F-23
Personnel	F-23
Federal, State and Local Taxation	F-23
Federal Taxation	F-23
State and Local Taxation	F-24
Regulation	F-25
General	F-25
Regulation of New York State Chartered Savings Banks	F-26
Regulation of Holding Company	F-34
Federal Securities Laws	F-36
Delaware Corporation Law	F-36
Item 1A. Risk Factors	F-36
Item 1B. Unresolved Staff Comments	F-44
Item 2. Properties	F-44
Item 3. Legal Proceedings	F-44
Item 4. Mine Safety Disclosures	F-44
PART II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	F-44
Item 6. Selected Financial Data	F-46
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	F-48
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	F-58
Item 8. Financial Statements and Supplementary Data	F-61
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	F-61
Item 9A. Controls and Procedures	F-61
Item 9B. Other Information	F-61
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	F-61
Item 11. Executive Compensation	F-62
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	F-62
Item 13. Certain Relationships and Related Transactions, and Director Independence	F-62
Item 14. Principal Accounting Fees and Services	F-62
PART IV	
Item 15. Exhibits, Financial Statement Schedules	F-63
Signatures	F-64

Table of Contents

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

Forward-looking statements are based upon various assumptions and analyses made by 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
- Other risks, as enumerated 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.

PART I

Item 1. Business

General

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered savings bank. The Bank's principal business is gathering deposits, and lending them primarily in multifamily residential, commercial real estate and mixed use loans, as well as investing in mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Entities ("GSEs"), and corporate debt and equity securities. The Bank's revenues are derived principally from interest on its loan and securities portfolios, and other investments. The Bank's primary sources of funds are, in general, deposits; loan amortization, prepayments and

maturities; MBS amortization, prepayments and maturities; investment securities maturities and sales; and advances from the Federal Home Loan Bank of New York ("FHLBNY").

The primary business of the Holding Company is the ownership of its wholly-owned subsidiary, the Bank. The Holding Company is a unitary savings and loan holding company, which, under existing law, is generally not restricted as to the types of business activities in which it may engage.

Table of Contents

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

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

Market Area and Competition

The Bank has historically operated as a community-oriented financial institution providing financial services and loans primarily for multifamily housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York, and operates twenty-five full-service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches, and, to a lesser extent, via the internet. The Bank's primary lending area is the NYC metropolitan area, although it's overall lending area is larger, extending approximately 50 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's mortgage loans are secured by properties located in its primary lending area, with approximately 88% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2015.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from other savings banks, commercial banks, mortgage banks, internet banks and insurance companies. The Bank continues to face sustained competition for the origination of multifamily residential and commercial real estate loans, which together comprised 98% of the Bank's loan portfolio at December 31, 2015.

The Bank gathers deposits in direct competition with other savings banks, commercial banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies with the stock and bond markets, especially during periods of strong performance in those arenas. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has dramatically altered the deposit gathering landscape. Facing increasingly larger and more efficient competitors, the Bank's strategy to attract depositors has utilized various marketing approaches and the delivery of technology-enhanced, customer-friendly banking services while controlling operating expenses.

Banking competition occurs within an economic and financial marketplace that is largely beyond the control of any individual financial institution. The interest rates paid to depositors and charged to borrowers, while affected by marketplace competition, are generally a function of broader-based macroeconomic and financial factors, including the U.S. Gross Domestic Product, the supply of, and demand for, loanable funds, and the impact of global trade and international financial markets. Within this environment, Federal Open Market Committee ("FOMC") monetary policy and governance of short-term rates also significantly influence the interest rates paid and charged by financial institutions.

The Bank's success is additionally impacted by the overall condition of the economy, particularly in the NYC metropolitan area. As home to several national companies in the financial and business services industries, and as a popular destination for domestic and international travelers, the NYC economy is particularly sensitive to the health of

both the national and global economies.

Table of Contents

Lending Activities

The Bank originates primarily non-recourse loans on multifamily and commercial real estate properties to limited liability companies.

Loan Portfolio Composition. At December 31, 2015, the Bank's loan portfolio totaled $4.69 billion, consisting primarily of mortgage loans secured by multifamily residential apartment buildings, including buildings organized under a cooperative form of ownership; commercial properties; and one- to four-family residences and individual condominium or cooperative apartments. Within the loan portfolio, $3.75 billion, or 80.0%, were classified as multifamily residential loans; $863.2 million, or 18.4%, were classified as commercial real estate loans; and $72.1 million, or 1.5%, were classified as one- to four-family residential, including condominium or cooperative apartments. Of the total mortgage loan portfolio outstanding on December 31, 2015, $3.69 billion, or 78.7%, were adjustable-rate mortgage loans ('"ARMs") and $997.2 million, or 21.3%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 75% were ARMs at December 31, 2015, the majority of which were contracted to reprice no later than 7 years from their origination date and carried a total amortization period of no longer than 30 years. At December 31, 2015, the Bank's loan portfolio additionally included $1.6 million in consumer loans, composed of depositor, consumer installment and other loans. As of December 31, 2015, $3.07 billion, or 65.4% of the loan portfolio, was scheduled to mature or reprice within five years. In addition at December 31, 2015, loans totaling $474.7 million were only required to make monthly interest payments on their outstanding principal balance. The great majority of these loans commence principal amortization prior to their contractual maturity date.

The Bank does not originate or purchase loans, either whole loans or collateral underlying MBS, that would be considered subprime at origination (i.e., mortgage loans advanced to borrowers who do not qualify for market interest rates because of problems with their income or credit history).

The types of loans the Bank may originate are subject to New York State laws and regulations (See "Item 1. Business - Regulation – Regulation of New York State Chartered Savings Banks").

At December 31, 2015, the Bank had $219.0 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2016. At December 31, 2014, the Bank had $122.1 million of loan commitments that were accepted by the borrowers. All of these closed during the year ended December 31, 2015.

Table of Contents

The following table sets forth the composition of the Bank's real estate and other loan portfolios (including loans held for sale) in dollar amounts and percentages at the dates indicated:

	At December 31,								
	2015	Percent of Total	2014	Percent of Total	2013	Percent of Total	2012	Percent of Total	2011
	Dollars in Thousands								
Real Estate loans:									
Multifamily residential	$3,752,328	80.02 %	$3,292,753	80.05 %	$2,917,380	78.97 %	$2,671,533	76.30 %	$2,599,850
Commercial real estate	863,184	18.41	745,463	18.12	700,606	18.96	735,224	21.00	751,586
One- to four-family, including condominium and cooperative apartment	72,095	1.54	73,500	1.79	73,956	2.00	91,876	2.62	100,712
Construction and land acquisition	-	-	-	-	268	0.01	476	0.01	5,827
Total real estate loans	4,687,607	99.97	4,111,716	99.96	3,692,210	99.94	3,499,109	99.93	3,457,975
Consumer loans:									
Depositor loans	557	0.01	677	0.01	763	0.02	712	0.02	483
Consumer installment and other	1,033	0.02	1,152	0.03	1,376	0.04	1,711	0.05	1,966
Total consumer loans	1,590	0.03	1,829	0.04	2,139	0.06	2,423	0.07	2,449
Gross loans	4,689,197	100.00%	4,113,545	100.00%	3,694,349	100.00%	3,501,532	100.00%	3,460,424
Net unearned costs	7,579		5,695		5,170		4,836		3,463
Allowance for loan losses	(18,514)		(18,493)		(20,153)		(20,550)		(20,254)
Loans, net	$4,678,262		$4,100,747		$3,679,366		$3,485,818		$3,443,633
Loans serviced for others:									
One- to four-family including condominium	$4,374		$5,215		$6,746		$8,786		$10,841

and cooperative apartment					
Multifamily residential	18,735	19,038	240,517	353,034	475,673
Total loans serviced for others	$23,109	$24,253	$247,263	$361,820	$486,514

F-6

Table of Contents

Loan Originations, Purchases, Sales and Servicing. For the year ended December 31, 2015, total loan originations were $1.35 billion. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. ARMs were 94% of total loan originations during the period. The great majority of both ARM and fixed-rate originations were multifamily residential and commercial real estate loans.

The typical multifamily residential and commercial real estate ARM carries a final maturity of 10 or 12 years, and an amortization period not exceeding 30 years. These loans generally have an interest rate that adjusts once after the fifth or seventh year, indexed to the 5-year FHLBNY advance rate plus a spread typically approximating 250 basis points, but generally may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the majority of the life of the loans. In some instances, these loans do not amortize any principal during the contractual maturity period, such loans are referred to as "interest only loans." The Bank also offers fixed-rate, self-amortizing, multifamily residential and commercial real estate loans with maturities of up to fifteen years.

Multifamily residential real estate loans are either retained in the Bank's portfolio or sold in the secondary market to other third-party financial institutions. The Bank currently has no formal arrangement pursuant to which it sells commercial or multifamily residential real estate loans to the secondary market.

The Bank generally retains servicing rights in connection with multifamily loans it sells in the secondary market. Loan servicing fees are typically derived based upon the difference between the actual origination rate and contractual pass-through rate of the loans at the time of sale. At December 31, 2015, the Bank had recorded mortgage servicing rights ("MSR") of $239,000 associated with the sale of one- to four-family and multifamily residential loans to third party institutions.

Prior to February 2013, the Bank generally sold its newly originated one- to four-family fixed-rate mortgage loans in the secondary market. During the year ended December 31, 2013, the Bank ceased all one- to four-family fixed-rate mortgage lending in order to focus on its core multifamily residential and commercial real estate lending activities.

At December 31, 2015, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained totaled $23.1 million, all of which were sold without recourse.

Table of Contents

The following table sets forth the Bank's loan originations (including loans held for sale), sales, purchases and principal repayments for the periods indicated:

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	Dollars in Thousands				
Gross loans:					
At beginning of period	$4,113,545	$3,694,349	$3,501,532	$3,460,424	$3,468,479
Real estate loans originated:					
Multifamily residential	1,098,841	748,067	872,421	942,326	563,696
Commercial real estate	236,320	191,944	187,202	142,418	98,607
One- to four-family, including condominium and cooperative apartment (1)	5,316	2,302	5,896	12,184	7,094
Equity lines of credit on multifamily residential or commercial properties	3,389	4,657	7,578	2,764	7,685
Construction and land acquisition	-	-	-	-	1,712
Total mortgage loans originated	1,343,866	946,970	1,073,097	1,099,692	678,794
Other loans originated	1,334	1,263	1,354	1,414	1,552
Total loans originated	1,345,200	948,223	1,074,451	1,101,106	680,346
Loans purchased (2)	99,745	225,604	52,031	30,425	54,364
Less:					
Principal repayments (including satisfactions and refinances)	859,721	737,776	923,110	1,020,525	698,928
Loans sold (3)	9,572	16,865	8,087	67,593	38,320
Write down of principal balance for expected loss	-	-	1,685	2,305	5,517
Loans transferred to other real estate owned	-	-	783	-	-
Gross loans at end of period	$4,689,197	$4,113,545	$3,694,349	$3,501,532	$3,460,424

(1) Includes one- to four-family home equity and home improvement loans.
(2) Includes $225.6 million, $52.0 million, $30.4 million and $26.4 million of serviced loans previously sold to a third party that were re-acquired during the years ended December 31, 2014, 2013, 2012 and 2011, respectively.
(3) Includes $9.6 million, $3.9 million, $6.1 million, $30.9 million and $29.8 million of note sales on problem loans from portfolio during the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

Loan Maturity and Repricing. The following table distributes the Bank's real estate and consumer loan portfolios (including loans held for sale) at December 31, 2015 by the earlier of the maturity or next repricing date. ARMs are included in the period during which their interest rates are next scheduled to adjust. The table does not include scheduled principal amortization.

	Real Estate Loans	Consumer Loans	Total
	(Dollars in Thousands)		
Amount due to Mature or Reprice During the Year Ending:			
December 31, 2016	$169,627	$ 1,590	$171,217
December 31, 2017	513,118	-	513,118
December 31, 2018	482,871	-	482,871
December 31, 2019	800,725	-	800,725
December 31, 2020	1,098,887	-	1,098,887
Sub-total (within 5 years)	3,065,228	1,590	3,066,818
December 31, 2021 and beyond	1,622,379	-	1,622,379

TOTAL	$4,687,607	$ 1,590	$4,689,197

F-8

Table of Contents

The following table sets forth the outstanding principal balances of the Bank's real estate and consumer loan portfolios (including loans held for sale) at December 31, 2015 that are due to mature or reprice after December 31, 2016, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2016		
	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Real estate loans	$973,519	$3,544,461	$4,517,980
Consumer loans	-	-	-
Total loans	$973,519	$3,544,461	$4,517,980

Multifamily Residential Lending and Commercial Real Estate Lending. The majority of the Bank's lending activities consist of originating adjustable- and fixed-rate multifamily residential (generally buildings possessing a minimum of five residential units) and commercial real estate loans. The properties securing these loans are generally located in the Bank's primary lending area. At December 31, 2015, $3.75 billion, or 80.0% of the Bank's gross loan portfolio, were multifamily residential loans. Of the multifamily residential loans, $3.53 billion, or 94.1%, were secured by apartment buildings and $219.9 million, or 5.9%, were secured by buildings organized under a cooperative form of ownership. The Bank also had $863.2 million of commercial real estate loans in its portfolio at December 31, 2015, representing 18.4% of its total loan portfolio. Of the $863.2 million, approximately $485.9 million were secured by collateral containing strictly commercial tenants, while the remaining $377.3 million had a portion of the underlying collateral composed of residential units.

At December 31, 2015, multifamily residential and commercial real estate loans originated by the Bank were secured by three distinct property types: (1) fully residential apartment buildings; (2) "mixed-use" properties featuring a combination of residential and commercial units within the same building; and (3) fully commercial buildings. The underwriting procedures for each of these property types were substantially similar. The Bank classified loans secured by fully residential apartment buildings as multifamily residential loans in all instances. Loans secured by fully commercial real estate were classified as commercial real estate loans in all instances. Loans secured by mixed-use properties were classified as either residential mixed use (a component of total multifamily residential loans) or commercial mixed use (a component of total commercial real estate loans) based upon the percentage of the property's rental income received from its residential as compared to its commercial tenants. If 50% or more of the rental income was received from residential tenants, the full balance of the loan was classified as multifamily residential. If less than 50% of the rental income was received from residential tenants, the full balance of the loan was classified as commercial real estate. At December 31, 2015, mixed-use properties classified as multifamily residential or commercial real estate loans totaled $1.77 billion.

Multifamily residential and commercial real estate loans in the Bank's portfolio generally range in amount from $250,000 to $5.0 million, and, at December 31, 2015, had an average outstanding balance of approximately $2.3 million. Multifamily residential loans in this range are generally secured by buildings that contain between 5 and 100 apartments. As of December 31, 2015, the Bank had a total of $3.53 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units, representing 94% of its multifamily residential real estate loan portfolio.

At December 31, 2015, the Bank had 197 multifamily residential or commercial real estate loans in portfolio with principal balances greater than $5.0 million, totaling $1.71 billion. Within this total were forty-one loans totaling $643.9 million with outstanding balances greater than $10.0 million. These 197 loans, while underwritten to the same standards as all other multifamily residential and commercial real estate loans, tend to expose the Bank to a higher degree of risk due to the potential impact of losses from any one loan relative to the size of the Bank's capital position.

Repayment of multifamily residential loans is dependent, in significant part, on cash flow from the collateral property sufficient to satisfy operating expenses and debt service. Future increases in interest rates, increases in vacancy rates on multifamily residential or commercial buildings, and other economic events which are outside the control of the borrower or the Bank could negatively impact the future net operating income of such properties. Similarly, government regulations, such as the existing NYC Rent Regulation and Rent Stabilization laws, could limit future increases in the revenue from these buildings. As a result, rental income might not rise sufficiently over time to satisfy increases in either the loan rate at repricing or in overhead expenses (e.g., utilities, taxes, and insurance).

The Bank's underwriting standards for multifamily residential and commercial real estate loans generally require: (1) a maximum loan-to-value ratio of 75% based upon an appraisal performed by an independent, state licensed appraiser, and (2) sufficient rental income from the underlying property to adequately service the debt, represented by a minimum debt service ratio of 120% for multifamily residential and 125% for commercial real estate loans. The weighted average loan-to-value and debt service ratios approximated 57% and 194%, respectively, on all multifamily residential real estate loans originated during the year ended December 31, 2015, and 53% and 275%, respectively, on commercial real estate loans originated during the year ended December 31, 2015. The Bank additionally requires all multifamily residential and commercial real estate borrowers to represent that they are unaware of any environmental risks directly related to the collateral. In instances where the Bank's property inspection procedures indicate a potential environmental risk on a collateral property, the Bank will require a Phase 1 environmental risk analysis to be completed, and will decline loans where any significant residual environmental liability is indicated. The Bank further considers the borrower's experience in owning or managing similar properties, the Bank's lending experience with the borrower, and the borrower's credit history and business experience (See "Item 1. Business - Lending Activities - Loan Approval Authority and Underwriting" for a discussion of the Bank's underwriting procedures utilized in originating multifamily residential and commercial real estate loans).

It is the Bank's policy to require appropriate insurance protection at closing, including title and hazard insurance, on all real estate mortgage loans. Borrowers generally are required to advance funds for certain expenses such as real estate taxes, hazard insurance and flood insurance.

Commercial real estate loans are generally viewed as exposing lenders to a greater risk of loss than both one- to four-family and multifamily residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, as well as the success of the business and retail tenants occupying the properties, repayment of such loans is generally more vulnerable to weak economic conditions. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon its rentability, among other commercial factors. This increased risk is partially mitigated in the following manners: (i) the Bank requires, in addition to the security interest in the commercial real estate, a security interest in the personal property associated with the collateral and standby assignments of rents and leases from the borrower; (ii) the Bank will generally favor investments in mixed-use commercial properties that derive some portion of income from residential units, which provide a more reliable source of cash flow and lower vacancy rates, and (iii) the interest rate on commercial real estate loans generally exceeds that on multifamily residential loans. At December 31, 2015, approximately $377.3 million, or 43.7%, of the Bank's commercial real estate loans were secured by mixed-use commercial properties that derived some portion of income from residential units. The average outstanding balance of commercial real estate loans was $2.2 million at December 31, 2015.

The Bank's three largest multifamily residential loans at December 31, 2015 were: (i) a $53.5 million loan initially originated in September 2008 (subsequently re-financed in March 2012 and August 2014) secured by seventeen mixed-use buildings located in Manhattan, New York, containing, in aggregate, 401 residential units and 11 commercial units; (ii) a $28.2 million loan originated in November 2012 secured by three apartment building complexes located in Queens, New York, containing 514 residential units and one commercial unit; and (iii) a $27.0 million loan originated in August 2014 secured by three cooperative residential apartment buildings located in Manhattan, New York, containing 436 residential units and one commercial unit. Each of these loans made all contractual payments during the year ended December 31, 2015.

The Bank's three largest commercial real estate loans at December 31, 2015 were: (i) a $19.8 million loan originated in July 2015 secured by a building with 10 stores located in Manhattan, New York; (ii) an $18.2 million loan originated in April 2015 secured by a mixed use building located in Brooklyn, New York, containing 18 residential and 2 commercial retail units, and (iii) an $18.1 million loan initially originated in February 2013 secured by three commercial buildings located in Queens, New York containing 14 retail stores.

As a New York State-chartered savings bank originating loans secured by real estate having a market value at least equal to the loan amount at the time of origination, the Bank is generally not subject to New York State Department of Financial Services ("NYSDFS") regulations limiting individual loan or borrower exposures.

Small Mixed-Use Lending (Small Investment Property Loans). From 2003 through 2008, the Bank originated small investment property loans (secured by urban buildings with four or less total units, one of which was commercial, and the remainder residential). These loans were typically sourced through loan brokers. At December

Table of Contents

31, 2015, the Bank held $18.0 million of loans in portfolio classified as small investment property, or approximately 0.4% of the gross loan portfolio, with, at the time of origination, a weighted average borrower FICO score of 714 and a weighted average loan-to-value ratio of 54%.

One- to Four-Family Residential and Condominium / Cooperative Apartment Lending. In 2013, the Bank ceased origination of residential first and second mortgage loans secured primarily by owner-occupied, one- to four-family residences, including condominium and cooperative apartments. At December 31, 2015, $72.1 million, or 1.5%, of the Bank's loans consisted of one- to four-family residential and condominium or cooperative apartment loans.

Home Equity and Home Improvement Loans. The Bank ceased origination of home equity and home improvement loans during the year ended December 31, 2013,. Home equity loans and home improvement loans, the great majority of which are included in one- to four-family loans, were previously originated to a maximum of $500,000. The combined balance of the first mortgage and home equity or home improvement loan was not permitted to exceed 75% of the appraised value of the collateral property at the time of origination of the home equity or home improvement loan. Interest on home equity and home improvement loans was initially the "prime lending" rate at the time of origination. After six months, the interest rate adjusts and ranges from the prime interest rate to 100 basis points above the prime interest rate in effect at the time. The interest rate on the loan can never fall below the rate at origination. The combined outstanding balance of the Bank's home equity and home improvement loans was $8.2 million at December 31, 2015.

Equity Lines of Credit on Multifamily Residential and Commercial Real Estate Loans. Equity credit lines are available on multifamily residential and commercial real estate loans. These loans are underwritten in the same manner as first mortgage loans on these properties, except that the combined first mortgage amount and equity line are used to determine the loan-to-value ratio and minimum debt service coverage ratio. The interest rate on multifamily residential and commercial real estate equity lines of credit adjusts regularly. The outstanding balance of loans advanced under equity lines of credit was $5.6 million at December 31, 2015, on outstanding total lines of $38.7 million.

Construction Lending. The Bank had no unfunded construction loan commitments at December 31, 2015, and the last new construction loan commitment issued by the Bank occurred in September 2008.

Land Development and Acquisition Loans. The Bank had no outstanding land development or acquisition loans at December 31, 2015 and 2014.

Loan Approval Authority and Underwriting. The Board of Directors of the Bank establishes lending authority levels for the various loan products offered by the Bank. The Bank maintains a Loan Operating Committee consisting, as of December 31, 2015, of the Chief Executive Officer, President, Chief Operating Officer, Chief Accounting Officer, Chief Lending Officer and Chief Retail Officer. The Loan Operating Committee may approve any portfolio loan origination, however, larger loans, generally in excess of $500,000, require its approval. All loans approved by the Loan Operating Committee are presented to the Bank's Board of Directors for its review.

Asset Quality

General

At both December 31, 2015 and December 31, 2014, 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 4 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 at each regularly scheduled Board meeting regarding the status of all non-performing and otherwise delinquent loans in the Bank's portfolio.

Table of Contents

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 Other Real Estate Owned ("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, seventeen non-accrual loans (excluding deposit overdraft loans) totaled $1.6 million at December 31, 2015 and fourteen non-accrual loans (excluding deposit overdraft loans) totaled $6.2 million at December 31, 2014. During the year ended December 31, 2015, three non-accrual loans totaling $5.0 million were disposed of through note sales, two non-accrual loans totaling $115,000 were returned to accrual status based upon favorable payment performance, three non-accrual loans totaling $442,000 were fully satisfied according to their contractual terms, a $130,000 non-accrual loan was transferred to OREO, and principal amortization of $124,000 was recognized on seven non-accrual loans. These reductions were partially offset by twelve loans totaling $1.3 million that were added to non-accrual status during the period.

Impaired Loans

The recorded investment in loans deemed impaired (as defined in Note 5 to the consolidated financial statements) was approximately $9.6 million, consisting of nine loans, at December 31, 2015, compared to $20.0 million, consisting of twelve loans, at December 31, 2014. During the year ended December 31, 2015, three impaired loans totaling $5.9 million were fully satisfied according to their contractual terms, two impaired loans totaling $4.9 million were disposed of through note sales, and principal amortization totaling $163,000 was recognized on seven impaired loans. These reductions were partially offset by two loans totaling $547,000 that were added to impaired status during the period.

The following is a reconciliation of non-accrual and impaired loans as of the dates indicated:

	At December 31, 2015	At December 31, 2014
	(Dollars in Thousands)	
Non-accrual loans (excluding non-accrual loans held for sale)	$1,611	$ 6,198
Non-accrual one- to four-family and consumer loans deemed homogeneous loans	(1,116)	(1,314)
Troubled debt restructured loans ("TDRs") retained on accrual status	9,066	15,100
Impaired loans	$9,561	$ 19,984

Table of Contents

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 did not modify any loans in a manner that met the criteria for a TDR during the year ended December 31, 2015.

Accrual status for TDRs is determined separately for each TDR in accordance with the policies for determining accrual or non-accrual status that are outlined on page F-12. At the time 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 F-12 and agency regulations.

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

At both December 31, 2015 and 2014, 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 net cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected net 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 is accounted for through a charge-off. In the event that either an allocated reserve or a charge-off is recognized on TDRs, the periodic loan loss provision is impacted.

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

	As of December 31, 2015		As of December 31, 2014	
	No. of Loans	Balance	No. of Loans	Balance
	(Dollars in thousands)			

One- to four-family residential, including condominium and cooperative apartment	2	$ 598	2	$ 605
Multifamily residential and residential mixed use	3	696	4	1,105
Commercial mixed use real estate	1	4,344	1	4,400
Commercial real estate	2	3,635	4	13,707
Total real estate	8	$ 9,273	11	$ 19,817

Table of Contents

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

	As of December 31, 2015		As of December 31, 2014	
	No. of Loans	Balance	No. of Loans	Balance
	(Dollars in thousands)			
Outstanding principal balance at period end	8	$ 9,273	11	$ 19,817
TDRs on accrual status at period end	7	9,066	9	15,100
TDRs on non-accrual status at period end	1	207	2	4,717

The following table summarizes activity related to TDRs for the periods indicated:

	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Loan modifications during the period that met the definition of a TDR:						
Commercial mixed use real estate	-	-	-	1	$ 4,400	$ 4,400
Commercial real estate	-	-	-	1	3,500	3,500
TOTAL	-	-	-	2	$ 7,900	$ 7,900

OREO

Property acquired by the Bank, or a subsidiary, as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses the likely realizable value (a.k.a. fair value) of the property 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, is 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.

OREO properties totaled $148,000 at December 31, 2015 and $18,000 at December 31, 2014. The Bank did not recognize any provisions for losses on OREO properties during the years ended December 31, 2015 and 2014.

Table of Contents

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

	At December 31,				
	2015	2014	2013	2012	2011
Non-accrual Loans and Non-Performing Assets	(Dollars in Thousands)				
One- to four-family residential including condominium and cooperative apartment	$1,113	$1,310	$1,242	$938	$2,205
Multifamily residential and residential mixed use real estate	287	167	1,197	507	7,069
Commercial real estate and commercial mixed use real estate	207	4,717	10,107	7,435	16,674
Consumer	4	4	3	8	4
Sub-total	1,611	6,198	12,549	8,888	25,952
Non-accrual loans held for sale	-	-	-	560	3,022
Total non-accrual loans	1,611	6,198	12,549	9,448	28,974
Non-performing pooled trust preferred securities ("TRUPS")	1,236	904	898	892	1,012
OREO	148	18	18	-	-
Total non-performing assets	2,995	7,120	13,465	10,340	29,986
Ratios:					
Total non-accrual loans to total loans	0.03 %	0.15 %	0.34 %	0.25 %	0.84 %
Total non-performing assets to total assets	0.06	0.16	0.33	0.26	0.75
TDRs and Impaired Loans					
TDRs	$9,273	$19,817	$24,327	$51,123	$48,753
Impaired loans (1)	9,561	19,984	30,189	53,144	73,406

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

Other Potential Problem Loans

(i) Accruing Loans 90 Days or More Past Due

The Bank continued accruing interest on twelve real estate loans with an aggregate outstanding balance of $4.5 million at December 31, 2015, and eight real estate loans with an aggregate outstanding balance of $3.3 million at December 31, 2014, 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.

(ii) Loans Delinquent 30 to 89 Days

The Bank had six real estate loans totaling $3.0 million that were delinquent between 30 and 89 days at December 31, 2015, a net increase of approximately $1.6 million compared to six such loans totaling $1.4 million at December 31, 2014. 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.

(iii) Temporary Loan Modifications

There were no temporary modifications (modifications that were either sufficiently minor or temporary in nature so as to not meet the criteria of a TDR) entered into during the years ended December 31, 2015 or 2014. Temporary modifications previously entered into performed according to their contractual terms during the years ended December 31, 2015 and 2014.

Allowance for Loan Losses

Accounting Principles Generally Accepted in the United States ("GAAP") require the Bank to maintain an appropriate allowance for loan losses. The Bank maintains a Loan Loss Reserve Committee charged with, among other functions, responsibility for monitoring the appropriateness of the loan loss reserve.

To assist the Loan Loss Reserve Committee in carrying out its assigned duties, the Bank, during the years ended December 31, 2015 and 2014, engaged the services of an experienced third-party loan review firm to perform

Table of Contents

a review of the loan portfolio. The 2015 review program covered 100% of construction and land development loans and 50% of the non-one- to four-family and consumer loan portfolio. Included within the annual 50% target were: (1) 50% of the twenty largest loans in the multifamily and commercial real estate loan portfolio (the remaining 50% not covered in the vendor review were reviewed internally); (2) the ten largest pure commercial real estate loans; (3) the ten largest commercial mixed use real estate loans; (4) 50% of the ten largest multifamily residential real estate loans (the remaining 50% not covered in the vendor review were reviewed internally); (5) 50% of the ten largest residential mixed use real estate loans (the remaining 50% not covered in the vendor review were reviewed internally); (6) 30% of all new loan originations during the year; (7) 100% of the internally criticized and classified loans over $250,000; (8) 50% of the twenty largest borrower relationships (the remaining 50% not covered in the vendor review were reviewed internally), (9) 70% of all commercial real estate loans; (10) all loans over $500,000 that were collateralized by properties located in Long Island, New York; (11) all loans over $500,000 that were scheduled to reprice during the year; (12) all loans over $500,000 that were in the lowest three categories of pass loan grade (including Watch list loans); and (13) 50% of loans over $250,000 originated under the small mixed use lending program.

The Loan Loss Reserve Committee's findings, along with recommendations for changes to loan loss reserve provisions, if any, are reported directly to the Bank's executive management and the Lending and CRA Committee of the Board of Directors. The following table sets forth activity in the Bank's allowance for loan losses at or for the dates indicated:

	At or for the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Total loans outstanding at end of period [1]	$4,696,776	$4,119,240	$3,699,519	$3,506,368	$3,463,887
Average total loans outstanding during the period[1]	$4,328,977	$3,964,520	$3,606,039	$3,402,838	$3,447,035
Allowance for loan losses:					
Balance at beginning of period	$18,493	$20,153	$20,550	$20,254	$19,166
Provision (credit) for loan losses	(1,330)	(1,872)	369	3,921	6,846
Charge-offs					
Multifamily residential	(48)	(87)	(504)	(2,478)	(2,750)
Commercial real estate	(44)	(336)	(400)	(1,342)	(2,307)
One- to four-family including condominium and cooperative apartment	(115)	(46)	(117)	(777)	(89)
Construction	-	-	-	(3)	(962)
Consumer	(2)	(9)	(21)	(10)	(29)
Total charge-offs	(209)	(478)	(1,042)	(4,610)	(6,137)
Recoveries	1,560	690	276	903	212
Reserve for loan commitments transferred from other liabilities	-	-	-	82	167
Balance at end of period	$18,514	$18,493	$20,153	$20,550	$20,254
Allowance for loan losses to total loans at end of period	0.39%	0.45%	0.54%	0.59%	0.58%
Allowance for loan losses to total non-performing loans at end of period	1,149.22	298.37	160.59	231.21	78.04
Allowance for loan losses to total non-performing loans and TDRs at end of period	170.10	71.09	64.66	42.58	29.08
Ratio of net charge-offs to average loans outstanding during the period	(0.03)	(0.01)	0.02	0.11	0.17

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

Based upon its evaluation of the loan portfolio, management believes that the Bank maintained its allowance for loan losses at a level appropriate to absorb probable losses incurred within the Bank's loan portfolio as of the balance sheet dates. Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect a borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. Although management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions or other factors beyond management's control. In addition, the Bank's regulators, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses, and may require the Bank to recognize additions to, or reductions in, the allowance based upon judgments different from those of management.

The Bank's periodic evaluation of its allowance for loan losses has traditionally been comprised of different components, each of which is discussed in Note 6 to the Company's consolidated audited financial statements.

Table of Contents

The following table sets forth the Bank's allowance for loan losses allocated by underlying collateral type and the percent of each to total loans at the dates indicated. Any allocated allowance associated with loans both deemed impaired and internally graded as Special Mention is reflected on the impaired loan line. Please refer to Notes 5 and 6 to the Company's consolidated audited financial statements for a description of impaired, substandard, special mention and pass graded loans.

	At December 31,									
	2015		2014		2013		2012		2011	
	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)									
Impaired loans	$-	0.20 %	$19	0.49 %	$1,771	0.82 %	$520	1.52 %	$2,175	2.12 %
Substandard loans not deemed impaired	348	0.37	371	0.44	53	0.15	795	0.44	-	-
Special Mention loans	88	0.37	228	0.81	185	0.42	145	0.54	800	0.56
Pass graded loans:										
Multifamily residential	13,942	79.69	13,600	79.38	13,743	78.49	14,118	75.99	14,057	74.67
Commercial real estate	3,902	17.88	4,156	17.15	4,189	17.81	4,750	19.08	2,893	19.67
One-to four-family including condominium and cooperative apartment	214	1.46	95	1.68	188	1.75	195	2.36	303	2.82
Construction and land acquisition	-	-	-	-	-	-	-	-	-	0.09
Consumer	20	0.03	24	0.05	24	0.06	27	0.07	26	0.07
Total	$18,514	100.00%	$18,493	100.00%	$20,153	100.00%	$20,550	100.00%	$20,254	100.00%

Reserve Liability on the First Loss Position

Until February 20, 2014, the Bank serviced a pool of multifamily loans it sold to the Federal National Mortgage Association ("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"). The reserve liability maintained in connection with the First Loss Position was recorded as a component of other liabilities, and was estimated using a methodology similar to the allowance for loan losses, with periodic increases or decreases recognized through provisions, charge-offs or recoveries. On February 20, 2014, the Bank repurchased the remaining loans within the pool previously sold to FNMA, and extinguished both the First Loss Position and the remaining $1.0 million related reserve liability.

Reserve for Loan Commitments

At December 31, 2015, the Bank maintained a reserve of $50,000 associated with unfunded loan commitments accepted by the borrower at December 31, 2015. 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.

Investment Activities

Investment strategies are implemented by the Asset and Liability Committee ("ALCO"), which is comprised of the Chief Operating Officer, Chief Investment Officer, Chief Risk Officer and other senior officers. The strategies take into account the overall composition of the Bank's balance sheet, including loans and deposits, and are intended to protect and enhance the Bank's earnings and market value, and effectively manage both interest rate risk and liquidity. The strategies are reviewed periodically by the ALCO and reported to the Board of Directors.

Investment Policy of the Bank. The investment policy of the Bank, which is adopted by its Board of Directors, is designed to help achieve the Bank's overall asset/liability management objectives while complying with applicable regulations. Generally, when selecting investments for the Bank's portfolio, the policy emphasizes principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment. The policy permits investments in various types of liquid assets, including obligations of the U.S. Treasury and federal agencies, investment grade corporate debt, various types of MBS, commercial paper, certificates of deposit ("CDs") and overnight federal funds sold to financial institutions. The Bank's Board of Directors periodically approves all financial institutions to which the Bank sells federal funds.

Table of Contents

The Bank's investment policy limits a combined investment in securities issued by any one entity, with the exception of obligations of the U.S. Government, federal agencies and GSEs, to an amount not exceeding the lesser of either 2% of its total assets or 15% of its total tangible capital (20% of tangible capital in the event all securities of the obligor maintain a "AAA" credit rating). The Bank was in compliance with this policy limit at both December 31, 2015 and 2014. The Bank may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2015 and 2014, the Bank did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

Federal Agency Obligations. Federal agency obligations are purchased from time to time in order to provide the Bank a favorable yield in comparison to overnight investments. These securities possess sound credit ratings, and are readily accepted as collateral for the Bank's borrowings. The Bank owned no federal agency obligation investments at December 31, 2015.

MBS. The Bank's investment policy calls for the purchase of only priority tranches when investing in MBS. MBS provide the portfolio with investments offering desirable repricing, cash flow and credit quality characteristics. MBS yield less than the loans that underlie the securities as a result of the cost of payment guarantees and credit enhancements which reduce credit risk to the investor. Although MBS guaranteed by federally sponsored agencies carry a reduced credit risk compared to whole loans, such securities remain subject to the risk that fluctuating interest rates, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such loans and thus affect the value of such securities. MBS, however, are more liquid than individual mortgage loans and may readily be used to collateralize borrowings. MBS also provide the Company with important interest rate risk management features, as the entire portfolio provides monthly cash flow for re-investment at current market interest rates. At December 31, 2015, all MBS owned by the Company possessed the highest credit rating from at least one nationally recognized rating agency.

The Company's consolidated investment in MBS totaled $431,000 at December 31, 2015, all of which were owned by the Holding Company and were comprised of adjustable rate, pass-through securities guaranteed by the Government National Mortgage Association ("GNMA"). The average duration of these securities was 1.0 year (one-year ARM securities) as of December 31, 2015. During the year ended December 31, 2015, the Bank sold its entire investment in MBS.

The Company typically classifies MBS as available-for-sale in recognition of the prepayment uncertainty associated with these securities, and carries them at fair market value. The fair value of MBS available-for-sale was $13,000 above their amortized cost at December 31, 2015.

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

	For the Year Ended December 31,		
	2015	2014	2013
	Dollars in Thousands		
Amortized cost at beginning of period	$24,946	$29,962	$47,448
(Sales) Purchases, net	(22,919)	875	-
Principal repayments	(1,602)	(5,863)	(17,372)
Premium amortization, net	(7)	(28)	(114)
Amortized cost at end of period	$418	$24,946	$29,962

Corporate Debt Obligations. The Bank may invest in investment-grade debt obligations of various corporations. The Bank's investment policy limits new investments in corporate debt obligations to companies rated single "A" or

better by one of the nationally recognized rating agencies at the time of purchase. As mentioned previously, with certain exceptions, the Bank's investment policy also limits a combined investment in corporate securities issued by any one entity to an amount not exceeding the lesser of either 2% of its total assets or 15% of its total tangible capital (20% of core capital in the event all securities of the obligor maintain a "AAA" credit rating).

As of December 31, 2015, the Bank's investment in corporate debt obligations was comprised solely of seven TRUPS with an aggregate remaining amortized cost of $15.3 million (based upon their purchase cost basis) that were secured primarily by the preferred debt obligations of pools of U.S. banks (with a small portion secured by debt obligations of insurance companies). All seven securities were designated as held-to-maturity at December 31, 2015.

At December 31, 2015, four of the seven securities had previously recognized other than temporary impairment ("OTTI") charges, the most recent of which occurred during the year ended December 31, 2012. The aggregate OTTI charge recognized on these securities was $9.3 million at December 31, 2015, of which $8.7 million was determined to be attributable to credit related factors and $579,000 was determined to be attributable to non-credit related factors. At December 31, 2015, these four securities had credit ratings ranging from "C" to "Caa3." The remaining three securities, which were not subject to OTTI charges as of December 31, 2015, had credit ratings ranging from "BA1" to "A1" on that date.

At December 31, 2015, the remaining aggregate amortized cost of TRUPS that could be subject to future OTTI charges through earnings was $6.6 million. Of this total, unrealized losses of $1.4 million have already been recognized as a component of accumulated other comprehensive loss.

Investment Strategies of the Holding Company. The Holding Company's investment policy generally calls for investments in relatively short-term, liquid securities similar to those permitted by the securities investment policy of the Bank. The investment policy calls for the purchase of only priority tranches when investing in MBS, limits new investments in corporate debt obligations to companies rated single "A" or better by one of the nationally recognized rating agencies at the time of purchase, and limits investments in any one corporate entity to the lesser of 1% of total assets or 5% of the Company's total consolidated capital. The Holding Company may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2015 and 2014, the Holding Company did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

Holding Company investments are generally intended primarily to provide future liquidity which may be utilized for general business activities, including, but not limited to: (1) purchases of the Holding Company's common stock into treasury; (2) repayment of principal and interest on the Holding Company's $70.7 million trust preferred securities debt; (3) subject to applicable restrictions, the payment of dividends on the Holding Company's common stock; and/or (4) investments in the equity securities of other financial institutions and other investments not permitted to the Bank.

The Holding Company cannot assure that it will engage in these investment activities in the future. At December 31, 2015, the Holding Company's principal asset was its $487.2 million investment in the Bank's common stock. This investment in its subsidiary is not actively managed and falls outside of the Holding Company investment policy and strategy discussed above.

Equity Investments. The Holding Company's investment in mutual funds (primarily equity mutual funds) totaled $14.0 million at December 31, 2015, of which $3.8 million was classified as available for sale, and $10.2 million was classified as trading. At December 31, 2015, the aggregate fair value of the available for sale mutual fund investments was $234,000 below their cost basis, and the aggregate fair value of the mutual fund investments classified as trading was $188,000 below their cost basis. The reduction of fair value below the cost basis of the available for sale equity investments was deemed temporary in nature as of December 31, 2015.

Table of Contents

The following table sets forth the amortized/historical cost and fair value of the total portfolio of investment securities and MBS by accounting classification and type of security, that were owned by either the Bank or Holding Company at the dates indicated:

	At December 31,					
	2015		2014		2013	
	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value	Amortized/ Historical Cost (1)	Fair Value
MBS	Dollars in Thousands					
Available-for-Sale:						
Federal Home Loan Mortgage Corporation ("FHLMC") pass through certificates	$-	$-	$17,080	$18,145	$20,686	$21,766
FNMA pass through certificates	-	-	5,763	6,125	7,168	7,619
GNMA pass through certificates	418	431	1,311	1,337	553	574
Private issuer MBS	-	-	449	455	662	680
Agency issued Collateralized Mortgage Obligations ("CMOs")	-	-	-	-	319	321
Private issuer CMOs	-	-	343	347	574	583
Total MBS available-for-sale	418	431	24,946	26,409	29,962	31,543
INVESTMENT SECURITIES						
TRUPS Held-to-Maturity	5,242	7,051	5,367	6,263	5,341	5,163
Total investment securities held-to-maturity	5,242	7,051	5,367	6,263	5,341	5,163
Available-for-Sale:						
Federal agency obligations	-	-	70	70	15,070	15,091
Mutual funds	3,990	3,756	3,860	3,736	2,760	3,558
Total investment securities Available-for-Sale	3,990	3,756	3,930	3,806	17,830	18,649
Trading:						
Mutual funds	10,390	10,201	8,640	8,559	6,385	6,822
Total trading securities	10,390	10,201	8,640	8,559	6,385	6,822
TOTAL INVESTMENT SECURITIES AND MBS	$20,040	$21,439	$42,883	$45,037	$59,518	$62,177

(1) Amount is net of cumulative credit related OTTI totaling $8.7 million on TRUPS held-to-maturity at December 31, 2015, $9.0 million on TRUPS held-to-maturity at December 31, 2014, and $9.0 million on TRUPS held-to-maturity and $106,000 on mutual funds available-for-sale at December 31, 2013.

The following table presents the amortized cost, fair value and weighted average yield of the Company's consolidated MBS at December 31, 2015, categorized by remaining period to contractual maturity:

	Amortized Cost	Fair Value	Weighted Average Tax Equivalent Yield	
	(Dollars in Thousands)			
Due within 1 year	$-	$ -	-	%
Due after 1 year but within 5 years	-	-	-	
Due after 5 years but within 10 years	-	-	-	

Due after ten years	418	431	1.74
Total	$418	$ 431	$ 1.74

With respect to MBS, the entire carrying amount of each security at December 31, 2015 is reflected in the above table in the maturity period that includes the final security payment date and, accordingly, no effect has been given to periodic repayments or possible prepayments. As mentioned previously, the investment policies of both the Holding Company and the Bank call for the purchase of only priority tranches when investing in MBS. As a result, the weighted average duration of the Company's MBS approximated 1.0 year as of December 31, 2015 when giving consideration to anticipated repayments or possible prepayments, which is significantly less than their weighted average maturity.

GAAP requires that investments in debt securities be classified in one of the following three categories and accounted for accordingly: trading securities, securities available-for-sale or securities held-to-maturity. GAAP requires investments in equity securities that have readily determinable fair values be classified as either trading

securities or securities available-for-sale. Unrealized gains and losses on available-for-sale securities are reported as a separate component of stockholders' equity referred to as accumulated other comprehensive income, net of deferred taxes. At December 31, 2015, the Company owned, on a consolidated basis, $4.2 million of securities classified as available-for-sale, which represented only 0.1% of total assets. Based upon the size of the available-for-sale portfolio, future variations in the market value of the available-for-sale portfolio are not expected to result in material fluctuations in the Company's consolidated stockholders' equity.

Sources of Funds

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

Deposits. The Bank offers a variety of deposit accounts possessing a range of interest rates and terms. At December 31, 2015, the Bank offered, and presently offers, savings, money market, interest bearing and non-interest bearing checking accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. The Bank relies upon direct and general marketing, customer service, convenience and long-standing relationships with customers or borrowers to generate deposits. The communities in which the Bank maintains branch offices have historically provided the great majority of its deposits. At December 31, 2015, the Bank had deposit liabilities of $3.18 billion, up $524.5 million from $2.66 billion at December 31, 2014 (See "Part II - Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources"). Within total deposits at December 31, 2015, Individual Retirement Accounts totaled $314.4 million, or 9.9%.

The Bank is also eligible to participate in the Certificate of Deposit Account Registry Service ("CDARS"), through which it can either purchase or sell CDs. Purchases of CDs through this program are limited by Bank policy to an aggregate of 10% of the Bank's average interest earning assets. As of December 31, 2015, deposits taken through this program totaled $1.9 million.

The Bank is authorized to accept brokered deposits up to an aggregate limit of $120.0 million. At December 31, 2015 and 2014, total brokered deposits consisted solely of the $1.9 million purchased CDARS deposits.

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

	Year Ended December 31,		
DEPOSIT ACTIVITY	2015	2014	2013
	(Dollars in Thousands)		
Deposits	$6,306,645	$4,052,651	$4,204,263
Withdrawals	5,805,132	3,919,596	4,196,473
Deposits greater than Withdrawals	$501,513	$133,055	$7,790
Interest credited	23,005	19,591	19,927
Total increase in deposits	$524,518	$152,646	$27,717

At December 31, 2015, the Bank had $437.1 million in CDs with a minimum denomination of one-hundred thousand dollars as follows:

Maturity Date	Amount	Weighted Average Rate
(Dollars in Thousands)		
Within three months	$26,982	0.79 %
After three but within six months	35,054	1.02
After six but within twelve months	79,848	1.10
After 12 months	295,176	1.76
Total	$437,060	1.52 %

Table of Contents

The following table sets forth the distribution of the Bank's deposit accounts and the related weighted average interest rates at the dates indicated:

	At December 31, 2015			At December 31, 2014			At December 31, 2013		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in Thousands)								
Savings accounts	$368,671	11.6 %	0.05 %	$372,753	14.0 %	0.05 %	$376,900	15.0 %	0.05 %
CDs	858,847	27.0	1.44	926,318	34.8	1.43	828,409	33.0	1.55
Money market accounts	1,618,617	50.8	0.81	1,094,698	41.2	0.61	1,040,079	41.5	0.50
Interest bearing checking accounts	78,994	2.5	0.08	78,430	2.9	0.08	87,301	3.5	0.08
Non-interest bearing checking accounts	259,181	8.1	-	187,593	7.1	-	174,457	7.0	-
Totals	$3,184,310	100.0 %	0.81 %	$2,659,792	100.0 %	0.76 %	$2,507,146	100.0 %	0.73 %

The weighted average maturity of the Bank's CDs at December 31, 2015 was 19.9 months, compared to 19.8 months at December 31, 2014. The following table presents, by interest rate ranges, the dollar amount of CDs outstanding at the dates indicated and the period to maturity of the CDs outstanding at December 31, 2015:

	Period to Maturity at December 31,						
Interest Rate Range	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total at December 31, 2015	Total at December 31, 2014	Total at December 31, 2013
(Dollars in Thousands)							
1.00% and below	$184,565	$46,417	$-	$-	$230,982	$345,955	$407,927
1.01% to 2.00%	91,369	260,086	67,699	5,966	425,120	310,993	142,030
2.01% to 3.00%	28,760	66,816	87,860	181	183,617	201,215	123,923
3.01% and above	-	19,086	-	42	19,128	68,155	154,529
Total	$304,694	$392,405	$155,559	$6,189	$858,847	$926,318	$828,409

Borrowings. The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges offered to FHLBNY shareholders is the ability to secure advances from the FHLBNY under various lending programs at competitive interest rates. The Bank's total borrowing line equaled at least $1.75 billion at December 31, 2015.

The Bank had $1.2 billion of FHLBNY advances outstanding at both December 31, 2015 and December 31, 2014. The Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such advances.

FHLBNY Advances:

	At or for the Year Ended December 31,		
	2015	2014	2013
	(Dollars in Thousands)		
Balance outstanding at end of period	$1,166,725	$1,173,725	$910,000
Average interest cost at end of period	1.32 %	1.74 %	2.35 %
Weighted average balance outstanding during the period	$1,019,020	$1,039,203	$761,491
Average interest cost during the period	1.65 %	2.28 %	2.89 %
Maximum balance outstanding at month end during period	$1,166,725	$1,173,725	$910,000

The Company had no Securities Sold Under Agreements to Repurchase outstanding at December 31, 2015 or 2014.

Table of Contents

Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of nine corporations, two of which are wholly-owned by the Holding Company and seven of which are wholly-owned by the Bank. The following table presents an overview of the Holding Company's subsidiaries, other than the Bank, as of December 31, 2015:

Subsidiary	Year/ State of Incorporation	Primary Business Activities
Direct Subsidiaries of the Holding Company:		
842 Manhattan Avenue Corp.	1995/ New York	Currently in the process of dissolution.
Dime Community Capital Trust I	2004/ Delaware	Statutory Trust (1)
Direct Subsidiaries of the Bank:		
Boulevard Funding Corp.	1981 / New York	Management and ownership of real estate
Dime Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.)	1997 / New York	Sale of non-FDIC insured investment products
DSBW Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in multifamily residential and commercial real estate loans
DSBW Residential Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in one-to four-family real estate loans
Dime Reinvestment Corporation	2004 / Delaware	Community Development Entity. Currently inactive.
195 Havemeyer Corp.	2008 / New York	Management and ownership of real estate. Currently inactive.
DSB Holdings NY, LLC	2015 / New York	Management and ownership of real estate. Currently inactive.

(1) Dime Community Capital Trust I was established for the exclusive purpose of issuing and selling capital securities and using the proceeds to acquire approximately $70 million of junior subordinated debt securities issued by the Holding Company. The junior subordinated debt securities (referred to in this Annual Report as "trust preferred securities payable") bear an interest rate of 7.0%, mature on April 14, 2034, became callable at any time after April 2009, and are the sole assets of Dime Community Capital Trust I. In accordance with revised interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," Dime Community Capital Trust I is not consolidated with the Holding Company for financial reporting purposes.

Personnel

As of December 31, 2015, the Company had 340 full-time and 48 part-time employees. The employees are not represented by a collective bargaining unit, and the Holding Company and all of its subsidiaries consider their relationships with their employees to be good.

Federal, State and Local Taxation

The following is a general description of material tax matters and does not purport to be a comprehensive review of the tax rules applicable to the Company.

Federal Taxation

General. For federal income tax purposes, the Company files a consolidated income tax return on a December 31st fiscal year basis using the accrual method of accounting and is subject to federal income taxation in the same manner as other corporations with some exceptions, including, particularly, the Bank's tax reserve for bad debts, discussed below.

Tax Bad Debt Reserves. The Bank, as a "large bank" under Internal Revenue Service classifications (i.e., one with assets having an adjusted basis in excess of $500 million), is: (i) unable to make additions to its tax bad debt reserve, (ii) permitted to deduct bad debts only as they occur, and (iii) required to recapture (i.e., take into taxable income) the balance of its "base year tax bad debt reserve" (i.e., its tax bad debt reserve as of December 31, 1987) under certain distribution scenarios discussed below. No deferred tax liability is required to be recorded for the tax liability that would result upon the recapture of the base year tax bad debt reserve, so the resulting tax liability would be recorded as additional income tax expense. The amount of tax liability that would result from a full recapture of the base year tax bad debt reserve is $6.8 million. The Bank does not anticipate making any distributions that would result in a full or partial recapture of the base year tax bad debt reserve.

Distributions. Capital distributions to the Bank's shareholder are first considered distributions from the Bank's "current and accumulated earnings and profits," to the extent thereof, then as distributions from the base year tax bad debt reserve, to the extent thereof, and then as a return of capital. Capital distributions in direct redemption of the Bank's stock from the Bank's shareholder are first considered distributions from the Bank's base year tax bad debt

Table of Contents

reserve to the extent thereof, then as distributions from the Bank's current and accumulated earnings and profits to the extent thereof, and then as a return of capital. The Bank currently has no intention of making capital distributions to the Bank's shareholder in excess of the Bank's current and accumulated earnings and profits or in direct redemption of the Bank's stock and therefore does not anticipate any recapture of the base year tax bad debt reserve.

Corporate Alternative Minimum Tax. The Company's federal tax rate for the year ended December 31, 2015 was 35% of taxable income. The Internal Revenue Code of 1986, as amended, also imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. This tax is paid only to the extent it exceeds the Company's regular income tax liability. AMTI is derived by adjusting corporate taxable income in a manner that negates the deferral or deduction of certain expense or exclusion items compared to their customary tax treatment. Thus, the Company's AMTI is increased by 75% of the amount by which the Company's adjusted current earnings exceed its AMTI (determined without regard to this adjustment and prior to reduction for net operating losses). To the extent the 20% tax on AMTI exceeds the Company's regular tax liability, thereby requiring payment of this excess liability, such excess is creditable to future periods as an offset to the Company's regular tax liability. Consequently, any such excess tax liability paid on AMTI is recorded as a deferred tax asset.

State and Local Taxation

New York State ("NYS") Franchise Tax

The Company is subject to NYS franchise tax on a consolidated basis.

NYS recently enacted several reforms (the "Tax Reform Package") to its tax structure, including changes to the franchise, sales, estate and personal income taxes. These changes generally became effective for tax years beginning on or after 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 dropped, effective January 1, 2016, from 7.10% to 6.50%. The metropolitan commuter transportation district surcharge ("MTA Tax") increased from 17.0% to 25.6% of the surcharge tax base for tax years beginning on or after January 1, 2015, and to 28% of the surcharge base for tax years beginning on or after January 1, 2016. The MTA Tax rate for tax years beginning on or after January 1, 2017 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 franchise tax regime into the general corporate franchise tax regime, 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 Franchise Tax Regime into the Corporate Franchise Tax Regime. NYS had 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 were previously taxed under different regimes.

The Tax Reform Package repealed 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, provided certain residential lending tests are met; 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 all 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 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 is required to claim the 60% subtraction for dividends received from its captive

Table of Contents

REIT subsidiaries for any year the REITS remain in existence. If the REITS are no longer maintained, then the Bank would be entitled to choose on an annual basis between options 1) or 2) above.

Adoption of a Full Water's-Edge Unitary Combined Filing. The Tax Reform Package requires that 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 are beneficial to the Company.

The Company has 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 or results of operations. The Company owns REIT subsidiaries and utilized the dividend received subtraction method upon its initial conformity to the Tax Reform Package during the year ended December 31, 2015. However, the Company may utilize different tax strategies in the future.

NYC FranchiseTax

The Company is subject to NYC franchise tax on a consolidated basis.

NYC generally conforms its tax law to NYS tax law, and adopted conforming Tax Reform Package provisions similar to those described above for NYS purposes, with only a few minor differences. For tax years beginning on or after January 1, 2015, the NYC income tax rate applied to the Company apportioned NYC taxable income is 8.85%.

The Company has adjusted both its deferred tax asset and income tax expense to reflect the expected adjustment in its NYC tax rate resulting from the Tax Reform Package. Such adjustments were not material to its consolidated financial condition or results of operations. The Company owns REIT subsidiaries and utilized the dividend received subtraction method upon its initial conformity to the Tax Reform Package during the year ended December 31, 2015. However, the Company may utilize different tax strategies in the future.

State of Delaware.

As a Delaware holding company not conducting business in Delaware, the Holding Company is exempt from Delaware corporate income tax. However, it is required to file an annual report and pay an annual franchise tax to the State of Delaware based upon its number of authorized shares.

Regulation

General

The Bank is a New York State-chartered stock savings bank. The Bank's primary regulator is the NYSDFS, and the Bank's primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"), which regulates and examines state-chartered banks that are not members of the Federal Reserve System ("State Nonmember Banks"). The FDIC also administers laws and regulations applicable to all FDIC-insured depository institutions. The Holding Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System ("FRB") and, more specifically, the Federal Reserve Bank of Philadelphia. The Bank has elected to be treated as a "savings association" under Section 10(l) of the Home Owners' Loan Act, as amended ("HOLA"), for purposes of the

regulation of the Holding Company. The Holding Company is therefore regulated as a savings and loan holding company by the FRB as long as the Bank continues to satisfy the requirements to remain a "qualified thrift lender" ("QTL") under HOLA. If the Bank fails to remain a QTL, the Holding Company must register with the FRB, and be treated as, a bank holding company. The Holding Company does not expect that regulation as a bank holding company rather than a savings and loan holding company would be a significant change.

The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund ("DIF"). The Bank is required to file reports with both the NYSDFS and the FDIC concerning its activities and financial condition, and to obtain regulatory approval prior to entering into certain transactions, such as mergers

Table of Contents

with, or acquisitions of, other depository institutions. Both the NYSDFS and the FDIC conduct periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a state-chartered savings bank may engage and is intended primarily for the protection of the DIF and depositors. As a publicly-held unitary savings bank holding company, the Holding Company is also required to file certain reports with, and otherwise comply with the rules and regulations of, both the SEC, under the federal securities laws, and the Federal Reserve Bank of Philadelphia.

The NYSDFS and the FDIC possess significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the NYSDFS, the FDIC or through legislation, could have a material adverse impact on the operations of either the Bank or Holding Company.

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

Regulation of New York State Chartered Savings Banks

Business Activities. The Bank derives its lending, investment, and other authority primarily from the New York Banking Law ("NYBL") and the regulations of the NYSDFS, subject to limitations under applicable FDIC laws and regulations. Pursuant to the NYBL, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities (including certain corporate debt securities and obligations of federal, state, and local governments and agencies), and certain other assets. The lending powers of New York State-chartered savings banks and commercial banks are not generally subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage activities.

Recent Financial Regulatory Reforms. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"), which became law in 2010, was intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. Through December 31, 2015, the Reform Act did not have a material impact on the Company's core operations. Many provisions of the Reform Act remain subject to final rulemaking or phase in over several years. The Company believes that the following provisions of the Reform Act, when fully implemented, may have an impact on the Company:

The Reform Act created the Consumer Financial Protection Bureau ("CFPB"). With respect to insured depository institutions with less than $10 billion in assets, such as the Bank, the CFPB has rulemaking, but not enforcement, authority for federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, and the Truth in Savings Act, among others, and may participate in examinations conducted by the federal bank regulatory agencies to determine compliance with consumer protection laws and regulations. The CFPB may impose requirements more severe than the previous bank regulatory agencies.

In January 2013, the CFPB issued final regulations governing consumer mortgage lending, including mortgage servicing, certain mortgage origination standards and "qualified mortgages." Included in the final regulations were provisions governing compliance with both the Truth in Lending and Real Estate Settlement Procedures Acts. The Bank has fully implemented all applicable standards.

The Volcker Rule prohibits banking entities from acquiring and retaining an ownership interest in, sponsoring, or having certain relationships with, a "covered fund." The Volcker Rule generally treats as a covered fund any entity that would be an investment company under the Investment Company Act of 1940, except for the application of the exemptions from SEC registration set forth in Section 3(c)(1) (fewer than 100 beneficial owners) or Section 3(c)(7) (qualified purchasers) of the 1940 Act. Under the Volcker Rule, banking entities are also prohibited from engaging in proprietary trading.

In December 2013, the Office of the Comptroller of the Currency (the "OCC"), FRB, SEC and the Commodity Futures Trading Commission ("CFTC") adopted final rules implementing Section

Table of Contents

619 of the Reform Act. Section 619 and the final implementing rules are commonly referred to as the "Volcker Rule." All banking organizations were granted until July 21, 2015 to conform their activities and investments to the requirements of the final Volcker Rule.

On January 14, 2014, the OCC, FDIC, FRB, SEC and CFTC approved a final rule permitting banking entities to indefinitely retain interests in certain collateralized debt obligations backed primarily by trust preferred securities ("TRUP CDOs") that could otherwise not be retained after July 21, 2015 under the covered fund investment prohibitions of the Volcker Rule. Under the final rule, the agencies permit the retention of an interest in, or sponsorship of, covered funds by banking entities if the following qualifications are satisfied:

- the TRUP CDO was established, and the interest was issued, before May 19, 2010;
- the banking entity reasonably believes that the offering proceeds received by the TRUP CDO were invested primarily in qualifying TRUP CDO collateral, as defined; and
- the banking entity's interest in the TRUP CDO was acquired on or before December 10, 2013, the date the agencies issued final rules implementing the Volcker Rule.

A non-exclusive list of TRUP CDO issuers that satisfy the requirements of the final rule was concurrently released by the agencies. All TRUP CDO investments owned by the Bank satisfied the retention requirements issued by the regulatory agencies on January 14, 2014. Management does not currently anticipate that the Volcker Rule will have a material effect on the operations of either the Bank or Holding Company.

Basel III Capital Rules. In July 2013, the Bank's primary federal regulator, the FDIC, and the Holding Company's principal regulator, the FRB, published final rules (the "Basel III Capital Rules") that implement, in part, agreements reached by the Basel Committee on Banking Supervision ("Basel Committee") in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" ("Basel III") and imposed new capital requirements on the Bank and the Holding Company, effective January 1, 2015.

The Basel III Capital Rules provide for the following minimum capital to risk-weighted assets ratios as of January 1, 2015: a) 4.5% based upon common equity tier 1 capital ("CET1"); b) 6.0% based upon tier 1 capital; and c) 8.0% based upon total regulatory capital. A minimum leverage ratio (tier 1 capital as a percentage of total average assets) of 4.0% is also required under the Basel III Capital Rules. When fully phased in, the Basel III Capital Rules will additionally require institutions to retain a capital conservation buffer, composed of CET1, of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers. Restrictions would begin phasing in where the banking organization's capital conservation buffer was below 2.5% at the beginning of a quarter, and distributions and discretionary bonus payments would be completely prohibited if no capital conservation buffer exists. When the capital conservation buffer is fully phased in on January 1, 2019, the Holding Company and the Bank will effectively have the following minimum capital to risk-weighted assets ratios: a) 7.0% based upon CET1; b) 8.5% based upon tier 1 capital; and c) 10.5% based upon total regulatory capital.

The Basel III Capital Rules provide for a number of deductions from, and adjustments to, CET1. These include, for example, the requirement that MSR, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

Implementation of the deductions from, and other adjustments to, CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and increase by 0.625% each subsequent January 1, until it reaches 2.5% on January 1, 2019.

The Basel III Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes. In particular, the Basel III Capital Rules provide stricter rules related to the risk weighting of past due and certain commercial real estate loans, as well as on some equity investment exposures, and replace the existing credit rating approach for determining the risk weighting of securitization exposures with an alternative approach in which senior securitization tranches are assigned a risk weight associated with the underlying exposure

Table of Contents

and requiring a banking organization to hold capital for the senior tranche based on the risk weight of the underlying exposures. Under the revised approach, for subordinate securitization tranches, a banking organization must hold capital for the subordinate tranche, as well as all more senior tranches for which the subordinate tranche provides credit support.

With respect to the Bank, the Basel III Capital Rules revise the "prompt corrective action" ("PCA") regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum tier 1 capital ratio for well-capitalized status being 8.0% (as compared to the current 6.0%); and (iii) eliminating the current provision that a bank with a composite supervisory rating of 1 may have a 3.0% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any PCA category.

The Basel III Capital Rules will increase the required capital levels of the Bank and will subject the Holding Company to consolidated capital rules. The Bank and Company made the one-time, permanent election to continue to exclude the effects of accumulated other comprehensive income or loss items included in stockholders' equity for the purposes of determining the regulatory capital ratios. The following table summarizes the capital ratios calculated under the Basel III Capital Rules framework as of December 31, 2015.

	Actual		For Capital Adequacy Purposes(1)		To Be Categorized as "Well Capitalized"	
As of December 31, 2015	Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
Tier 1 Capital / % of average total assets						
Bank	$440,374	9.17 %	$194,314	4.0 %	$242,892	5.0 %
Consolidated Company	447,111	10.70	195,008	4.0	N/A	N/A
Common equity Tier 1 capital / % of risk weighted assets						
Bank	440,374	11.55	171,628	4.5	247,908	6.5
Consolidated Company	447,111	11.67	172,456	4.5	N/A	N/A
Tier 1 Capital / % of risk weighted assets						
Bank	440,374	11.55	228,838	6.0	305,117	8.0
Consolidated Company	515,626	13.45	229,941	6.0	N/A	N/A
Total Capital / % of risk weighted assets						
Bank	458,938	12.03	305,117	8.0	381,397	10.0
Consolidated Company	534,190	13.94	306,588	8.0	N/A	N/A

(1) In accordance with the Basel III rules.

Implementation of the Basel III Capital Rules effective January 1, 2015 did not have a material impact upon the operations of the Bank or Holding Company. Management believes that, as of December 31, 2015, the Bank and the Holding Company would meet all capital categories requirements under the Basel III Capital Rules on a fully phased in basis as if such requirement had been in effect on that date.

FDIC Guidance on Managing Market Risk. In October 2013, the FDIC published guidance entitled "Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment". This guidance notes the FDIC's ongoing supervisory concern that certain institutions may be insufficiently prepared or positioned for sustained increases in, or volatility of, interest rates. The guidance emphasizes a series of best practices to ensure that state nonmember institutions, such as the Bank, have adopted a comprehensive asset-liability and interest rate risk management

process. These practices include: (i) effective board governance and oversight; (ii) a sound policy framework and prudent exposure limits; (iii) well-developed risk measurement tools for effective measurement and monitoring of interest rate risk and; (iv) effective risk mitigation strategies. The Bank has implemented the best practices as of December 31, 2015.

NYSDFS Guidelines for Bank Lending to Multifamily Properties Under the Community Reinvestment Act. On September 5, 2013, the NYSDFS published guidelines addressing responsible multifamily lending. The guidelines report DFS' future intention to have Community Reinvestment Act ("CRA") examinations review whether a bank has satisfied its responsibility to ensure that any loan contributes to, and does not undermine, the availability of affordable housing or neighborhood conditions. Under the guidelines, a loan on a multifamily property would not be found to have a community development purpose, and would not be CRA eligible if it: (i) significantly reduces or has the potential to reduce affordable housing; (ii) facilitates substandard living conditions; (iii) is in technical default; or (iv) has been underwritten in an unsound manner.

Table of Contents

The guidelines also recommend that banks consider adopting a series of best practices in an effort to help avoid reductions in qualitative or quantitative CRA credit on multifamily loans.

Implementation of these guidelines has not materially impacted the business and operations of the Bank.

Interagency Guidance on Nontraditional Mortgage Product Risks. In 2006, the federal bank regulatory authorities (collectively the "Agencies") published the Interagency Guidance on Nontraditional Mortgage Product Risks (the "Nontraditional Mortgage Product Guidance"). The Nontraditional Mortgage Product Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among others, interest only loans. The Nontraditional Mortgage Product Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Nontraditional Mortgage Product Guidance indicates that originating interest only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower's repayment capacity. Specifically, the Nontraditional Mortgage Product Guidance indicates that a lender may accept a borrower's statement as to its income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

Limitations on Individual Loans and Aggregate Loans to One Borrower. As an NYS-chartered savings bank originating loans secured by real estate having a market value at least equal to the loan amount at the time of origination, the Bank is generally not constrained by NYSDFS regulations limiting individual loan or borrower exposures.

QTL Test. In order for the Holding Company to be regulated by the FRB as a savings and loan holding company rather than a bank holding company, the Bank must remain a QTL. To satisfy this requirement, the Bank must maintain at least 65% of its "portfolio assets" in certain "qualified thrift investments" during at least nine of the most recent twelve months. "Portfolio assets" mean, in general, the Bank's total assets less the sum of: (i) specified liquid assets up to 20% of total assets, (ii) certain intangibles, including goodwill, credit card relationships and purchased MSR, and (iii) the value of property used to conduct the Bank's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes; investments related to such purposes, including certain mortgage-backed and related securities; and small business, education, and credit card loans. At December 31, 2015, the Bank maintained 78.3% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2015, and, therefore, was a QTL. If the Bank fails to remain a QTL, the Holding Company must register with the FRB as a bank holding company. While the Holding Company intends to remain a savings and loan holding company, regulation as a bank holding company rather than a savings and loan holding company would be not be expected to have a material impact upon its financial condition or results of operations.

A savings association that fails the QTL test will generally be prohibited from (i) engaging in any new activity not permissible for a national bank, (ii) paying dividends, unless the payment would be permissible for a national bank, is necessary to meet obligations of a company that controls the savings bank, and is specifically approved by the FDIC and the FRB, and (iii) establishing any new branch office in a location not permissible for a national bank in the association's home state. A savings association that fails to satisfy the QTL test may be subject to FDIC enforcement action. In addition, within one year of the date a savings association ceases to satisfy the QTL test, any company controlling the association must register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended ("BHCA"). A savings association that has failed the QTL test may requalify under the QTL test and be relieved of the limitations; however, it may do so only once. If the savings association does not requalify under the QTL test within three years after failing the QTL test, it will be required to terminate any activity, and dispose of any investment, not permissible for a national bank. These provisions remain in effect under

the Reform Act.

Advisory on Interest Rate Risk Management. In January 2010, the Agencies released an Advisory on Interest Rate Risk Management (the "IRR Advisory") to remind institutions of the supervisory expectations regarding sound practices for managing IRR. While some degree of IRR is inherent in the business of banking, the Agencies expect institutions to have sound risk management practices in place to measure, monitor and control IRR exposures, and IRR management should be an integral component of an institution's risk management infrastructure. The Agencies expect all institutions to manage their IRR exposures using processes and systems commensurate with their earnings

and capital levels, complexity, business model, risk profile and scope of operations. The IRR Advisory further reiterates the importance of effective corporate governance, policies and procedures, risk measuring and monitoring systems, stress testing, and internal controls related to the IRR exposures of institutions.

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

The IRR Advisory emphasizes that effective IRR management not only involves the identification and measurement of IRR, but also provides for appropriate actions to control the risk. The adequacy and effectiveness of an institution's IRR management process and the level of its IRR exposure are critical factors in the Agencies' evaluation of an institution's sensitivity to changes in interest rates and capital adequacy.

Limitation on Capital Distributions. The NYBL and the New York banking regulations, as well as FDIC and FRB regulations impose limitations upon capital distributions by state-chartered savings banks, such as cash dividends, payments to purchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital.

Under the NYBL and the New York banking regulations, New York State-chartered stock savings banks may declare and pay dividends out of net profits, unless there is an impairment of capital, however, approval of the New York State Superintendent of Financial Services ("Superintendent") is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

As the subsidiary of a savings and loan holding company, the Bank is required to file a notice with the FRB at least 30 days prior to each capital distribution. The FRB can prohibit a proposed capital distribution if it determines that the bank would be "undercapitalized", as defined in the Federal Deposit Insurance Act, as amended ("FDIA"), following the distribution or that a proposed distribution would constitute an unsafe or unsound practice. Further, under FDIC PCA regulations, the Bank would be prohibited from making a capital distribution if, after the distribution, the Bank would fail to satisfy its minimum capital requirements, as described above (See "PCA").

Liquidity. Pursuant to FDIC regulations, the Bank is required to maintain sufficient liquidity to ensure its safe and sound operation (See "Part II-Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for further discussion). At December 31, 2015, the Bank satisfied all such liquidity requirements.

Assessments. New York State-chartered savings banks are required by the NYBL to pay annual assessments to the NYSDFS in connection with its regulation and supervision (including examination) of the Bank. This annual assessment is based primarily on the asset size of the Bank, among other factors determined by the NYSDFS. The Bank is not required to pay additional assessments to the FDIC for its regulation and supervision (including examination) of the Bank as a state nonmember bank, however, the Bank is required to pay assessments to the FDIC as an insured depository institution. (See "Insurance of Deposit Accounts").

Branching. Subject to certain limitations, NYS and federal law permit NYS-chartered savings banks to establish branches in any state of the United States. In general, federal law allows the FDIC, and the NYBL allows the Superintendent, to approve an application by a state banking institution to acquire interstate branches by merger. The NYBL authorizes New York State-chartered savings banks to open and occupy de novo branches outside the State of New York. Pursuant to the Reform Act, the FDIC is authorized to approve the establishment by a state bank of a de novo interstate branch if the intended host state allows de novo branching within that state by banks chartered by that state.

Community Reinvestment. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, an insured depository institution possesses a continuing and affirmative obligation, consistent with its

Table of Contents

safe and sound operation, to help satisfy the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services it believes are most appropriate to its particular community. The CRA requires the FDIC, in connection with its examination of a State Nonmember Bank, to assess the bank's record of satisfying the credit needs of its community and consider such record in its evaluation of certain applications by the bank. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a "Satisfactory" CRA rating in its most recent examination. Regulations additionally require that the Bank publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements.

The Bank is also subject to provisions of the NYBL that impose continuing and affirmative obligations upon a New York State-chartered savings bank to serve the credit needs of its local community (the "NYCRA"). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYSDFS to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. The Bank became subject to the NYCRA at the Charter Conversion, and has not yet received a NYCRA rating.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by FDIC regulations, Sections 23A and 23B of the Federal Reserve Act ("FRA"), and Regulation W issued by the FRB. FDIC regulations regarding transactions with affiliates generally conform to Regulation W. These provisions, among other matters, prohibit, limit or place restrictions upon a depository institution extending credit to, purchasing assets from, or entering into certain transactions (including securities lending, repurchase agreements and derivatives activities) with, its affiliates, which, for the Bank, would include the Holding Company and any other subsidiary of the Holding Company.

As a "savings association" under Section 10(l) of the HOLA, the Bank is additionally subject to the rules governing transactions with affiliates for savings associations under HOLA Section 11. These rules prohibit, subject to certain exemptions, a savings association from: (i) advancing a loan to an affiliate engaged in non-bank holding company activities; and (ii) purchasing or investing in securities issued by an affiliate that is not a subsidiary.

The Bank's authority to extend credit to its directors, executive officers, and stockholders owning 10% or more of the Holding Company's outstanding common stock, as well as to entities controlled by such persons, is additionally governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB enacted thereunder. Among other matters, these provisions require that extensions of credit to insiders: (i) be made on terms substantially the same as, and follow credit underwriting procedures not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain amount limitations individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. Regulation O additionally requires that extensions of credit in excess of certain limits be approved in advance by the bank's board of directors.

New York banking regulations impose certain limits and requirements on various transactions with "insiders," as defined in the New York banking regulations to include certain executive officers, directors and principal stockholders.

The Holding Company and Bank both presently prohibit loans to directors and executive management.

Enforcement. Under the NYBL, the Superintendent possesses enforcement power over New York State-chartered savings banks. The NYBL gives the Superintendent authority to order a New York State-chartered savings bank to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to maintain prescribed books and accounts. Upon a finding by the Superintendent that a director, trustee or officer of a savings bank has violated any law, or has continued unauthorized or unsafe practices in conducting its business after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard. The Superintendent also has authority to appoint a conservator or receiver, such as the FDIC, for a savings bank under certain circumstances.

Table of Contents

Under the FDIA, the FDIC possesses enforcement authority for FDIC insured depository institutions and has the authority to bring enforcement action, including civil monetary penalties, against all "institution-affiliated parties," including any controlling stockholder or any shareholder, attorney, appraiser or accountant who knowingly or recklessly participates in any violation of applicable law or regulation, breach of fiduciary duty or certain other wrongful actions that cause, or are likely to cause, more than minimal loss to or other significant adverse effect on an insured depository institution. Under HOLA and the FDIA, the FRB possesses similar authority to bring enforcement actions and impose civil monetary penalties against savings and loan holding companies for violations of applicable law or regulation. In addition, regulators possess substantial discretion to take enforcement action against an institution that fails to comply with the law, particularly with respect to capital requirements. Possible enforcement actions range from informal enforcement actions, such as a memorandum of understanding, to formal enforcement actions, such as a written agreement, cease and desist order or civil money penalty, the imposition of a capital plan and capital directive to receivership, conservatorship, or the termination of deposit insurance.

Standards for Safety and Soundness. Pursuant to FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the FDIC, together with the other federal bank regulatory agencies, has adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other features, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the FDIC has adopted regulations pursuant to FDICIA that authorize, but do not require, the FDIC to order an institution that has been given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so ordered, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized bank is subject under the PCA provisions of FDICIA (See "Part I - Item 1 – Business - Regulation - Regulation of New York State Chartered Savings Banks –PCA"). If an institution fails to comply with such an order, the FDIC may seek enforcement in judicial proceedings and the imposition of civil money penalties.

Insurance of Deposit Accounts. The standard maximum amount of FDIC deposit insurance is $250,000 per depositor. Insured depository institutions are required to pay quarterly deposit insurance assessments to the DIF. Assessments are based on average total assets minus average tangible equity. The assessment rate is determined through a risk-based system. For depository institutions with less than $10 billion in assets, such as the Bank, the FDIC assigns an institution to one of four risk categories based on its safety and soundness supervisory ratings (its "CAMELS" ratings) and its capital levels. The initial base assessment rate depends on the institution's risk category, as well as, if it is in the highest category (indicating the lowest risk), certain financial measures. The initial base assessment rate currently ranges from 5 to 35 basis points on an annualized basis. The initial base assessment rate is then decreased depending on the institution's ratio of long-term unsecured debt to its assessment base (with such decrease not to exceed the lesser of 5 basis points or 50% of the initial base assessment rate) and, for institutions not in the highest risk category, increased if the institution's brokered deposits are more than 10 percent of its domestic deposits (with such increase not to exceed 10 basis points). The current total base assessment rate is therefore from 2.5 to 45 basis points on an annualized basis.

As a result of the recent failures of a number of banks and thrifts, there has been a significant increase in the loss provisions of the DIF. This resulted in a decline in the DIF reserve ratio during 2008 below the then minimum designated reserve ratio of 1.15%. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Reform Act. The FDIC has established a long-term target for the reserve ratio of 2.0%. At least semi-annually, the FDIC will update its loss and income

projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

The Deposit Insurance Funds Act of 1996 amended the FDIA to recapitalize the Savings Association Insurance Fund ("SAIF") [which was merged with the Bank Insurance Fund ("BIF") into the newly-formed DIF on March 31, 2006] and expand the assessment base for the payment of Financing Corporation ("FICO") bonds. FICO bonds were sold by the federal government in order to finance the recapitalization of the SAIF and BIF that was necessitated following payments from the funds to compensate depositors of federally-insured depository institutions that experienced bankruptcy and dissolution during the 1980's and 1990's. These payments, which

Table of Contents

approximate 10% of the Bank's annual FDIC insurance payments, will continue until the FICO bonds mature in 2017 through 2019.

Acquisitions. Under the federal Bank Merger Act, prior approval of the FDIC is required for the Bank to merge with or purchase the assets or assume the deposits of another insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, the FDIC will consider, among other factors, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the CRA (see "Community Reinvestment") and its compliance with fair housing and other consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities.

Privacy and Security Protection. The federal banking agencies have adopted regulations for consumer privacy protection that require financial institutions to adopt procedures to protect customers and their "non-public personal information." The regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship, and annually thereafter if there are changes to its policy. In addition, the Bank is required to provide its customers the ability to "opt-out" of: (1) the sharing of their personal information with unaffiliated third parties if the sharing of such information does not satisfy any of the permitted exceptions; and (2) the receipt of marketing solicitations from Bank affiliates.

The Bank is additionally subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the federal banking agencies' expectations for the creation, implementation and maintenance of an information security program, including administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, and protect against anticipated threats or hazards to the security or integrity of such records and unauthorized access to or use of such records or information that could result in substantial customer harm or inconvenience.

Federal law additionally permits each state to enact legislation that is more protective of consumers' personal information. Currently, there are a number of privacy bills pending in the New York legislature. Management of the Company cannot predict the impact, if any, of these bills if enacted.

Cybersecurity more broadly has become a focus of federal and state regulators. In March 2015, federal regulators issued two statements regarding cybersecurity to reiterate regulatory expectations regarding cyberattacks compromising credentials and business continuity planning to ensure the rapid recovery of an institution's operations after a cyberattack involving destructive malware. The NYSDFS has announced that it is considering issuing proposed regulations that would require an institution to maintain a cybersecurity program designed to perform core cyber security functions that meet specific requirements. See "Item 1A - Risk Factors" for a further discussion of cybersecurity risks.

Consumer Protection and Compliance Provisions. The Bank is subject to various consumer protection laws and regulations. The Bank may be subject to potential liability for material violations of these laws and regulations, in the form of litigation by governmental and consumer groups, the FDIC and other federal regulatory agencies including the Department of Justice. Moreover, the CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all depository institutions, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices.

Insurance Activities. As a New York State chartered savings bank, the Bank is generally permitted to engage in certain insurance activities: (i) directly in places where the population does not exceed 5,000 persons, or (ii) in places with larger populations through subsidiaries if certain conditions are satisfied. Federal agency regulations prohibit

depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity or an agreement by the consumer not to purchase an insurance product or annuity from an entity not affiliated with the depository institution. The regulations additionally require prior disclosure of this prohibition if such products are offered to credit applicants. Compliance with these regulations has not had a material impact upon the Bank's financial condition or results of operations.

Federal Home Loan Bank ("FHLB") System. The Bank is a member of the FHLBNY, which is one of the twelve regional FHLBs composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. Any advances from the FHLBNY must be secured by specified types of collateral, and long-

Table of Contents

term advances may be obtained only for the purpose of providing funds for residential housing finance. The Bank, as a member of the FHLBNY, is currently required to acquire and hold shares of FHLBNY Class B stock as a membership requirement and must hold additional stock based on its FHLB borrowing and certain other activities. The Bank was in compliance with these requirements with an investment in FHLBNY Class B stock of $58.7 million at December 31, 2015. The FHLBNY can adjust the specific percentages and dollar amount periodically within the ranges established by the FHLBNY capital plan.

Federal Reserve System. The Bank is subject to FRA and FRB regulations requiring state-chartered depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and regular checking accounts). Because required reserves must be maintained in the form of vault cash, a low-interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to satisfy the FRB reserve requirements may be used to satisfy liquidity requirements imposed by the FDIC.

The Federal Reserve Banks pay interest on depository institutions' required and excess reserve balances. The interest rate paid on required reserve balances and excess balances is currently 0.50 percent.

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

Anti-Money Laundering and Customer Identification. Financial institutions are subject to Bank Secrecy Act amendments and specific federal agency guidance in relation to implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("PATRIOT Act"). The PATRIOT Act provides the federal government with powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the PATRIOT Act enacted measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of Title III and the FDIC guidance impose affirmative obligations on a broad range of financial institutions, including banks and thrifts. Title III imposes the following requirements, among others, with respect to financial institutions: (i) establishment of anti-money laundering programs; (ii) establishment of procedures for obtaining identifying information from customers opening new accounts, including verifying their identity within a reasonable period of time; (iii) establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and (iv) prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks. In addition, the NYSDFS issued a proposed regulation in December 2015 that sets forth, for financial institutions chartered or licensed under the New York Banking Law, the attributes of certain compliance programs such institutions must have to ensure compliance with Bank Secrecy Act/Anti-Money Laundering laws and regulations and sanctions administered by the Office of Foreign Assets Control ("OFAC"). The proposed regulation would require a senior compliance officer of an institution to make an annual certification as to an institution's compliance with the requirements of the regulation, with the potential for criminal penalties for the officer if the certification is incorrect or false.

Finally, bank regulators are directed to consider an organization's effectiveness in preventing money laundering when reviewing and acting on regulatory applications.

OFAC Regulation. OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals, and others. Failure to comply with these sanctions could have serious legal and reputational consequences.

Regulation of the Holding Company

The Bank has made an election under Section 10(l) of the HOLA to be treated as a "savings association" for purposes of regulation of the Holding Company. As a result, the Holding Company continues, after the Charter Conversion, to be registered with the FRB as a non-diversified unitary savings and loan holding company within the meaning of the HOLA. The Holding Company is currently subject to FRB regulations, examination, enforcement and supervision, as well as reporting requirements applicable to savings and loan holding companies. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the safety, soundness or stability of a subsidiary depository institution. In addition, the FRB has enforcement authority

over the Holding Company's non-depository institution subsidiaries. If the Bank does not continue to satisfy the QTL test, the Holding Company must change its status with the FRB as a savings and loan holding company and register as a bank holding company under the BHCA. (See "Regulation of New York State-Chartered Savings Banks–QTL Test").

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

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

Upon any non-supervisory acquisition by the Holding Company of another savings association or a savings bank that satisfies the QTL test and is deemed to be a savings association and that will be held as a separate subsidiary, the Holding Company will become a multiple savings and loan holding company and will be subject to limitations on the types of business activities in which it may engage. HOLA limits the activities of a multiple savings and loan holding company and its non-insured subsidiaries primarily to activities permissible under Section 4(c) of the BHCA, subject to prior approval of the FRB, or the activities permissible for financial holding companies under Section 4(k) of the BHCA, if the company meets the requirements to be treated as a financial holding company, and to other activities authorized by federal agency regulations.

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

The Bank must file a notice with the FRB prior to the payment of any dividends or other capital distributions to the Holding Company (See "Regulation-Regulation of New York State Chartered Savings Banks - Limitation on Capital Distributions"). The FRB has the authority to deny such payment request.

Restrictions on the Acquisition of the Holding Company. Under the Federal Change in Bank Control Act ("CIBCA") and implementing regulations, a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Holding Company's shares of outstanding common stock, unless the FRB has found that the acquisition will not result in a change in control of the Holding Company. Under CIBCA and implementing regulations, the FRB generally has 60 days within which to act on such notices, taking into consideration certain factors, including the financial and managerial resources of the acquirer; the convenience and needs of the communities served by the Holding Company, the Bank; and the anti-trust effects of the acquisition. Under HOLA, any company would be required to obtain approval from the FRB before it may obtain "control" of the

Holding Company within the meaning of HOLA. Control is generally defined to mean the ownership or power to vote 25% or more of any class of voting securities of the Holding Company or the ability to control in any manner the election of a majority of the Holding Company's directors, although a person or entity may also be determined to "control" the Holding Company without satisfying these requirements if it is determined that he, she or it directly or indirectly exercises a controlling influence over the management or policies of the Holding Company. In addition, an existing bank holding company or savings and loan holding company would, under federal banking laws and regulations, generally be required to obtain FRB approval before acquiring more than 5% of the Holding Company's voting stock.

Table of Contents

In addition to the applicable federal laws and regulations, New York State Banking Law generally requires prior approval of the New York State Superintendent of Financial Services before any action is taken that causes any company to acquire direct or indirect control of a banking institution organized in New York.

Basel III. See "Regulation of New York State Chartered Savings Banks–Basel III" for a discussion of the potential impact(s) of Basel III upon the Holding Company.

Federal Securities Laws

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

Delaware Corporation Law

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

Item 1A. Risk Factors

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

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in the New York metropolitan area and in the United States as a whole. Conditions in the marketplace for the Bank's property collateral types (mainly multifamily and commercial real estate) remained stronger than most other parts of the country throughout the years of the financial crisis, and in fact have recently rebounded to healthy pre-crisis levels. Nevertheless, given the precarious nature of financial and economic conditions both nationally and globally, this status is always subject to change, which could adversely affect the credit quality of the Bank's loans, results of operations and financial condition.

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

The credit quality of the Bank's portfolio can have a significant impact on the Company's earnings, results of operations and financial condition. As part of the Company's strategic plan, it originates loans secured by commercial real estate that are generally viewed as exposing lenders to a greater risk of loss than both one- to four-family and multifamily residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, as well as the success of the business and retail tenants occupying the properties, repayment of such loans are generally more vulnerable to weak economic conditions. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon the rentability, among other commercial factors.

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

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

Table of Contents

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

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

Geographic and borrower concentrations could adversely impact financial performance.

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

Conditions in the real estate markets in which the collateral for the Bank's mortgage loans are located strongly influence the level of the Bank's non-performing loans and the value of its collateral. Real estate values are affected by, among other items, fluctuations in general or local economic conditions, supply and demand, changes in governmental rules or policies, the availability of loans to potential purchasers and acts of nature. Declines in real estate markets have in the past, and may in the future, negatively impact the Company's results of operations, cash flows, business, financial condition and prospects. In addition, at December 31, 2014 the Bank had four borrowers for which its total lending exposure equaled or exceeded 10% of its Tier 1 risk-based capital (its lowest capital measure). Default by these borrowers could adversely impact the Bank's financial condition and results of operations.

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

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

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

The Bank's primary source of income is its net interest income, which is the difference between the interest income earned on its interest earning assets and the interest expense incurred on its interest bearing liabilities. The Bank's one-year interest rate sensitivity gap is the difference between interest rate sensitive assets maturing or repricing within one year and its interest rate sensitive liabilities maturing or repricing within one year, expressed as both a total amount and as a percentage of total assets. At December 31, 2015, the Bank's one year interest rate gap was negative 21%, indicating that the overall level of its interest rate sensitive liabilities maturing or repricing within one year exceeded that of its interest rate sensitive assets maturing or repricing within one year. In a rising interest rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in its cost of liabilities relative to its yield on assets, and thus a decline in net interest income from its existing investments and funding sources.

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

Table of Contents

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

As a New York State chartered savings bank, the Bank is required to monitor changes in its Economic Value of Equity ("EVE"), which 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. To monitor its overall sensitivity to changes in interest rates, the Bank also simulates the effect of instantaneous changes in interest rates of up to 400 basis points on its assets, liabilities and net interest income. Interest rates do and will continue to fluctuate, and the Bank cannot predict future FOMC actions or other factors that will cause interest rates to vary.

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

The Holding Company and the Bank are subject to extensive supervision, regulation and examination by the NYSDFS (the Bank's primary regulator), the FRB (the Holding Company's primary regulator) and the FDIC, as its deposit insurer. Such regulation limits the manner in which the Holding Company and Bank conduct business, undertake new investments and activities and obtain financing. This regulation is designed primarily for the protection of the deposit insurance funds and the Bank's depositors, and not to benefit the Bank or its creditors. The regulatory structure also provides the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Failure to comply with applicable laws and regulations could subject the Holding Company and Bank to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Holding Company and Bank. For further information regarding the laws and regulations that affect the Holding Company and the Bank, see "Item 1. Business - Regulation - Regulation of New York State Chartered Savings Banks," and "Item 1. Business - Regulation - Regulation of Holding Company."

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

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

the Bank, and therefore, on the Company's results of operations.

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

Table of Contents

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

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

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

Clients could pursue alternatives to the Bank's deposits, causing the Bank to lose a historically less expensive source of funding. The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. In addition, it must also compete for deposit monies against the stock markets, mutual funds, and other securities. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has altered the deposit gathering landscape and may increase competitive pressures on the Bank.

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

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

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

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

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

As a financial institution, the Bank's earnings and capital are subject to risks associated with negative public opinion. Negative public opinion could result from the Company's actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold by the Bank to meet customers' expectations or

applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect the Company's ability to attract and/or retain clients and can expose the Company to litigation and regulatory action. Actual or alleged conduct by one of the Company's businesses can result in negative public opinion about its other businesses. Negative public opinion could also affect the Company's credit ratings, which are important to its access to unsecured wholesale borrowings. Significant changes in these ratings could change the cost and availability of these sources of funding.

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

Table of Contents

The Reform Act creates minimum standards for the origination of mortgage loans. The CFPB recently adopted rules imposing extensive regulations governing an institution's obligation to evaluate a borrower's ability to repay a mortgage loan. The rule applies to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages or temporary loans). The rule also prohibits prepayment fees on certain types of mortgage loans.

Congress and various federal regulators also may significantly impact the financial services industry and the Company's business. Complying with any new legislative or regulatory requirements could have an adverse impact on the Company's consolidated results of operations, its ability to fill positions with the most qualified candidates available, and the Holding Company's ability to maintain its dividend.

Furthermore, the Federal Government may take action to transform the role of government in the U.S. housing market, such as reducing the size and scope of FNMA and FHLMC, or diminishing other government support to such markets. Congressional leaders have voiced similar plans for future legislation. It is too early to determine the nature and scope of any legislation that may develop along these lines, or the roles FNMA and FHLMC or the private sector will play in future housing markets. However, it is possible that legislation will be proposed over the near term that would considerably limit the nature of GSE guarantees relative to historical measurements, which could have broad adverse implications for the market and significant implications for the Company's business.

The Bank has recently become subject to more stringent capital requirements.

Effective January 1, 2015, the federal banking agencies have adopted the Basel III Capital Rules, which apply to both the Bank and Holding Company. These rules are subject to phase-in periods until January 1, 2019 for certain of their components. The Basel III Capital Rules will result in significantly higher capital requirements and more restrictive leverage and liquidity ratios for the Bank than those previously in effect. The Basel III Capital Rules will also apply to the Holding Company, which, as a savings and loan holding company, was not previously subject to consolidated risk-based capital requirements.

While the Bank expects to satisfy the requirements of the Basel III Capital Rules, inclusive of the capital conservation buffer, as phased in by the FRB, it may fail to do so. In addition, these requirements could have a negative impact on the Bank's ability to lend, grow deposit balances, make acquisitions and make capital distributions in the form of increased dividends or share repurchases. Higher capital levels could also lower the Company's consolidated return on equity.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models.

The processes the Company uses to estimate its probable loan losses and to measure the fair value of some financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models the Company uses for determining its probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the model the Company uses to measure the fair value financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments. Any such failure in the Company's analytical or forecasting models could have a material adverse effect on the Company's business, financial condition and results of operations.

The value of the Company's goodwill and other intangible assets may decline in the future.

As of December 31, 2015, the Company had $55.6 million of goodwill and other intangible assets. A significant decline in the Company's expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of the Holding Company's common stock may necessitate taking charges in the future related to the impairment of the Company's goodwill and other intangible assets. If the Company were to conclude that a future write-down of goodwill and other intangible assets

Table of Contents

is necessary, the Company would record the appropriate charge, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's controls and procedures may fail or be circumvented.

The Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are satisfied. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's risk management practices may not be effective in mitigating the risks to which it is subject or in reducing the potential for losses in connection with such risks.

As a financial institution, the Company is subject to a number of risks, including credit, interest rate, liquidity, market, operational, legal/compliance, reputational, and strategic. The Company's risk management framework is designed to minimize the risks to which it is subject, as well as any losses resulting from such risks. Although the Company seeks to identify, measure, monitor, report, and control the Company's exposure to such risks, and employ a broad and diversified set of risk monitoring and mitigation techniques in the process, those techniques are inherently limited because they cannot anticipate the existence or development of risks that are currently unknown and unanticipated.

For example, recent economic conditions, heightened legislative and regulatory scrutiny of the financial services industry, and increases in the overall complexity of the Company's operations, among other developments, have resulted in the creation of a variety of risks that were previously unknown and unanticipated, highlighting the intrinsic limitations of the Company's risk monitoring and mitigation techniques. As a result, the further development of previously unknown or unanticipated risks may result in the Company incurring losses in the future that could adversely impact its financial condition and results of operations.

The Company's operations rely on certain external vendors.

The Company relies on certain external vendors to provide products and services necessary to maintain its day-to-day operations. Accordingly, the Company's operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements. The failure of an external vendor to perform in accordance with the contracted arrangements because of changes in the vendor's organizational structure, financial condition, support for existing products and services, or strategic focus, or for any other reason, could be disruptive to the Company's operations, which could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

The Company is subject to environmental liability risk associated with lending activities.

A significant portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Environmental reviews of real property before initiating foreclosure may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an

environmental hazard could have a material adverse effect on the Company's business, financial condition and results of operations.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. In addition, such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of

Table of Contents

collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

Credit risk stemming from held-for-investment lending activities may adversely impact on the Company's consolidated net income.

The loans originated by the Bank for investment are primarily multi-family residential loans and, to a lesser extent, commercial real estate loans. Such loans are generally larger, and have higher risk-adjusted returns and shorter maturities, than one-to four-family mortgage loans. Credit risk would ordinarily be expected to increase with the growth of these loan portfolios.

Payments on multi-family residential and commercial real estate loans generally depend on the income produced by the underlying properties, which, in turn, depend on their successful operation and management. Accordingly, the ability of the Bank's borrowers to repay these loans may be impacted by adverse conditions in the local real estate market and the local economy. While the Bank seeks to minimize these risks through its underwriting policies, which generally require that such loans be qualified on the basis of the collateral property's cash flows, appraised value, and debt service coverage ratio, among other factors, there can be no assurance that the Bank's underwriting policies will protect it from credit-related losses or delinquencies.

Although the Bank's losses have been comparatively limited, despite the economic weakness in its market, it cannot guarantee that this record will be maintained in future periods. The ability of the Bank's borrowers to repay their loans could be adversely impacted by a further decline in real estate values and/or an increase in unemployment, which not only could result in an increase in charge-offs and/or the provision for loan losses. Either of these events would have an adverse impact on the Company's consolidated net income.

Security measures may not be sufficient to mitigate the risk of a cyber attack.

Communications and information systems are essential to the conduct of the Company's business, as it uses such systems to manage its customer relationships, general ledger, deposits, and loans. The Company's operations rely on the secure processing, storage, and transmission of confidential and other information in its computer systems and networks. Although the Company takes protective measures and endeavors to modify them as circumstances warrant, the security of its computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have a security impact.

In addition, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to the Company's confidential or other information or the confidential or other information of its customers, clients, or counterparties. If one or more of such events were to occur, the confidential and other information processed and stored in, and transmitted through, the Company's computer systems and networks could potentially be jeopardized, or the operations of the Company or its customers, clients, or counterparties could otherwise experience interruptions or malfunctions. This could cause the Company significant reputational damage or result in significant losses.

Furthermore, the Company may be required to expend significant additional resources to modify its protective measures or investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Also, the Company may be subject to wholly or partially uninsured litigation and financial losses.

In addition, the Company routinely transmits and receives personal, confidential, and proprietary information by e-mail and other electronic means. The Company has discussed and worked with its appropriate customers and

counterparties to develop secure transmission capabilities, however, it does not have, and may be unable to install, secure capabilities with all of these constituents, and may be unable to ensure that these third parties have appropriate controls in place to protect the confidentiality of such information. Any interception, misuse, or mishandling of personal, confidential, or proprietary information transmitted to or received from a customer or counterparty could result in legal liability, regulatory action, and reputational harm, and could have a significant adverse effect on the Company's competitive position, financial condition, and results of operations.

Security measures may not protect the Company from systems failures or interruptions

Table of Contents
.

Communications and information systems are essential to the conduct of the Company's business, as it uses such systems to manage its customer relationships, general ledger, deposits, and loans. The Company's operations rely on the secure processing, storage, and transmission of confidential and other information in its computer systems and networks. The security of its computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have a security impact.

A failure in or breach of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to the Company's confidential or other information or the confidential or other information of its customers, clients, or counterparties. If one or more of such events were to occur, the confidential and other information processed and stored in, and transmitted through, the Company's computer systems and networks could potentially be jeopardized, or the operations of the Company or its customers, clients, or counterparties could otherwise experience interruptions or malfunctions. If this confidential or proprietary information were to be mishandled, misused or lost, the Company could additionally be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of popular financial entities.

Furthermore, the Company may be required to expend significant additional resources to modify its protective measures or investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Also, the Company may be subject to wholly or partially uninsured litigation and financial losses.

In addition, the Company routinely transmits and receives personal, confidential, and proprietary information by e-mail and other electronic means. The Company has discussed and worked with its appropriate customers and counterparties to develop secure transmission capabilities, however, it does not have, and may be unable to install, secure capabilities with all of these constituents, and may be unable to ensure that these third parties have appropriate controls in place to protect the confidentiality of such information. Any interception, misuse, or mishandling of personal, confidential, or proprietary information transmitted to or received from a customer or counterparty could result in legal liability, regulatory action, and reputational harm, and could have a significant adverse effect on the Company's competitive position, financial condition, and results of operations.

The Company also outsources certain aspects of its data processing to select third-party providers. If these third-party providers encounter difficulties, or problems arise in communicating with them, the Company's ability to adequately process and account for customer transactions could be affected, and its business operations could be adversely impacted.

Although both the Company and all significant third party providers utilized to process, store and transmit confidential and other information employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of the information did occur, those events will be promptly detected and addressed.

The trading volume in the Holding Company's common stock is less than that of other larger financial services companies.

Although the Holding Company's common stock is listed for trading on the Nasdaq National Exchange, the trading volume in its common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Holding Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Holding Company has no control. Given the lower trading volume of the Holding Company's common stock, significant sales of the Holding Company's common stock, or the expectation of these sales, could, from time to time, cause the Holding Company's stock price to exhibit weakness unrelated to financial performance.

The Holding Company may reduce or eliminate dividends on its common stock in the future.

Table of Contents

Holders of the Holding Company's common stock are entitled to receive only such dividends as its Board of Directors may declare out of funds legally available for such payments. Although the Holding Company has historically declared cash dividends on its common stock, it is not required to do so and may reduce or eliminate its common stock dividend in the future. This could adversely affect the market price of the Holding Company's common stock. In addition, the Holding Company is a savings and loan holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

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

	Twelve Months Ended December 31, 2015			Twelve Months Ended December 31, 2014		
Quarter Ended	Dividends Declared	High Sales Price	Low Sales Price	Dividends Declared	High Sales Price	Low Sales Price
March 31st	$0.14	$16.49	$14.73	$0.14	$18.23	$15.43

June 30th	0.14	17.66	15.46	0.14	17.53	14.77
September 30th	0.14	18.00	16.04	0.14	16.22	14.23
December 31st	0.14	18.45	16.20	0.14	16.63	14.02

On December 31, 2015, the final trading date in the fiscal year, the Holding Company's common stock closed at $17.49.

Management estimates that the Holding Company had approximately 7,500 stockholders of record as of March 1, 2016, including persons or entities holding stock in nominee or street name through various brokers and banks. There were 37,371,992 shares of Holding Company common stock outstanding at December 31, 2015.

Table of Contents

During the year ended December 31, 2015, the Holding Company paid cash dividends totaling $20.3 million, representing $0.56 per outstanding common share. During the year ended December 31, 2014, the Holding Company paid cash dividends totaling $20.1 million, representing $0.56 per outstanding common share.
On January 27, 2016, the Board of Directors declared a cash dividend of $0.14 per common share to all stockholders of record as of February 8, 2016. This dividend was paid on February 15, 2016.
The Holding Company is subject to the requirements of Delaware law, which generally limits dividends to an amount equal to the excess of net assets (i.e., the amount by which total assets exceed total liabilities) over statutory capital, or if no such excess exists, to net profits for the current and/or immediately preceding fiscal year.
As the principal asset of the Holding Company, the Bank is often called upon to provide funds for the Holding Company's payment of dividends (See "Item 1 – Business - Regulation – Regulation of New York State Chartered Savings Banks – Limitation on Capital Distributions").
In March 2004, the Holding Company issued $72.2 million in trust preferred debt, with a stated annual coupon rate of 7.0%. The Holding Company re-acquired and retired $1.5 million of this outstanding debt during 2009. Pursuant to the provisions of the debt, the Holding Company is required to first satisfy the interest obligation on the debt, which currently approximates $4.9 million annually, prior to the authorization and payment of common stock cash dividends. Management of the Holding Company does not presently believe that this requirement will materially affect its ability to pay dividends to its common stockholders.

The Holding Company did not purchase any shares of its common stock into treasury during the three months ended December 31, 2015.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Number of Shares that May Yet be Purchased Under the Programs (1)
October 2015	-	-	-	1,104,549
November 2015	-	-	-	1,104,549
December 2015	-	-	-	1,104,549

(1) No existing repurchase programs expired during the three months ended December 31, 2015, nor did the Company terminate any repurchase programs prior to expiration during the quarter. The 1,104,549 shares that remained eligible for repurchase at December 31, 2015 were available under the Holding Company's twelfth stock repurchase program, which was publicly announced in June 2007. The twelfth stock repurchase program authorized the purchase of up to 1,787,665 shares of the Holding Company's common stock, and has no expiration.

Performance Graph

Pursuant to regulations of the SEC, the graph below compares the Holding Company's stock performance with that of the total return for the U.S. Nasdaq Stock Market and an index of all thrift stocks as reported by SNL Securities L.C. from January 1, 2011 through December 31, 2015. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.

Table of Contents

Index	Period Ending December 31, 2010	2011	2012	2013	2014	2015
Dime Community Bancshares, Inc.	100.00	89.94	103.20	130.44	130.09	144.63
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Thrift	100.00	84.12	102.32	131.30	141.22	158.80

Item 6. Selected Financial Data

Financial Highlights
(Dollars in Thousands, except per share data)
The consolidated financial and other data of the Company as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 set forth below is derived in part from, and should be read in conjunction with, the Company's audited Consolidated Financial Statements and Notes thereto. Certain amounts as of and for the years ended December 31, 2014, 2013, 2012 and 2011 have been reclassified to conform to the December 31, 2015 presentation. These reclassifications were not material.

	At or for the Year Ended December 31, 2015	2014	2013	2012	2011
Selected Financial Condition Data:					
Total assets	$5,032,872	$4,497,107	$4,028,190	$3,905,399	$4,021,180
Loans and loans held for sale (net of deferred costs or fees and the allowance for loan losses)	4,678,262	4,100,747	3,679,366	3,485,818	3,443,633
MBS	431	26,409	31,543	49,021	93,877
Investment securities (including FHLBNY capital stock)	77,912	76,139	78,863	88,762	232,642
Federal funds sold and other short-term investments	-	250	-	-	951
Goodwill	55,638	55,638	55,638	55,638	55,638
Deposits	3,184,310	2,659,792	2,507,146	2,479,429	2,343,701
Borrowings	1,237,405	1,244,405	980,680	913,180	1,205,455
Stockholders' equity	493,947	459,725	435,506	391,574	361,034
Selected Operating Data:					
Interest income	$174,791	$172,952	$175,456	$195,954	$209,216
Interest expense	46,227	48,416	46,969	86,112	69,714
Net interest income	128,564	124,536	128,487	109,842	139,502
Provision (credit) for loan losses	(1,330)	(1,872)	369	3,921	6,846
Net interest income after provision (credit) for loan losses	129,894	126,408	128,118	105,921	132,656
Non-interest income	8,616	9,038	7,463	23,849	7,929
Non-interest expense	62,493	61,076	62,692	62,572	61,688
Income before income tax	76,017	74,370	72,889	67,198	78,897
Income tax expense	31,245	30,124	29,341	26,890	31,588
Net income	$44,772	$44,246	$43,548	$40,308	$47,309

Table of Contents

	At or for the Year Ended December 31,				
	2015	2014	2013	2012	2011
SELECTED FINANCIAL RATIOS AND OTHER DATA (1):					
Return on average assets	0.96 %	1.03 %	1.09 %	1.02 %	1.16 %
Return on average stockholders' equity	9.40	9.83	10.58	10.73	13.65
Stockholders' equity to total assets at end of period	9.81	10.22	10.81	10.03	8.98
Loans to deposits at end of period	147.50	154.87	147.56	141.42	147.80
Loans to interest-earning assets at end of period	95.98	94.68	96.74	94.41	91.36
Net interest spread (2)	2.72	2.84	3.19	2.58	3.38
Net interest margin (3)	2.89	3.03	3.39	2.92	3.60
Average interest-earning assets to average interest-bearing liabilities	116.64	115.98	116.49	114.83	112.07
Non-interest expense to average assets	1.34	1.42	1.57	1.59	1.51
Efficiency ratio (4)	45.98	46.28	46.23	52.58	41.64
Effective tax rate	41.10	40.51	40.25	40.02	40.04
Dividend payout ratio	45.53	45.53	45.53	47.86	30.00
Per Share Data:					
Diluted earnings per share	$1.23	$1.23	$1.23	$1.17	$1.40
Cash dividends paid per share	0.56	0.56	0.56	0.56	0.56
Book value per share (5)	13.22	12.47	11.86	10.96	10.28
Asset Quality Ratios and Other Data(1):					
Net charge-offs (recoveries)	$(1,351)	$(212)	$766	$3,707	$5,925
Total non-performing loans (6)	1,611	6,198	12,549	8,888	28,973
OREO	148	18	18	-	-
Non-performing TRUPS	1,236	904	898	892	1,012
Total non-performing assets	2,995	7,120	13,465	9,780	29,985
Non-performing loans to total loans	0.03 %	0.15 %	0.34 %	0.25 %	0.84 %
Non-performing assets to total assets	0.06	0.16	0.33	0.25	0.75
Allowance for Loan Losses to:					
Non-performing loans	1,149.22%	298.37%	160.59%	231.21%	78.04 %
Total loans (7)	0.39	0.45	0.54	0.59	0.58
Regulatory Capital Ratios: (Bank only) (1)(8)					
Common Equity Tier 1 Capital to Risk-Weighted Assets	11.55 %	12.33 %	N/A	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets ("Tier 1 Capital Ratio")	11.55	12.33	N/A	N/A	N/A
Total Capital to Risk-Weighted Assets ("Total Capital Ratio")	12.03	12.89	N/A	N/A	N/A
Tier 1 Capital to Average Assets	9.17	9.64	N/A	N/A	N/A
Earnings to Fixed Charges Ratios (9):					
Including interest on deposits	2.60 x	2.50 x	2.51 x	1.77 x	2.12 x
Excluding interest on deposits	4.11	3.49	3.58	2.95	2.78
Full Service Branches	25	25	25	26	26

(1) With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods. Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.
(2) The net interest spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.
(3) The net interest margin represents net interest income as a percentage of average interest-earning assets.

(4) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income, excluding any gains or losses on sales of assets.

(5) Book value per share equals total stockholders' equity divided by shares outstanding at each period end.

(6) Includes non-performing loans designated as held for sale at period end.

(7) Total loans represent loans and loans held for sale, net of deferred fees and costs and unamortized premiums, and excluding (thus not reducing the aggregate balance by) the allowance for loan losses.

(8) Regulatory capital ratios are calculated based upon the Basel III capital rules that became effective on January 1, 2015. Pro forma ratios computed as of December 31, 2014 have been provided, however, periods prior to December 31, 2014 are not provided.

(9) For purposes of computing the ratios of earnings to fixed charges, earnings represent income before taxes, extraordinary items and the cumulative effect of accounting changes plus fixed charges. Fixed charges represent total interest expense, including and excluding interest on deposits.

Table of Contents

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

Executive Summary

The Holding Company's primary business is the ownership of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, mortgage banking related income, and income associated with Bank Owned Life Insurance. 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.

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 allowance for loan losses is provided to absorb probable estimated losses inherent in the loan portfolio. Management reviews the adequacy of the allowance for loan losses by reviewing all impaired loans on an individual basis. The remaining portfolio is segmented and evaluated on a pooled basis. Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may

affect a borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. Judgment is required to determine the appropriate historical loss experience period, as well as the manner in which to quantify probable losses associated with the additional factors noted above. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

Although management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions or other factors beyond management's control. In addition, the Bank's regulators, as an integral part of their examination processes, periodically review the

Table of Contents
Bank's allowance for loan losses, and may require the Bank to recognize additions to, or reductions in, the allowance based upon judgments different from those of management.

The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Note 6 to the Company's consolidated financial statements.

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

There are several key assumptions that the Company provides the actuaries which have a significant impact on the pension benefits and other postretirement benefit obligations as well as benefits expense. These assumptions include the discount rate and the expected return on plan assets (for plans that own assets) which are regularly reviewed and evaluated for reasonableness in conjunction with current market interest rates and conditions. All assumptions impacting the Company's defined benefit plans are reviewed at least annually (more frequently should circumstances warrant).

The discount rate is used to calculate the present value of the benefit obligations at the measurement date and the expense to be recorded in the next fiscal year. A lower discount rate assumption typically generates a higher benefit obligation and expense, while a higher discount rate assumption typically generates a lower benefit obligation and expense. Discount rate assumptions are determined by reference to the Citigroup Pension Discount Curve (a commonly utilized benchmark), adjusted for plan specific cash flows. These rates are reviewed for reasonableness and adjusted, as necessary, to reflect current market data and trends.

In order to determine the expected long-term return on plan assets, the Company reviews the long-term historical return information on plan assets, the mix of investments that comprise plan assets and the historical returns on indices comparable to the fund classes in which the plan invests.

While the Company's management utilizes available information to estimate these key assumptions, future fluctuations may occur based on changes in the underlying benchmark data or other factors beyond management's control.

The Bank's methods and assumptions utilized for its accounting for defined benefit plans are discussed in Note 14 to the Company's consolidated financial statements.

Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's ALCO is responsible for general oversight and strategic implementation of the policy, and management of the appropriate departments are designated responsibility for implementing any strategies established by ALCO. On a daily basis, 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. Reports detailing the Bank's liquidity reserves and forecasted cash flows are presented to appropriate senior management on a monthly basis, and the Board of Directors at each of its meetings. In addition on a monthly basis, a twelve-month liquidity forecast is presented to ALCO in order to assess potential future liquidity concerns. A forecast of cash flow data for the upcoming 12 months is presented to the Board of Directors on an annual basis.

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security principal and interest payments and advances from the FHLBNY. The Bank may also

sell selected multifamily residential, mixed use or one to four family residential real estate loans to private sector secondary market purchasers, and has in the past sold such loans to FNMA. The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

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

Retail branch and Internet banking deposits increased $524.5 million during the year ended December 31, 2015, compared to an increase of $152.6 million during the year ended December 31, 2014. Within deposits, core deposits (i.e., non-CDs) increased $592.0 million during the year ended December 31, 2015 and $54.7 million during the year ended December 31, 2014. These increases were due to both successful gathering efforts tied to promotional money market offerings as well as increased commercial checking balances. CDs declined $67.5 million during the year ended December 31, 2015 and increased by $97.9 million during the year ended December 31, 2014. The reduction during the year ended December 31, 2015 reflected attrition of promotional CDs that matured, as the bank de-emphasized gathering and retaining CDs during the period, focusing instead on gathering and retaining money market and checking deposits. The increase in CDs during the year ended December 31, 2014 resulted primarily from successful promotional activities related to 30-month and 5-year traditional CDs as well as Individual Retirement Account CDs.

The Bank reduced its outstanding FHLBNY advances by $7.0 million during the year ended December 31, 2015, reflecting both the utilization of deposit inflows to fund asset growth and other operational needs, as well as the prepayment of a $25.0 million, 4.27% fixed-rate advance due to mature in 2016. A prepayment expense of $1.4 million was recognized on the prepayment of the $25.0 million advance. The Bank increased its outstanding FHLBNY advances by $263.7 million during the year ended December 31, 2014, partially in order to fund $225.6 million of loan purchases that occurred during the period.

During the year ended December 31, 2015, principal repayments totaled $859.7 million on real estate loans (including refinanced loans) and $1.6 million on MBS, and proceeds from the sale of MBS totaled $24.3 million. During the year ended December 31, 2014, principal repayments totaled $735.4 million on real estate loans and $5.9 million on MBS. There were no sales of MBS during the year ended December 31, 2014. The increase in principal repayments on real estate loans (including refinanced loans) during the year ended December 31, 2015 reflected one large borrower relationship that re-financed all loans with the Bank, and another large borrower relationship that re-financed all outstanding loans with another financial institution (thus satisfying the loans with the Bank). The reduction in principal repayments on MBS reflected a decline of $21.5 million in their average balance from the year ended December 31, 2014 to the year ended December 31, 2015, as the great majority of the MBS portfolio was sold in March 2015.

Aggregate proceeds from the sales of investment securities and MBS available for sale totaled $26.4 million during the year ended December 31, 2015, up from $3.8 million during the year ended December 31, 2014, reflecting the liquidation of virtually all outstanding investment securities and MBS available for sale in March 2015. The securities were sold in order to offset the cash disbursement and expense associated with the prepayment of the $25.0 million FHLBNY advance noted previously in this section. A net gain of $1.4 million was recognized on these sales.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through use of its borrowing line at the FHLBNY. At December 31, 2015, the Bank had an additional potential borrowing capacity of $588.2 million through the FHLBNY, subject to customary minimum common stock ownership requirements imposed by the FHLBNY (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

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 December 31, 2015, 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

Table of Contents

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 years ended December 31, 2015 and 2014, real estate loan originations totaled $1.34 billion and $947.0 million, respectively. The increase from the year ended December 31, 2014 to the year ended December 31, 2015 reflected both the Company's election to compete less aggressively for new loans during the year ended December 31, 2014 as a result of $221.9 million of loans repurchased during the period, and a more aggressive loan growth strategy pursued during the year ended December 31, 2015 versus the year ended December 31, 2014. Security purchases were de-emphasized during the years ended both December 31, 2015 and 2014, as the yield offered on highly graded investment securities was deemed insufficiently attractive.

The Holding Company repurchased 20,000 shares of its common stock during the year ended December 31, 2015 at an aggregate cost of $300,000. No treasury share repurchases occurred during the year ended December 31, 2014. As of December 31, 2015, up to 1,104,549 shares remained available for purchase under authorized share purchase programs. Based upon the $17.49 per share closing price of its common stock as of December 31, 2015, the Holding Company would utilize $19.3 million in order to purchase all of the remaining authorized shares.

During the year ended December 31, 2015, the Holding Company paid $20.3 million in cash dividends on its common stock, up from $20.1 million during the year ended December 31, 2014, reflecting an increase of 516,973 in outstanding shares from January 1, 2015 to December 31, 2015.

Contractual Obligations

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

The Bank is obligated under leases for rental payments on certain of its branches and equipment. A summary of CDs, borrowings and lease obligations at December 31, 2015 is as follows:

	Payments Due By Period				
Contractual Obligations	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
	(Dollars in thousands)				
CDs	$304,694	$392,405	$155,559	$6,189	$858,847
Weighted average interest rate of CDs	0.88 %	1.67 %	1.90 %	1.72 %	1.44 %
Borrowings	$613,500	$394,175	$146,050	$83,680	$1,237,405
Weighted average interest rate of borrowings	0.79 %	1.93 %	1.78 %	6.32 %	1.64 %
Operating lease obligations	$3,520	$7,052	$6,842	$14,992	$32,406

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 many of these loan commitments expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows.

The following table presents off-balance sheet arrangements as of December 31, 2015:

	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
	(Dollars in thousands)				
Credit Commitments:					
Available lines of credit	$37,122	$ -	$ -	$ -	$37,122
Other loan commitments	219,026	-	-	-	219,026
Total Off-Balance Sheet Arrangements	$256,148	$ -	$ -	$ -	$256,148

F-51

Table of Contents

Analysis of Net Interest Income

The Company's profitability, like that of most banking institutions, is dependent primarily upon net interest income, which is the difference between interest income on interest-earnings assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits or borrowings. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned or paid on them. The following tables set forth certain information relating to the Company's consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013, and reflect the average yield on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated. Average balances are derived from daily balances. The yields and costs include fees and charges that are considered adjustments to yields and costs. All material changes in average balances and interest income or expense are discussed in the sections entitled "Interest Income" and "Interest Expense" in the comparisons of operating results commencing on page F-55.

Table of Contents

	For the Year Ended December 31,								
	2015			2014			2013		
	(Dollars in Thousands)								
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:									
Interest-earning assets:									
Real estate loans (1)	$4,327,415	$171,347	3.96%	$3,962,566	$169,208	4.27%	$3,603,841	$171,594	4.76%
Other loans	1,562	93	5.95	1,954	105	5.37	2,198	101	4.60
Investment securities	18,570	875	4.71	19,220	560	2.91	32,520	503	1.55
MBS	6,111	186	3.04	27,658	914	3.30	37,999	1,413	3.72
Federal funds sold and other short-term investments	89,837	2,290	2.55	92,609	2,165	2.34	110,630	1,845	1.67
Total interest-earning assets	4,443,495	$174,791	3.93%	4,104,007	$172,952	4.21%	3,787,188	$175,456	4.63%
Non-interest earning assets	216,981			190,627			196,122		
Total assets	$4,660,476			$4,294,634			$3,983,310		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest bearing checking accounts	$76,210	$244	0.32%	$79,455	$222	0.28%	$90,871	$236	0.26%
Money Market accounts	1,370,531	10,133	0.74	1,113,104	6,265	0.56	1,082,104	5,652	0.52
Savings accounts	370,439	183	0.05	377,930	188	0.05	378,391	260	0.07
CDs	902,600	12,445	1.38	858,526	12,916	1.50	867,664	13,779	1.59
Borrowed Funds (2)	1,089,700	23,222	2.13	1,109,532	28,825	2.60	832,149	27,042	3.25
Total interest-bearing liabilities	3,809,480	$46,227	1.21%	3,538,547	$48,416	1.37%	3,251,179	$46,969	1.44%
Non-interest bearing checking accounts	220,134			177,163			170,455		
Other non-interest-bearing liabilities	154,809			129,034			149,913		
Total liabilities	4,184,423			3,844,744			3,571,547		
	476,053			449,890			411,763		

Stockholders' equity								
Total liabilities and stockholders' equity	$4,660,476			$4,294,634			$3,983,310		
Net interest spread (3)			2.72%			2.84%			3.19%
Net interest income/ net interest margin (4)		$128,564	2.89%		$124,536	3.03%		$128,487	3.39%
Net interest-earning assets	$634,015			$565,460			$536,009		
Ratio of interest-earning assets to interest-bearing liabilities			116.64%			115.98%			116.49%

(1) In computing the average balance of real estate loans, non-performing loans have been included. Interest income on real estate loans includes loan fees. Interest income on real estate loans also includes applicable prepayment fees and late charges totaling $11.3 million, $12.5 million and $13.7 million during the years ended December 31, 2015, 2014 and 2013, respectively.

(2) Interest expense on borrowed funds includes $1.4 million of prepayment charge recognized during the year ended December 31, 2015. There were no such fees during the years ended December 31, 2014 or 2013. Absent the prepayment charge, the average cost of borrowings would have been 2.01% during the year ended December 31, 2015.

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

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

Table of Contents

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

	Year Ended December 31, 2015 Compared to Year Ended December 31, 2014 Increase/ (Decrease) Due to			Year Ended December 31, 2014 Compared to Year Ended December 31, 2013 Increase/ (Decrease) Due to			Year Ended December 31, 2013 Compared to Year Ended December 31, 2012 Increase/ (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:	(Dollars in Thousands)								
Real Estate Loans	$15,002	$(12,863)	$2,139	$16,177	$(18,563)	$(2,386)	$10,471	$(28,026)	$(17,555)
Other loans	(22)	10	(12)	(12)	16	4	10	(13)	(3)
Investment securities	(25)	340	315	(362)	(137)	(499)	(986)	226	(760)
MBS	(684)	(44)	(728)	(296)	353	57	(1,629)	17	(1,612)
Federal funds sold and other short-term investments	(67)	192	125	(361)	681	320	(963)	395	(568)
Total	$14,204	$(12,365)	$1,839	$15,146	$(17,650)	$(2,504)	$6,903	$(27,401)	$(20,498)
Interest-bearing liabilities:									
Interest bearing checking accounts	$(10)	$32	$22	$(31)	$17	$(14)	$(9)	$8	$(1)
Money market accounts	1,657	2,211	3,868	171	442	613	1,307	(277)	1,030
Savings accounts	(4)	(1)	(5)	2	(74)	(72)	15	(335)	(320)
CDs	611	(1,082)	(471)	(113)	(750)	(863)	(1,355)	(1,206)	(2,561)
Borrowed funds	(452)	(5,151)	(5,603)	8,103	(6,320)	1,783	(9,428)	(27,863)	(37,291)
Total	$1,802	$(3,991)	$(2,189)	$8,132	$(6,685)	$1,447	$(9,470)	$(29,673)	$(39,143)
Net change in net interest income	$12,402	$(8,374)	$4,028	$7,014	$(10,965)	$(3,951)	$16,373	$2,272	$18,645

Comparison of Financial Condition at December 31, 2015 and December 31, 2014

Assets. Assets totaled $5.0 billion at December 31, 2015, $535.8 million above their level at December 31, 2014.

Real estate loans increased $577.8 million during the year ended December 31, 2015. During the year ended December 31, 2015, the Bank originated $1.34 billion of real estate loans (including refinancing of existing loans) and purchased real estate loan participations totaling $99.7 million. These additions exceeded the $9.6 million of sales and $859.7 million of aggregate amortization on such loans (also including refinancing of existing loans).

Partially offsetting the growth in real estate loans was a reduction of $26.0 million in MBS available-for-sale, as the Company sold $24.3 million of MBS available-for-sale during the year ended December 31, 2015 and experienced principal amortization of $1.6 million prior to the sale. During the year ended December 31, 2015, the Company also elected to reduce cash and due from banks by $14.0 million to meet various liquidity needs.

During the year ended December 31, 2015, premises totaling $8.8 million were transferred to held for sale. In October 2015, the Bank entered into an agreement to sell these premises for $80.0 million. The sale is currently expected to close on or about March 16, 2016.

Liabilities. Total liabilities increased $501.5 million during the year ended December 31, 2015. Retail deposits (due to depositors) increased $524.5 million and FHLBNY advances declined by $7.0 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 increase in retail deposits and decline in FHLBNY advances during the year ended December 31, 2015. Mortgagor escrow and other deposits declined by $14.8 million during 2015 as a larger portion of required semi-annual real estate tax disbursements were completed from escrow accountsin December 2015 compared to December 2014.

Stockholders' Equity. Stockholders' equity increased $34.2 million during the year ended December 31, 2015, due primarily to net income of $44.8 million, $6.5 million of equity added from stock option exercises, and a $3.2 million aggregate increase related to expense amortization associated with stock benefit plans that added to the cumulative balance of stockholders' equity. Partially offsetting these items were $20.3 million in cash dividends paid during the period and an increase in accumulated other comprehensive loss of $254,000. The increased accumulated other comprehensive loss

Table of Contents
resulted primarily from the sale of MBS that previously possessed an unrealized gain which had reduced the accumulated other comprehensive loss.

Comparison of Operating Results for the Years Ended December 31, 2015 and 2014

General. Net income was $44.8 million during the year ended December 31, 2015, an increase of $526,000 from net income of $44.2 million during the year ended December 31, 2014. Net interest income increased $4.0 million during the comparative period. Offsetting this increase, non-interest income declined $422,000 and non-interest expense increased $1.4 million during the comparative period, and 2015 earnings experienced a $542,000 lower benefit from the credit (negative provision) for loan losses than was experienced in 2014. Income tax expense increased $1.1 million during the comparative period, primarily as a result of $1.6 million of additional pre-tax income.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2015 and 2014 below should be read in conjunction with the tables presented on pages F-53 and F-54, which set forth certain information related to the consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated.

The Company's net interest income and net interest margin during the years ended December 31, 2015 and 2014 were impacted by the following factors:

- During the period January 1, 2009 through December 31, 2015, FOMC monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.50%, resulting in deposit and borrowing costs at historically low levels.

- Marketplace competition and refinancing activity on real estate loans, particularly during the period January 1, 2012 through December 31, 2015, resulted in an ongoing reduction in the average yield on real estate loans.

Interest Income. Interest income was $174.8 million during the year ended December 31, 2015, an increase of $1.8 million, from the year ended December 31, 2014, primarily reflecting increases in interest income of $2.1 million on real estate loans, $315,000 on investment securities and $125,000 on federal funds sold and other short term investments. The increased interest income on real estate loans reflected growth of $364.8 million in their average balance during the comparative period, as new originations significantly exceeded amortization and satisfactions during the period January 1, 2015 through December 31, 2015. Partially offsetting the higher interest income on real estate loans from the growth in their average balance, was a reduction of 31 basis points in their average yield, resulting from both continued low benchmark lending rates and heightened marketplace competition. Additional interest income (previously owed but not paid timely by the issuing companies) was received and recorded on the Bank's TRUPS in 2015, generating the majority of the $315,000 increase in interest income on investment securities during the comparative period. The increase in interest income on federal funds sold and other short-term investments resulted from a more favorable yield earned on the Company's investment in FHLBNY capital stock, reflecting higher discretionary dividends declared by the FHLBNY. Partially offsetting these increases was a reduction of $728,000 in interest income on MBS, primarily reflecting a decline of $21.5 million in their average balance during the comparative period, as the Company liquidated virtually its entire MBS portfolio in March 2015.

Interest Expense. Interest expense decreased $2.2 million, to $46.2 million, during the year ended December 31, 2015, from $48.4 million during the year ended December 31, 2014. Reductions of $5.6 million in interest expense on borrowed funds and $471,000 on CDs during the comparative period were offset by an increase of $3.9 million in interest expense on money market deposits. Interest expense on borrowings declined $5.6 million due to a reduction of 47 basis points in their average cost, as higher-cost borrowings that matured during the period January 1, 2015

through December 31, 2015 were not replaced. The reduction in interest expense on CDs reflected a decline of 12 basis points in their average cost, as the Bank competed less aggressively for CDs during 2015, instead emphasizing strategies aimed at growing money market and non-interest bearing checking deposits. The increase of $3.9 million in interest expense on money market deposits reflected successful promotional activities that increased their average balance by $257.4 million and their average cost by 18 basis points from the year ended December 31, 2014 to the year ended December 31, 2015.

Provision for Loan Losses. The Company recognized a credit (negative provision) for loan losses of $1.3 million during the year ended December 31, 2015, compared to a credit (negative provision) for loan losses of $1.9 million during the year ended December 31, 2014. The credits recorded during the years ended both December 31, 2015 and 2014 reflected continued improvement in the overall credit quality of the loan portfolio from October 1, 2013 through December

31, 2015. The credit recorded during the year ended December 31, 2015 also reflected a $1.5 million recovery of previously charged-off amounts from the favorable resolution of the Bank's largest problem loan. The lower credit to the allowance recognized during the year ended December 31, 2015 resulted primarily from growth of $577.8 million in the real estate loan portfolio from January 1, 2015 to December 31, 2015.

Non-Interest Income. Total non-interest income declined $422,000 from the year ended December 31, 2014 to the year ended December 31, 2015, due primarily to a reduction of $328,000 in the net gain on the sale of securities and other assets during the comparative period, and a credit of $1.0 million recognized as additional mortgage banking income during the year ended December 31, 2014. The $1.0 million credit eliminated the liability in relation to the First Loss Position on loans that were re-acquired from FNMA during the year ended December 31, 2014. Partially offsetting the reductions were the following increases during the year ended December 31, 2015: 1) $662,000 of income from BOLI, as the Company increased its investment in BOLI commencing in October 2014; 2) $194,000 of additional loan application fee income during the comparative period that reflected higher loan origination activity; and 3) $220,000 growth in inspection fee income reflecting the growth in the mortgage loan portfolio.

Non-Interest Expense. Non-interest expense was $62.5 million during the year ended December 31, 2015, an increase of $1.4 million from $61.1 million during the year ended December 31, 2014. During the year ended December 31, 2015, a non-recurring $3.4 million reduction was recognized in salaries and employee benefits from the curtailment of certain postretirement health benefits. Excluding the impact of the $3.4 million defined benefit curtailment, non-interest expense would have increased by $4.8 million during the comparative period as a result of higher salaries and employee benefits, increased occupancy and equipment expenses from the accelerated depreciation of some automated teller machine equipment that was expected to be replaced sooner than anticipated, additional marketing expenses tied to both brand recognition and deposit gathering initiatives, and heightened data processing costs associated with both higher loan and deposit processing activities and several technological upgrades.

Excluding the non-recurring $3.4 million reduction, non-interest expense was 1.41% of average assets during the year ended December 31, 2015, down slightly from 1.42% during the year ended December 31, 2014, due to the $365.8 million of growth in average assets during the year ended December 31, 2015.

Income Tax Expense. Income tax expense approximated $31.2 million during the year ended December 31, 2015, up from $30.1 million during the year ended December 31, 2014, due primarily to an increase of $1.6 million in pre-tax income during the comparative period. The Company's consolidated tax rate was 41.1% during the year ended December 31, 2015, up slightly from 40.5% during the year ended December 31, 2014.

Comparison of Operating Results for the Years Ended December 31, 2014 and 2013

General. Net income was $44.2 million during the year ended December 31, 2014, an increase of $698,000 from net income of $43.5 million during the year ended December 31, 2013. During the comparative period, the provision for loan losses declined by $2.2 million, non-interest expense declined by $1.6 million, and non-interest income increased by $1.6 million. Partially offsetting these additions to pre-tax income was a reduction of $4.0 million in net interest income. Income tax expense increased $783,000 during the comparative period as a result of higher pre-tax income.

Net Interest Income. The discussion of net interest income for the years ended December 31, 2014 and 2013 below should be read in conjunction with the tables presented on pages F-53 and F-54, which set forth certain information related to the consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated.

The Company's net interest income and net interest margin during the years ended December 31, 2014 and 2013 were impacted by the following factors:

During the period January 1, 2009 through December 31, 2014, FOMC monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%, resulting in deposit and borrowing costs at historically low levels.

Increased marketplace competition and refinancing activity on real estate loans resulted in both an ongoing reduction in the average yield on real estate loans and uneven recognition of prepayment fee income.

Table of Contents

Interest Income. Interest income was $173.0 million during the year ended December 31, 2014, a reduction of $2.5 million from the year ended December 31, 2013, primarily reflecting reductions of $2.4 million and $499,000 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 December 31, 2014 lowered the Company's average yield on real estate loans by 49 basis points during the year ended December 31, 2014 compared to the year ended December 31, 2013. Partially offsetting the decline in interest income on real estate loans attributable to the 49 basis point reduction in their average yield was an increase of $358.7 million in their average balance during the comparative period, reflecting both the repurchase of $225.6 million of real estate loans during the year ended December 31, 2014 and the implementation of a measured balance sheet growth strategy during the period January 1, 2013 through December 31, 2014. The decline in interest income on MBS resulted from a reduction of $10.3 million in their average balance from the year ended December 31, 2013 to the year ended December 31, 2014, as a result of ongoing principal repayments. During the period January 1, 2013 through December 31, 2014, purchases of MBS were limited, and were exceeded by principal repayments of existing MBS. The average yield on MBS also declined 42 basis points during the year ended December 31, 2014 compared to the year ended December 31, 2013, as higher yielding MBS continued to amortize.

Interest Expense. Interest expense increased $1.4 million, to $48.4 million, during the year ended December 31, 2014, from $47.0 million during the year ended December 31, 2013. The increase resulted from growth in interest expense of $1.8 million on borrowed funds and $613,000 on money market deposits, which were partially offset by reductions in interest expense of $72,000 on savings deposits and $863,000 on CDs, during the comparative period. The higher interest expense recognized on borrowed funds resulted from an increase of $277.4 million in their average balance from the year ended December 31, 2013 to the year ended December 31, 2014, as borrowings were utilized to fund a portion of the balance sheet growth experienced from January 1, 2013 to December 31, 2014. The increased interest expense on money market deposits primarily reflected an increase of $31.0 million in their average balance during the year ended December 31, 2014 compared to the year ended December 31, 2013, as the Company's deposit gathering activities were focused primarily upon money market accounts during the year ended December 31, 2014. The lower interest expense recognized on savings accounts and CDs reflected declines in their average cost of 2 basis points and 9 basis points, respectively, during the year ended December 31, 2014 compared to the year ended December 31, 2013, as a result of reductions in interest rates offered during the year ended December 31, 2014. The reduction in interest expense on CDs also reflected a decline of $9.1 million in their average balance during the comparative period, as the Company did not elect to compete aggressively for these deposits during the year ended December 31, 2014, and experienced attrition in the promotional balances that matured during the period.

Provision for Loan Losses. The Company recognized a credit (negative provision) for loan losses of $1.9 million during the year ended December 31, 2014, compared to a provision of $369,000 during the year ended December 31, 2013. The reduction reflected the improvement in the overall credit quality of the loan portfolio during 2014. During the year ended December 31, 2014, the Company experienced a $978,000 decline in net charge-offs recognized.

Non-Interest Income. Total non-interest income increased $1.6 million from the year ended December 31, 2013 to the year ended December 31, 2014, due primarily to an increase of $752,000 in mortgage banking income and additional net gains of $1.2 million on securities and other assets recognized during the year ended December 31, 2014. The increase in mortgage banking income reflected primarily a credit of $1.0 million recognized during the year ended December 31, 2014 to eliminate the liability in relation to the First Loss Position compared to $305,000 in 2013. The additional $1.2 million of gains recognized on securities and other assets were generated primarily from non-recurring sales of equity investments and a real estate parcel. These increases were partially offset by reductions of income on the following items during the year ended December 31, 2014 compared to the year ended December 31, 2013: (i) $166,000 in rental income due to the sale of a real estate parcel that generated rental income; and (ii) $228,000 in administrative loan servicing fees recognized.

Non-Interest Expense. Non-interest expense was $61.1 million during the year ended December 31, 2014, a reduction of $1.6 million from $62.7 million during the year ended December 31, 2013, reflecting both a reduction of $1.9 million in compensation and employee benefits expense and a $180,000 write down of OREO that was recognized in non-interest expense during the year ended December 31, 2013. The reduction in compensation and employee benefits expense resulted primarily from both a reduction in projected executive compensation for the year ending December 31, 2014 (mainly attributable to the performance of the Holding Company's common stock during the period January 1, 2014 to December 31, 2014), as well as lower actuarial expenses associated with several defined benefit plans.

Non-interest expense was 1.42% of average assets during the year ended December 31, 2014, compared to 1.57% during the year ended December 31, 2013, reflecting both the reduction in non-interest expense and an increase of $311.3

Table of Contents

million in average assets from the year ended December 31, 2013 to the year ended December 31, 2014. Partially offsetting these declines were additional FDIC insurance costs of $200,000 and promotional activity expenses of $830,000 recognized during the year ended December 31, 2014 compared to the year ended December 31, 2013. The increased FDIC insurance expense reflected higher average assets during the year ended December 31, 2014, and the additional promotional expenses related to the recognition of the Bank's 150th anniversary.

Income Tax Expense. Income tax expense was $30.1 million during the year ended December 31, 2014, up from $29.3 million during the year ended December 31, 2013, due primarily to an additional $1.5 million of pre-tax earnings recorded during the year ended December 31, 2014. The Company's consolidated tax rate was 40.5% during the year ended December 31, 2014, compared to 40.3% during the year ended December 31, 2013. Adjustments from the filing of previous period tax returns had a slightly more favorable impact upon the effective tax rate for the year ended December 31, 2013 compared to the year ended December 31, 2014. Otherwise, the Company's normalized effective tax rate approximated 41.0% during the years ended both December 31, 2014 and 2013.

Impact of Inflation and Changing Prices

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

Recently Issued Accounting Standards

For a discussion of the impact of recently issued accounting standards, please see Note 1 to the Company's consolidated financial statements that commence on page F-64.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Real estate loans, the largest component of the Bank's interest earning assets, traditionally derive their interest rates primarily from either the five- or seven-year constant maturity Treasury index. As a result, the Bank's interest earning assets are most sensitive to these benchmark interest rates. Since the majority of the Bank's interest bearing liabilities mature within one year, its interest bearing liabilities are most sensitive to fluctuations in short-term interest rates.

Neither the Holding Company nor the Bank is subject to foreign currency exchange or commodity price risk. In addition, the Company engaged in no hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) or embedded derivative instruments that required bifurcation during the years ended December 31, 2015 or 2014. In the future, the Company may, with appropriate Board approval, engage in hedging transactions utilizing derivative instruments. Trading securities owned by the Company were nominal at December 31, 2015 and 2014.

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

Assets. The Bank's largest single asset type is the adjustable-rate multifamily residential loan. Multifamily residential loans typically carry shorter average terms to maturity than one- to four-family residential loans, thus significantly reducing the overall level of interest rate risk. Approximately 94% of multifamily residential loans originated by the Bank during the year ended December 31, 2015 and approximately 95% of multifamily residential loans originated by the Bank during the

Table of Contents

year ended December 31, 2014 were adjustable rate, with repricing typically occurring after five or seven years. In addition, the Bank has sought to include in its portfolio various types of adjustable-rate one- to four-family loans and adjustable and floating-rate investment securities, with repricing terms generally of three years or less. At December 31, 2015, adjustable-rate real estate and consumer loans totaled $3.69 billion, or 73.4% of total assets. At December 31, 2014, adjustable-rate real estate and consumer loans totaled $2.98 billion, or 66.4% of total assets, and adjustable-rate investment securities (CMOs, MBS issued by GSEs and other securities) totaled $18.5 million, or 0.4% of total assets.

Deposit Liabilities. As a traditional community-based savings bank, the Bank is largely dependent upon its base of competitively priced core deposits to provide stability on the liability side of the balance sheet. The Bank has retained many loyal customers over the years through a combination of quality service, convenience, and a stable and experienced staff. Core deposits at December 31, 2015 were $2.32 billion, or 73.0% of total deposits. The balance of CDs as of December 31, 2015 was $858.8 million, or 27.0% of total deposits, of which $304.7 million, or 35.5%, were to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2015 was 19.9 months, compared to 19.8 months at December 31, 2014. During the years ended December 31, 2015 and 2014, the Bank generally priced its CDs in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year.

Wholesale Funds. The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to $1.75 billion at December 31, 2015. The Bank borrows from the FHLBNY for various purposes. At December 31, 2015, the Bank had outstanding advances of $1.17 billion from the FHLBNY, all of which were secured by a blanket lien on the Bank's loan portfolio. Wholesale funding provides the Bank opportunities to extend the overall duration of its interest bearing liabilities, thus helping manage interest rate risk.

At December 31, 2015, the Company had $115.0 million of callable borrowings outstanding, with a weighted average maturity of 1.3 years. Since the weighted average cost of these $115.0 million of borrowings was 4.00% as of December 31, 2015 (significantly above current market rates), they are not anticipated to be called in the near term.

The Bank is also eligible to participate in the CDARS, through which it can either purchase or sell CDs. Purchases of CDs through this program are limited to an aggregate of 10% of the Bank's average interest earning assets. As of December 31, 2015, deposits taken through this program totaled $1.8 million.

The Bank is authorized to accept brokered deposits up to an aggregate limit of $120.0 million. At December 31, 2015 and 2014, total brokered deposits were limited to the $1.8 million of purchased CDARS deposits.

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 and 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 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,

Table of Contents

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 December 31, 2015 and December 31, 2014, 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 December 31, 2015 and December 31, 2014.

	At December 31, 2015			At December 31, 2014		
	EVE	Dollar Change	Percentage Change	EVE	Dollar Change	Percentage Change
Rate Shock Scenario	(Dollars in Thousands)					
+ 200 Basis Points	$515,779	$(63,058)	-12.2 %	$498,138	$(49,201)	-9.0 %
Pre-Shock Scenario	578,837	-	-	547,339	-	-

The Bank's Pre-Shock Scenario EVE increased from $547.3 million at December 31, 2014 to $578.8 million at December 31, 2015, due primarily to the growth in equity from retained earnings during the year ended December 31, 2015, as a result of 2015 net income. A less favorable valuation ascribed to the Bank's real estate portfolio at December 31, 2015 compared to December 31, 2014, was offset by a more favorable valuation in the Bank's core deposits at December 31, 2015 compared to December 31, 2014. The less favorable real estate loan valuation at December 31, 2015, resulted from both a decline in the portfolio rate from December 31, 2014 to December 31, 2015 (as a result of continued low market origination rates) and a reduction, during the year ended December 31, 2015, in real estate loan balances carrying above market interest rates (caused by refinancing and amortization of higher interest rate loans). The more favorable valuation of core deposits at December 31, 2015 was attributable primarily to growth in non-interest bearing checking accounts during the year ended December 31, 2015

The Bank's EVE in the +200 basis point Rate Shock Scenario increased from $498.1 million at December 31, 2014 to $515.8 million at December 31, 2015, due primarily to the growth in equity from retained earnings during the year ended December 31, 2015.

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 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 over the 12-month period ending December 31, 2016 assuming instantaneous changes in interest rates for the given Rate Shock Scenarios:

Instantaneous Change in Interest rate of:	Percentage Change in Net Interest Income
+ 200 Basis Points	(14.4)%
+ 100 Basis Points	(7.7)
-100 Basis Points	8.9

Table of Contents

Item 8. Financial Statements and Supplementary Data

For the Company's consolidated financial statements, see index on page F-64.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Accounting Officer, conducted an evaluation of the effectiveness as of December 31, 2015, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015 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.

Management's Report On Internal Control Over Financial Reporting

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

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, utilizing the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Controls – Integrated Framework (2013 Framework)." Based upon its assessment, management believes that, as of December 31, 2015, the Company's internal control over financial reporting is effective.

Crowe Horwath LLP, the independent registered public accounting firm that audited the consolidated financial statements included in the Annual Report, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, which is included on page F-65.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the Company is presented under the headings, "Proposal 1 - Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers" in the
F-61

Table of Contents

Holding Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 26, 2016 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2015, and is incorporated herein by reference.

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

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

See index to Consolidated Financial Statements on page F-64.

(2) Financial Statement Schedules

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

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

See Index of Exhibits on pages F-113 and F-114.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 11, 2016.

DIME COMMUNITY BANCSHARES, INC.

By: /s/ VINCENT F. PALAGIANO
Vincent F. Palagiano
Chairman of the Board and Chief Executive Officer

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 11, 2016 by the following persons on behalf of the registrant and in the capacities indicated.

Name	Title
/s/ VINCENT F. PALAGIANO Vincent F. Palagiano	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ MICHAEL P. DEVINE Michael P. Devine	Vice Chairman of the Board
/s/ KENNETH J. MAHON Kenneth J. Mahon	President and Chief Operating Officer and Director
/s/ MICHAEL PUCELLA Michael Pucella	Executive Vice President and Chief Accounting Officer (Principal Financial Officer)
/s/ ANTHONY BERGAMO Anthony Bergamo	Director
/s/ GEORGE L. CLARK, JR. George L. Clark, Jr.	Director
/s/ STEVEN D. COHN Steven D. Cohn	Director
/s/ PATRICK E. CURTIN Patrick E. Curtin	Director
/s/ ROBERT C. GOLDEN Robert C. Golden	Director
/s/ KATHLEEN M. NELSON Kathleen M. Nelson	Director
/s/ JOSEPH J. PERRY Joseph J. Perry	Director
/s/ OMER S.J. WILLIAMS Omer S.J. Williams	Director

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

INDEX

	Page
Report of Independent Registered Public Accounting Firm	F-65
Consolidated Statements of Financial Condition at December 31, 2015 and 2014	F-66
Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2015, 2014 and 2013	F-67
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013	F-68
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013	F-69
Notes to Consolidated Financial Statements	F70-F112

F-64

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial condition of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting located in Item 9A of Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dime Community Bancshares, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 2015, in

conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Dime Community Bancshares, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP

New York, New York
March 11, 2016
F-65

Table of Contents

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

	December 31, 2015	December 31, 2014
ASSETS:		
Cash and due from banks	$64,154	$78,187
Federal funds sold and other short-term investments	-	250
Total cash and cash equivalents	64,154	78,437
Investment securities held-to-maturity (estimated fair value of $7,051 and $6,315 at December 31, 2015 and December 31, 2014, respectively) (Fully unencumbered)	5,242	5,367
Investment securities available-for-sale, at fair value (Fully unencumbered)	3,756	3,806
Mortgage-backed securities ("MBS") available-for-sale, at fair value (Fully unencumbered)	431	26,409
Trading securities	10,201	8,559
Loans:		
Real estate, net	4,695,186	4,117,411
Consumer loans	1,590	1,829
Less allowance for loan losses	(18,514)	(18,493)
Total loans, net	4,678,262	4,100,747
Premises and fixed assets, net	15,150	25,065
Premises held for sale	8,799	-
Federal Home Loan Bank of New York ("FHLBNY") capital stock	58,713	58,407
Other real estate owned ("OREO")	148	18
Bank owned life insurance ("BOLI")	85,019	82,614
Goodwill	55,638	55,638
Other assets	47,359	52,040
Total Assets	$5,032,872	$4,497,107
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors:		
Interest bearing deposits	$2,925,129	$2,472,199
Non-interest bearing deposits	259,181	187,593
Total deposits	3,184,310	2,659,792
Escrow and other deposits	77,130	91,921
FHLBNY advances	1,166,725	1,173,725
Trust Preferred securities payable	70,680	70,680
Other liabilities	40,080	41,264
Total Liabilities	$4,538,925	$4,037,382
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock ($0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2015 and December 31, 2014)	-	-
Common stock ($0.01 par, 125,000,000 shares authorized, 53,326,753 shares and 52,871,443 shares issued at December 31, 2015 and December 31, 2014, respectively, and 37,371,992 shares and 36,855,019 shares outstanding at December 31, 2015 and December 31, 2014, respectively)	533	529

Additional paid-in capital	262,798	254,358
Retained earnings	451,606	427,126
Accumulated other comprehensive loss, net of deferred taxes	(8,801)	(8,547)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(2,313)	(2,545)
Unearned Restricted Stock Award common stock	(2,271)	(3,066)
Common stock held by Benefit Maintenance Plan ("BMP")	(9,354)	(9,164)
Treasury stock, at cost (15,954,761 shares and 16,016,424 shares at December 31, 2015 and December 31, 2014, respectively)	(198,251)	(198,966)
Total Stockholders' Equity	$493,947	$459,725
Total Liabilities And Stockholders' Equity	$5,032,872	$4,497,107

See notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2015	2014	2013
Interest income:			
Loans secured by real estate	$171,347	$169,208	$171,594
Other loans	93	105	101
MBS	186	914	1,413
Investment securities	875	560	503
Federal funds sold and other short-term investments	2,290	2,165	1,845
Total interest income	174,791	172,952	175,456
Interest expense:			
Deposits and escrow	23,005	19,591	19,927
Borrowed funds	23,222	28,825	27,042
Total interest expense	46,227	48,416	46,969
Net interest income	128,564	124,536	128,487
Provision (credit) for loan losses	(1,330)	(1,872)	369
Net interest income after provision for loan losses	129,894	126,408	128,118
Non-interest income:			
Service charges and other fees	3,323	3,191	3,459
Mortgage banking income	183	1,225	473
Net gain on securities (1)	1,273	952	375
Net (loss) gain on the disposal of other assets	-	649	(21)
Income from BOLI	2,405	1,743	1,672
Other	1,432	1,278	1,505
Total non-interest income	8,616	9,038	7,463
Non-interest expense:			
Salaries and employee benefits	31,350	32,462	34,336
Stock benefit plan compensation expense	3,640	3,817	3,957
Occupancy and equipment	10,514	10,177	10,451
Data processing costs	4,017	3,595	3,565
Advertising and marketing	2,685	1,922	1,109
Federal deposit insurance premiums	2,304	2,151	1,951
Provision for losses on OREO	-	-	180
Other	7,983	6,952	7,143
Total non-interest expense	62,493	61,076	62,692
Income before income taxes	76,017	74,370	72,889
Income tax expense	31,245	30,124	29,341
Net income	$44,772	$44,246	$43,548
Earnings per Share:			
Basic	$1.24	$1.23	$1.24
Diluted	$1.23	$1.23	$1.23

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2015	2014	2013
Net Income	$44,772	$44,246	$43,548

Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of tax of $(54), $(29) and $(122) during the years ended December 31, 2015, 2014 and 2013, respectively	71	36	149
Reduction in (adjustment to) non-credit component of other than temporary impairment of securities, net of tax (expense) benefit of $4, $(16) and $(16) during the years ended December 31, 2015, 2014 and 2013, respectively	(5)	16	16
Reclassification adjustment for securities sold during the period, net of tax benefit of $624, $450 and $50 during the years ended December 31, 2015, 2014 and 2013, respectively (reclassified to net gain on securities)	(760)	(547)	(60)
Net unrealized securities gain (loss) arising during the period, net of deferred tax (expense) benefit of $78, $29 and $(162) during the years ended December 31, 2015, 2014 and 2013, respectively	(98)	(36)	201
Change in pension and other postretirement obligations, net of deferred tax (expense) benefit of $(451), $2,685 and $(3,765) during the years ended December 31, 2015, 2014 and 2013, respectively	538	(3,257)	4,575
Total other comprehensive income (loss), net of tax	(254)	(3,788)	4,881
Comprehensive Income	$44,518	$40,458	$48,429

See notes to consolidated financial statements.

Table of Contents

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands except share amounts)

	Year Ended December 31,		
	2015	2014	2013
Common Stock:			
Balance at beginning of period	$529	$528	$520
Shares issued in exercise of options (455,310 shares, 16,960 shares and 833,334 shares during the years ended December 31, 2015, 2014, and 2013, respectively)	4	1	8
Balance at end of period	533	529	528
Additional Paid-in Capital:			
Balance at beginning of period	254,358	252,253	239,041
Stock options exercised	6,545	277	11,220
Excess tax benefit of stock benefit plans	303	71	292
Amortization of excess fair value over cost – ESOP stock and stock option expense	1,105	1,111	1,176
Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares (81,663 shares, 125,108 shares and 165,348 shares during the years ended December 31, 2015, 2014, and 2013, respectively)	487	646	524
Balance at end of period	262,798	254,358	252,253
Retained Earnings:			
Balance at beginning of period	427,126	402,986	379,166
Net income for the period	44,772	44,246	43,548
Cash dividends declared and paid	(20,292)	(20,106)	(19,728)
Balance at end of period	451,606	427,126	402,986
Accumulated Other Comprehensive Loss, Net of Deferred Taxes:			
Balance at beginning of period	(8,547)	(4,759)	(9,640)
Other comprehensive income (loss) recognized during the period, net of tax	(254)	(3,788)	4,881
Balance at end of period	(8,801)	(8,547)	(4,759)
Unallocated Common Stock of ESOP:			
Balance at beginning of period	(2,545)	(2,776)	(3,007)
Amortization of earned portion of ESOP stock	232	231	231
Balance at end of period	(2,313)	(2,545)	(2,776)
Unearned Restricted Stock Award Common Stock:			
Balance at beginning of period	(3,066)	(3,193)	(3,122)
Amortization of earned portion of restricted stock awards	1,856	1,976	2,011
Release from treasury stock for award shares, net of return of shares to treasury for forfeited shares	(1,061)	(1,849)	(2,082)
Balance at end of period	(2,271)	(3,066)	(3,193)
Common Stock Held by BMP:			
Balance at beginning of period	(9,164)	(9,013)	(8,800)
Release from treasury stock for award shares	(190)	(151)	(213)
Balance at end of period	(9,354)	(9,164)	(9,013)
Treasury Stock, at cost:			
Balance at beginning of period	(198,966)	(200,520)	(202,584)
Treasury shares repurchased (20,000 shares during the year ended December 31, 2015)	(300)	-	-

Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares	1,015	1,554	2,064
Balance at end of period	(198,251)	(198,966)	(200,520)
TOTAL STOCKHOLDERS' EQUITY AT THE END OF PERIOD	$493,947	$459,725	$435,506

See notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$44,772	$44,246	$43,548
Adjustments to reconcile net income to net cash provided by operating activities			
Net gain on the sales of investment securities and MBS available-for-sale	(1,384)	(997)	(110)
Net loss (gain) recognized on trading securities	111	(13)	(265)
Net gain on sale of loans held for sale	-	(27)	(13)
Net (loss) gain on the disposal of other assets	-	(649)	21
Net depreciation, amortization and accretion	2,738	2,641	2,834
Stock plan compensation expense (excluding ESOP)	1,886	2,087	2,205
ESOP compensation expense	1,307	1,230	1,213
Provision (credit) for loan losses	(1,330)	(1,872)	369
Provision for losses on OREO	-	-	180
Credit to reduce the liability for loans sold with recourse	-	(1,040)	(305)
Increase in cash surrender value of BOLI	(2,405)	(1,743)	(1,672)
Deferred income tax expense (credit)	6,883	771	(940)
Excess tax benefit of stock benefit plans	(303)	(71)	(292)
Changes in assets and liabilities:			
Originations of loans held for sale during the period	-	-	(1,621)
Proceeds from sales of loans held for sale	-	-	2,194
(Increase) Decrease in other assets	(1,692)	(2,873)	8,168
(Decrease) Increase in other liabilities	(430)	5,573	5,637
Net cash provided by Operating Activities	50,153	47,263	61,151
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of investment securities held-to-maturity	340	88	949
Proceeds from maturities and calls of investment securities available-for-sale	-	15,000	14,750
Proceeds from sales of investment securities available-for-sale	2,070	3,780	366
Proceeds from sales of MBS available-for-sale	24,307	-	-
Proceeds from sales of trading securities	1,340	7,115	131
Purchases of investment securities available-for-sale	(2,134)	(3,884)	(458)
Purchases of MBS available-for-sale	-	(875)	-
Acquisition of trading securities	(3,090)	(8,839)	(1,814)
Principal collected on MBS available-for-sale	1,602	5,863	17,372
Purchase of BOLI	-	(25,000)	-
Purchases of loans	(99,745)	(225,604)	(52,031)
Proceeds from sale of portfolio loans	9,572	16,892	5,893
Net increase in loans	(486,142)	(210,770)	(149,122)
Proceeds from the sale of OREO and real estate owned	-	-	564
Proceeds from the sale of fixed assets	-	4,273	-
Purchases of fixed assets	(1,488)	(1,618)	(1,963)
Purchase of FHLBNY capital stock, net	(306)	(10,356)	(3,040)
Net cash used in Investing Activities	(553,674)	(433,935)	(168,403)
CASH FLOWS FROM FINANCING ACTIVITIES:			

Increase in due to depositors	524,518	152,646	27,717
(Decrease) Increase in escrow and other deposits	(14,791)	22,517	(13,349)
Repayments of FHLBNY advances	(2,897,500)	(1,224,500)	(218,500)
Proceeds from FHLBNY advances	2,890,500	1,488,225	286,000
Proceeds from exercise of stock options	6,549	278	11,228
Excess tax benefit of stock benefit plans	303	71	292
Equity award distribution	251	201	293
Treasury shares repurchased	(300)	-	-
Cash dividends paid to stockholders	(20,292)	(20,106)	(19,728)
Net cash provided by Financing Activities	489,238	419,332	73,953
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(14,283)	32,660	(33,299)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	78,437	45,777	79,076
CASH AND CASH EQUIVALENTS, END OF PERIOD	$64,154	$78,437	$45,777
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for income taxes	$25,659	$29,035	$29,858
Cash paid for interest	46,698	48,329	47,155
Loans transferred to OREO	130	-	783
Loans transferred to held for sale	9,572	16,865	7,514
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	125	65	271
Net increase (decrease) in non-credit component of other than temporary impairment ("OTTI") of securities	9	(32)	(32)

See notes to consolidated financial statements.

Table of Contents

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars In Thousands except for share amounts)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Dime Community Bancshares, Inc. (the "Holding Company" and together with its direct and indirect subsidiaries, the "Company") is a Delaware corporation organized by The Dime Savings Bank of Williamsburgh (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on June 26, 1996. At December 31, 2015, the significant assets of the Holding Company were the capital stock of the Bank, the Holding Company's loan to the ESOP and investments retained by the Holding Company. The liabilities of the Holding Company were comprised primarily of a $70,680 trust preferred securities payable maturing in 2034, and currently callable. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended.

The Bank was originally founded in 1864 as a New York State-chartered mutual savings bank, and currently operates as a New York State-chartered stock savings bank. The Bank has been a community-oriented financial institution providing financial services and loans for housing within its market areas. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York. The Bank has twenty-five retail banking offices located throughout the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York.

Summary of Significant Accounting Policies – Management believes that the accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The following is a description of the significant policies.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Holding Company and its subsidiaries (with the exception of its special purpose entity, Dime Community Capital Trust I), and the Bank and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates - To prepare consolidated financial statements in conformity with GAAP, management makes judgments, estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash and Cash Equivalents - Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and repurchase agreements.

Investment Securities and MBS - Debt securities that have readily determinable fair values are carried at fair value unless they are held-to-maturity. Debt securities are classified as held-to-maturity and carried at amortized cost only if the Company has a positive intent and ability to hold them to maturity. If not classified as held-to-maturity, such securities are classified as securities available-for-sale or trading. Equity securities and mutual fund investments (fixed income or equity in nature) are classified as either available-for-sale or trading securities and carried at fair value. Unrealized holding gains or losses on securities available-for-sale that are deemed temporary are excluded from net income and reported net of income taxes as other comprehensive income or loss. While the Holding Company had a small portfolio of mutual fund investments designated as trading at both December 31, 2015 and December 31, 2014, neither the Holding Company nor the Bank actively acquires securities for the purpose of engaging in trading activities.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for MBS where prepayments are

anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

The Company evaluates securities for OTTI at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. In making its evaluation of OTTI for debt securities, the Company initially considers whether: (1) it intends to sell the security, or (2) it is more likely than not that it will be required to sell the security prior to recovery of its amortized cost basis. If either of these criteria is satisfied, an OTTI charge is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. For

Table of Contents

debt securities, if neither of these criteria is satisfied, however, the Company does not expect to recover the entire amortized cost basis, an OTTI loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of OTTI attributable to credit loss, the Company compares the present value of expected cash flows to the amortized cost basis of the security. The portion of OTTI determined to result from credit-related factors is recognized through earnings, while the portion of the OTTI related to other factors is recognized in other comprehensive income. When OTTI is recognized on a debt security, its amortized cost basis is reduced to reflect the credit-related component.

In determining whether OTTI exists on an equity security, the Company considers the following: 1) the duration and severity of the impairment; 2) the Company's ability and intent to hold the security until it recovers in value (as well as the likelihood of such a recovery in the near term); and 3) whether it is more likely than not that the Company will be required to sell such security before recovery of its individual amortized cost basis less any unrecognized loss. Should OTTI be determined to have occurred based upon this analysis, it is fully recognized through earnings.

Loans - Loans that the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding (as adjusted for any amounts charged-off), net of unearned fees or costs, unamortized premiums and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms. Past due status is based upon the contractual terms of the loan.

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

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

The Bank generally initiates foreclosure proceedings when a delinquent loan enters non-accrual status, and typically does not accept partial payments once foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO status. The Bank generally utilizes all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans 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.

A loan is considered impaired when, based on then current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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.

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 performing troubled debt restructurings ("TDRs")).

Table of Contents

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 property 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. See Note 5 for a discussion of TDRs.

Allowance for Loan Losses and Reserve for Loan Commitments - The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Measured impairment is either charged off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses. 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 loans with balances greater than 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 are individually evaluated for impairment. Loans for which the terms have been modified in a manner that meets the criteria of a TDR are deemed to be impaired and individually evaluated for impairment. 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 property 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 defaulted, the likely realizable net proceeds from either a note sale or the liquidation of collateral is generally considered when measuring impairment.

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

In determining both the specific and the general components of the allowance for loan losses, the Company has identified the following portfolio segments: 1) real estate loans; and 2) consumer loans. Consumer loans represent a nominal portion of the Company's loan portfolio. Within these segments, the Bank analyzes the allowance based upon the underlying collateral type.

The underlying methodology utilized to assess the adequacy of the allowance for loan losses is summarized in Note 6.

The Bank maintains a separate reserve within other liabilities associated with commitments to fund future loans that have been accepted by the borrower. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any changes in this reserve amount are recognized through earnings as a component of non-interest expense.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or net realizable proceeds. Multifamily residential and mixed-use loans sold are generally sold with servicing rights retained. During the years ended December 31, 2015, 2014 and 2013, the Bank re-classified certain problematic loans for which it had an executed pending note sale agreement as held for sale. Such loans are carried at the lower of cost or their expected net realizable proceeds.

OREO - Properties acquired as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through execution of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Declines in the recorded balance subsequent to acquisition by the Company are recorded through expense. Operating costs after acquisition are expensed.

Table of Contents

Premises and Fixed Assets, Net - Land is stated at original cost. Buildings and furniture, fixtures and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the properties as follows:

Buildings	2.22% to 2.50% per year
Leasehold improvements	Lesser of the useful life of the asset or the remaining non-cancelable terms of the related leases
Furniture, fixtures and equipment	10% per year

Premises Held for Sale – Premises held for sale are carried at the lower of the recorded balance or their likely disposal value. Upon being re-classified as held for sale, depreciation is no longer recognized on these assets.

Accounting for Goodwill and Other Intangible Assets – An impairment test is required to be performed at least annually for goodwill acquired in a business combination. The Company performs impairment tests of goodwill as of December 31st of each year. As of December 31, 2015 and 2014, the Company concluded that no impairment of goodwill existed. As of both December 31, 2015 and 2014, the Company had goodwill totaling $55,638.

Mortgage Servicing Rights ("MSR") - Servicing assets are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, anticipated net servicing income. All separately recognized MSR are required to be initially measured at fair value, if practicable. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans (i.e., collateral, interest rate, servicing spread and maturity) for the purpose of evaluating impairment. A valuation allowance is then established in the event the recorded value of an individual stratum exceeds its fair value.

BOLI – BOLI is carried at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement. Increases in the contract value are recorded as non-interest income in the consolidated statements of operations and insurance proceeds received are recorded as a reduction of the contract value.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount deemed more likely than not to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not satisfying the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to tax matters in income tax expense. The Company had no uncertain tax positions at December 31, 2015 or 2014.

Employee Benefits – The Bank maintains The Dime Savings Bank of Williamsburgh 401(k) Plan [the "401(k) Plan"] for substantially all of its employees, and the Retirement Plan of The Dime Savings Bank of Williamsburgh (the "Employee Retirement Plan"), both of which are tax qualified under the Internal Revenue Code.

The Bank also maintains the Postretirement Welfare Plan of The Dime Savings Bank of Williamsburgh (the "Postretirement Benefit Plan"), providing additional postretirement benefits to certain retirees, which requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services, a Retirement Plan for its outside Directors (the "Director Retirement Plan"), and the BMP that provides additional benefits to certain of its officers.

As the sponsor of a single employer defined benefit plan, the Company must do the following for the Employee Retirement Plan, a portion of the BMP, the Director Retirement Plan and the Postretirement Benefit Plan: (1) recognize the funded status of the benefit plans in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit

Table of Contents

obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation; (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit or cost. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation are adjusted as they are subsequently recognized as components of net periodic benefit cost; (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statements of financial condition (with limited exceptions); and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

The Holding Company and Bank maintain the ESOP. Compensation expense related to the ESOP is recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the average fair market value of the stock during the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital. Cash dividends are paid on all ESOP shares, and reduce retained earnings accordingly.

The Holding Company and Bank maintain the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees and the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (the "2004 Stock Incentive Plan," and collectively the "Stock Plans"); which are discussed more fully in Note 14. Under the Stock Plans, compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of the awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Holding Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings per Share ("EPS") - Basic EPS is computed by dividing net income 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 and vested restricted stock award shares are included. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

The following is a reconciliation of the numerator and denominator of basic EPS and diluted EPS for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net Income per the Consolidated Statements of Operations	$44,772	$44,246	$43,548
Less: Dividends paid on earnings allocated to participating securities	(136)	(168)	(180)
Income attributable to common stock	$44,636	$44,078	$43,368
Weighted average common shares outstanding, including participating securities	36,477,854	36,174,962	35,507,765
Less: weighted average participating securities	(245,037)	(301,785)	(320,566)
Weighted average common shares outstanding	36,232,817	35,873,177	35,187,199
Basic EPS	$1.24	$1.23	$1.24

Income attributable to common stock	$44,636	$44,078	$43,368
Weighted average common shares outstanding	36,232,817	35,873,177	35,187,199
Weighted average common equivalent shares outstanding	89,516	75,339	119,073
Weighted average common and equivalent shares outstanding	36,322,333	35,948,516	35,306,272
Diluted EPS	$1.23	$1.23	$1.23

Common stock equivalents resulting from the dilutive effect of "in-the-money" 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 options.

There were approximately 126,172, 293,272 and 901,037 weighted average options for the years ended December 31, 2015, 2014, and 2013, respectively, that were not considered in the calculation of diluted EPS since

Table of Contents

the sum of their exercise price and unrecognized compensation cost exceeded the average market value during the relevant period.

Comprehensive Income - Comprehensive income for the years ended December 31, 2015, 2014 and 2013 included changes in the unrealized gain or loss on available-for-sale securities, changes in the unfunded status of defined benefit plans, the non-credit component of OTTI, and a transfer loss related to securities transferred from available-for-sale to held-to-maturity. Under GAAP, all of these items bypass net income and are typically reported as components of stockholders' equity. All comprehensive income adjustment items are presented net of applicable tax effect.

Comprehensive and accumulated comprehensive income are summarized in Note 3.

Disclosures About Segments of an Enterprise and Related Information - The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on the manner in which it supports the other activities of the Company. For example, lending is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

For the years ended December 31, 2015, 2014 and 2013, there was no customer that accounted for more than 10% of the Company's consolidated revenue.

Recently Issued Accounting Standards - In January 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-04 "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ("ASU 2014-04"). ASU 2014-04 sought to reduce diversity in practice by clarifying when an in-substance repossession or foreclosure occurs (i.e. when a creditor such as the Bank should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized). Additionally, ASU 2014-04 required interim and annual disclosure of both the amount of foreclosed residential real estate property held by a creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, such as the Company, ASU 2014-04 was effective for interim and annual reporting periods beginning after December 15, 2014. Adoption of ASU 2014-04 did not have a material impact on the Company's financial position, results of operations or disclosures.

Reclassification – There have been no significant reclassifications to prior year amounts to conform to their current presentation.

2. CONVERSION TO STOCK FORM OF OWNERSHIP

On November 2, 1995, the Board of Directors of the Bank adopted a Plan of Conversion to convert from mutual to stock form of ownership. At the time of conversion, the Bank established a liquidation account in an amount equal to the retained earnings of the Bank as of the date of the most recent financial statements contained in the final conversion prospectus. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases in deposits do not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying balances on the date of liquidation for accounts held at conversion.

The Holding Company acquired Conestoga Bancorp, Inc. on June 26, 1996. The liquidation account previously established by Conestoga's subsidiary, Pioneer Savings Bank, F.S.B., during its initial public offering in March 1993, was assumed by the Company in the acquisition.

The Holding Company acquired Financial Bancorp, Inc. on January 21, 1999. The liquidation account previously established by Financial Bancorp, Inc.'s subsidiary, Financial Federal Savings Bank, during its initial public offering, was assumed by the Company in the acquisition.

The aggregate balance of these liquidation accounts was $9,863 and $11,522 at December 31, 2015 and 2014, respectively.

Table of Contents

The Holding Company may not declare or pay cash dividends on, or repurchase any of its, shares of common stock if the effect thereof would cause stockholders' equity to be reduced below either applicable regulatory capital maintenance requirements, or the amount of the liquidation accounts, or if such declaration, payment or repurchase would otherwise violate regulatory requirements.

3. 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 operations.

	Pre-tax Amount	Tax Expense (Benefit)	After tax Amount
Year Ended December 31, 2015			
Securities held-to-maturity and transferred securities			
Change in non-credit component of OTTI	$(9)	$(4)	$(5)
Change in unrealized loss on securities transferred to held to maturity	125	54	71
Total securities held-to-maturity and transferred securities	116	50	66
Securities available-for-sale			
Reclassification adjustment for net gains included in net gain on securities	(1,384)	(624)	(760)
Change in net unrealized gain during the period	(176)	(78)	(98)
Total securities available-for-sale	(1,560)	(702)	(858)
Defined benefit plans:			
Reclassification adjustment for expense included in salaries and employee benefits expense	1,890	852	1,038
Change in the net actuarial gain or loss	(901)	(401)	(500)
Total defined benefit plans	989	451	538
Total other comprehensive income	$(455)	$(201)	$(254)
Year Ended December 31, 2014			
Securities held-to-maturity and transferred securities:			
Change in non-credit component of OTTI	$32	$16	$16
Change in unrealized loss on securities transferred to held to maturity	65	29	36
Total securities held-to-maturity and transferred securities	97	45	52
Securities available-for-sale:			
Reclassification adjustment for net gains included in net gain on securities	(997)	(450)	(547)
Change in net unrealized gain during the period	(65)	(29)	(36)
Total securities available-for-sale	(1,062)	(479)	(583)
Defined benefit plans:			
Reclassification adjustment for expense included in salaries and employee benefits expense	1,044	468	576
Change in the net actuarial gain or loss	(6,986)	(3,153)	(3,833)
Total defined benefit plans	(5,942)	(2,685)	(3,257)
Total other comprehensive income	$(6,907)	$(3,119)	$(3,788)
Year Ended December 31, 2013			
Securities held-to-maturity and transferred securities:			
Change in non-credit component of OTTI	$32	$16	$16

Change in unrealized loss on securities transferred to held to maturity	271	122	149
Total securities held-to-maturity and transferred securities	303	138	165
Securities available-for-sale:			
Reclassification adjustment for net gains included in net gain on securities	(110)	(50)	(60)
Change in net unrealized gain during the period	363	162	201
Total securities available-for-sale	253	112	141
Defined benefit plans:			
Reclassification adjustment for expense included in salaries and employee benefits expense	2,396	1,082	1,314
Change in the net actuarial gain or loss	5,944	2,683	3,261
Total defined benefit plans	8,340	3,765	4,575
Total other comprehensive income	$8,896	$4,015	$4,881

Table of Contents

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

	Securities Held-to-Maturity and Transferred Securities	Securities Available-for-Sale	Defined Benefit Plans	Total Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2015	$ (826)	$ 736	$(8,457)	$ (8,547)
Other comprehensive income (loss) before reclassifications	66	(98)	(500)	(532)
Amounts reclassified from accumulated other comprehensive income (loss)	-	(760)	1,038	278
Net other comprehensive income (loss) during the period	66	(858)	538	(254)
Balance as of December 31, 2015	$ (760)	$ (122)	$(7,919)	$ (8,801)
Balance as of January 1, 2014	$ (878)	$ 1,319	$(5,200)	$ (4,759)
Other comprehensive income (loss) before reclassifications	52	(36)	(3,833)	(3,817)
Amounts reclassified from accumulated other comprehensive income (loss)	-	(547)	576	29
Net other comprehensive income (loss) during the period	52	(583)	(3,257)	(3,788)
Balance as of December 31, 2014	$ (826)	$ 736	$(8,457)	$ (8,547)

4. INVESTMENT AND MORTGAGE-BACKED SECURITIES

At December 31, 2015 and 2014, there were no holdings of investment securities of any one issuer in an amount greater than 10% of stockholders' equity.

The following is a summary of major categories of securities owned by the Company excluding trading securities at December 31, 2015:

	Purchase Amortized/ Historical Cost	Recorded Amortized/ Historical Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
Investment securities held-to-maturity:					
Pooled bank trust preferred securities ("TRUPS")	$ 15,344	$ 5,242	$ 2,154	$ (345)	$7,051
Available-for-sale securities:					
Investment securities					
Registered Mutual Funds	3,990	3,990	25	(259)	3,756
MBS					
Pass-through MBS issued by Government Sponsored Entities ("GSEs")	418	418	13	-	431

(1) Amount represents the purchase amortized / historical cost less any OTTI charges (credit or non-credit related) previously recognized. For the TRUPS, amount is also net of the $807 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 (excluding trading securities) at December 31, 2014:

	Purchase Amortized/ Historical Cost	Recorded Amortized/ Historical Cost (1)	Unrealized Gains	Unrealized Losses	Fair Value
Investment securities held-to-maturity:					
TRUPS	$ 15,815	$ 5,367	$ 1,119	$ (171)	$6,315
Available-for-sale securities:					
Investment securities					
Registered Mutual Funds	3,860	3,860	-	(124)	3,736
Agency notes	70	70	-	-	70
MBS					
Pass-through MBS issued by GSEs	24,154	24,154	1,453	-	25,607
Private issuer pass through MBS	449	449	6	-	455
Private issuer Collateralized Mortgage Obligations ("CMOs")	343	343	4	-	347

(1) Amount represents the purchase amortized / historical cost less any OTTI charges (credit or non-credit related) previously recognized. For the TRUPS, amount is also net of the $932 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).

Table of Contents

The held-to-maturity TRUPS had a weighted average term to maturity of 19.3 years at December 31, 2015. At December 31, 2015, MBS available-for-sale (which included pass-through MBS issued by GSEs) possessed a weighted average contractual maturity of 12.1 years and a weighted average estimated duration of 1.0 year. There were no sales of investment securities held-to-maturity during the years ended December 31, 2015, 2014 or 2013.

During the year ended December 31, 2015, gross proceeds from the sales of investment securities available-for-sale totaled $2,070. Gross gains of $4 and gross losses of $8 were recognized on these sales. During the year ended December 31, 2014, gross proceeds from the sales of investment securities available-for-sale totaled $3,780. A gross gain of $997 was recognized on these sales and there were no gross recognized losses. During the year ended December 31, 2013, gross proceeds from the sales of investment securities available-for-sale totaled $366. A gross gain of $110 was recognized on these sales. The remaining gain/loss on securities shown in the consolidated statements of income for these periods resulted from market valuation changes on trading securities.

Proceeds from the sales of MBS available-for-sale totaled $24,307 during the year ended December 31, 2015. Gross gains of $1,395 and gross losses of $7 were recognized on these sales. There were no sales of MBS available-for-sale during the years ended December 31, 2014 and 2013.

Tax provisions related to the gains on sales of investment securities and MBS available-for-sale recognized during the years ended December 31, 2015, 2014 and 2013 are disclosed in the consolidated statements of comprehensive income.

On September 1, 2008, the Bank transferred eight TRUPS (i.e., investment securities primarily secured by the preferred debt obligations of a pool of U.S. banks with a small portion secured by debt obligations of insurance companies) with an amortized cost of $19,922 from its available-for-sale portfolio to its held-to-maturity portfolio. Based upon the lack of an orderly market for these securities, management determined that a formal election to hold them to maturity was consistent with its initial investment decision. On the date of transfer, the unrealized loss of $8,420 on these securities continued to be recognized as a component of accumulated other comprehensive loss within the Company's consolidated stockholders' equity (net of income tax benefit), and was expected to be amortized over the remaining average life of the securities, which approximated 21.1 years on a weighted average basis. Activity related to this transfer loss was as follows:

	For the Year Ended December 31,	
	2015	2014
Cumulative balance at the beginning of the period	$932	$997
Amortization	(125)	(65)
Cumulative balance at end of the period	$807	$932

As of each reporting period through December 31, 2015, the Company has applied the protocol established by 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 December 31, 2015, five TRUPS were determined to meet the criteria for OTTI based upon this analysis. At December 31, 2015, these five securities had credit ratings ranging from "C" to "A1."

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

	At or for the Year Ended December 31, 2015		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge
Cumulative pre-tax balance at the beginning of the period	$8,945	$ 569	$9,514
Accretion (Amortization) of previously recognized OTTI	(228)	9	(219)
Cumulative pre-tax balance at end of the period	$8,717	$ 578	$9,295

F-78

Table of Contents

	At or for the Year Ended December 31, 2014			At or for the Year Ended December 31, 2013		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge
Cumulative pre-tax balance at the beginning of the period	$8,945	$ 601	$9,546	$8,945	$ 634	$9,579
Amortization of previously recognized OTTI	-	(32)	(32)	-	(33)	(33)
Cumulative pre-tax balance at end of the period	$8,945	$ 569	$9,514	$8,945	$ 601	$9,546

There was no activity related to OTTI charges recognized on the Company's registered mutual funds during the year ended December 31, 2015. The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's registered mutual funds for the years ended December 31, 2014 and 2013:

	At or For the Year Ended December 31,	
	2014	2013
Cumulative balance at the beginning of the period	$106	$348
Reduction of OTTI for securities sold during the period	(106)	(242)
Cumulative balance at end of the period	$-	$106

The following table summarizes the gross unrealized losses and fair value of investment securities as of December 31, 2015, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Gross Unrecognized/ Unrealized Losses	Fair Value	Gross Unrecognized/ Unrealized Losses	Fair Value	Gross Unrecognized/ Unrealized Losses
Held-to-Maturity Securities:						
TRUPS	$-	$ -	$2,359	$ 345	$2,359	$ 345
Available-for-Sale Securities:						
Registered Mutual Funds	3,026	259	-	-	3,026	259

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

At December 31, 2015, impairment of two TRUPS was deemed temporary, as management believed that the full recorded balance of the investments would be realized. 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

Table of Contents

· The securities are adequately collateralized

The following table summarizes the gross unrealized losses and fair value of investment securities as of December 31, 2014, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position:

	Less than 12 Months Consecutive Unrealized Losses		12 Months or More Consecutive Unrealized Losses		Total	
	Fair Value	Gross Unrecognized/ Unrealized Losses	Fair Value	Gross Unrecognized/ Unrealized Losses	Fair Value	Gross Unrecognized// Unrealized Losses
Held-to-Maturity Securities:						
TRUPS	$-	$ -	$2,571	$ 163	$2,571	$ 163
Available-for-Sale Securities:						
Registered Mutual Funds	3,736	124	-	-	3,736	124

5. 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, unamortized premiums 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.

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 structure, loan 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 fifty percent or more 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 over fifty percent 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 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.

The Bank had no loans classified as doubtful at December 31, 2015 or December 31, 2014.

All real estate loans not classified as Special Mention, Substandard or Doubtful were deemed pass loans at both December 31, 2015 and December 31, 2014.

Table of Contents

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 December 31, 2015					
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)	$7,698	$ -	$ -	$ -	$ -	$7,698
Pass	61,256	3,743,298	370,110	473,242	-	4,647,906
Special Mention	945	9,759	1,622	4,857	-	17,183
Substandard	2,196	6,850	5,543	7,810	-	22,399
Doubtful	-	-	-	-	-	-
Total	$72,095	$3,759,907	$ 377,275	$ 485,909	$ -	$4,695,186

(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, 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)	$9,091	$ -	$ -	$ -	$ -	$9,091
Pass	60,764	3,271,430	317,718	391,227	-	4,041,139
Special Mention	1,370	20,738	4,944	6,431	-	33,483
Substandard	2,275	6,280	6,005	19,138	-	33,698
Doubtful	-	-	-	-	-	-
Total	$73,500	$3,298,448	$ 328,667	$ 416,796	$ -	$4,117,411

(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 December 31, 2015	Balance at December 31, 2014

Performing	$ 1,586	$ 1,825
Non-accrual	4	4
Total	$ 1,590	$ 1,829

Table of Contents

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 December 31, 2015

	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	$127	$-	$ 625	$ 1,113	$1,865	$70,230	$72,095
Multifamily residential and residential mixed use	2,235	-	2,514	287	5,036	3,754,871	3,759,907
Commercial mixed use real estate	-	406	406	-	812	376,463	377,275
Commercial real estate	200	-	987	207	1,394	484,515	485,909
Construction	-	-	-	-	-	-	-
Total real estate	$2,562	$406	$ 4,532	$ 1,607	$9,107	$4,686,079	$4,695,186
Consumer	$1	$1	$ -	$ 4	$6	$1,584	$1,590

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2015.

At December 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	$240	$ -	$ -	$ 1,310	$1,550	$71,950	$73,500
Multifamily residential and residential mixed use	1,187	-	2,922	167	4,276	3,294,172	3,298,448
Commercial mixed use real estate	-	-	411	-	411	328,256	328,667
Commercial real estate	-	-	-	4,717	4,717	412,079	416,796
Construction	-	-	-	-	-	-	-
Total real estate	$1,427	$ -	$ 3,333	$ 6,194	$10,954	$4,106,457	$4,117,411
Consumer	$2	$ -	$ -	$ 4	$6	$1,823	$1,829

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

Accruing Loans 90 Days or More Past Due:

The Bank continued accruing interest on twelve real estate loans with an aggregate outstanding balance of $4,532 at December 31, 2015, and eight real estate loans with an aggregate outstanding balance of $3,333 at December 31, 2014, 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.

Table of Contents

TDRs

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

	As of December 31, 2015		As of December 31, 2014	
	No. of Loans	Balance	No. of Loans	Balance
One- to four-family residential, including condominium and cooperative apartment	2	$ 598	2	$ 605
Multifamily residential and residential mixed use	3	696	4	1,105
Commercial mixed use real estate	1	4,344	1	4,400
Commercial real estate	2	3,635	4	13,707
Total real estate	8	$ 9,273	11	$ 19,817

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

	As of December 31, 2015		As of December 31, 2014	
	No. of Loans	Balance	No. of Loans	Balance
Outstanding principal balance at period end	8	$ 9,273	11	$ 19,817
TDRs on accrual status at period end	7	9,066	8	15,100
TDRs on non-accrual status at period end	1	207	2	4,717

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 December 31, 2015 and December 31, 2014.

The following table summarizes activity related to TDRs for the periods indicated:

	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014			For the Year Ended December 31, 2013		
	Number of Loans	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	Number of Loans	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	Number of Loans	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded

		Investment	Investment		Investment	Investment		Investment	Investment
Loan modifications during the period that met the definition of a TDR:									
Commercial mixed use real estate	-	$ -	$ -	1	$ 4,400	$ 4,400	-	$ -	$ -
Commercial real estate	-	-	-	1	3,500	3,500	-	-	-
TOTAL	-	$ -	$ -	2	$ 7,900	$ 7,900	-	$ -	$ -

The Bank's allowance for loan losses at December 31, 2015 included no allocated reserve associated with TDRs. The Bank's allowance for loan losses at December 31, 2014 reflected $19 of allocated reserve associated with TDRs. Activity related to reserves associated with TDRs was immaterial during the years ended December 31, 2015 and 2014.

As of December 31, 2015 and December 31, 2014, the Bank had no loan commitments to borrowers with outstanding TDRs.

Table of Contents

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 years ended December 31, 2015, 2014 or 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, mixed-use 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 6 for tabular information related to impaired loans.

Loans Re-acquired from FNMA

Until February 20, 2014, the Bank serviced a pool of multifamily loans that it 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. Since re-acquisition, the credit quality of these loans has been evaluated in accordance with the policies and procedures discussed in this note.

The Company paid an aggregate premium of $13,163 on the real estate loans re-acquired from FNMA in February 2014. The premium is being amortized as an adjustment to interest income throughout the remaining estimated life of the loans. At December 31, 2015 and December 31, 2014, the remaining unamortized premium totaled $3,925 and $7,950, respectively.

Please refer to Notes 6 for further discussion of these loans.

6. ALLOWANCE FOR LOAN LOSSES AND RESERVE 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. Consumer loans were evaluated in aggregate as of both December 31, 2015 and December 31, 2014.

Table of Contents

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 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. While measured impairment is generally charged off immediately, impairment attributed to either a shortfall in the underlying collateral (for collateral dependent TDRs) or a reduction in the present value of expected cash flows of a non-collateral dependent TDR was reflected as an allocated reserve within the allowance for loan losses at December 31, 2014.

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 December 31, 2015 and December 31, 2014, 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 December 31, 2015 and December 31, 2014. 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 $348 at December 31, 2015 and $371 at December 31, 2014. The decline resulted from both a reduction of $970 in the balance of such loans from December 31, 2014 to December 31, 2015, as well as a lower average loss expectation derived as of December 31, 2015 compared to December 31, 2014.

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 December 31, 2015 and December 31, 2014, 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 December 31, 2015 and December 31, 2014. 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 was $88 at December 31, 2015, compared to $228 at December 31, 2014. This decline reflected both a reduction of $16,300 in the balance of such loans and a lower expected loss percentage applied to such loans at December 31, 2015 compared to December 31, 2014 under the methodology employed.

Table of Contents

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 apartments; 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 the existence of potential losses that could take a longer period to flow through its allowance for loan losses.

(ii) Economic conditions - At both December 31, 2015 and December 31, 2014, 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) Loan concentrations - 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.

Table of Contents

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 Year Ended December 31, 2015

	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	$150	$13,852	$1,644	$2,823	$ -	$18,469	$24
Provision (credit) for loan losses	222	309	21	(1,880)	-	(1,328)	(2)
Charge-offs	(115)	(48)	(37)	(7)	-	(207)	(2)
Recoveries	6	5	24	1,525	-	1,560	-
Ending balance	$263	$14,118	$1,652	$2,461	$ -	$18,494	$20
Ending balance – loans individually evaluated for impairment	$598	$983	$4,345	$3,635	$ -	$9,561	$ -
Ending balance – loans collectively evaluated for impairment	71,497	3,758,924	372,930	482,274	-	4,685 625	1,590
Allowance balance associated with loans individually evaluated for impairment	-	-	-	-	-	-	-
Allowance balance associated with loans collectively evaluated for impairment	263	14,118	1,652	2,461	-	18,494	20

At or for the Year Ended December 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	(164)	(76)	(1,710)	72	(3)	(1,881)	9

Charge-offs	(46)	(87)	(30)	(306)	-	(469)	(9)
Recoveries	124	175	381	10	-	690	-
Ending balance	$ 150	$ 13,852	$ 1,644	$ 2,823	$ -	$ 18,469	$ 24
Ending balance – loans individually evaluated for impairment	$ 605	$ 1,272	$ 4,400	$ 13,707	$ -	$ 19,984	$ -
Ending balance – loans collectively evaluated for impairment	72,895	3,297,176	324,267	403,089	-	4,097,427	1,829
Allowance balance associated with loans individually evaluated for impairment	-	-	-	19	-	19	-
Allowance balance associated with loans collectively evaluated for impairment	150	13,852	1,644	2,804	-	18,450	24

Table of Contents

At or for the Year Ended December 31, 2013

	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	$344	$14,299	$2,474	$3,382	$ 24	$20,523	$ 27
Provision (credit) for loan losses	(187)	10	891	(342)	(21)	351	18
Charge-offs	(117)	(504)	(391)	(9)	-	(1,021)	(21)
Recoveries	196	35	29	16	-	276	-
Ending balance	$236	$13,840	$3,003	$3,047	$ 3	$20,129	$ 24
Ending balance – loans individually evaluated for impairment	$1,199	$2,345	$4,400	$22,245	$ -	$30,189	$ -
Ending balance – loans collectively evaluated for impairment	72,757	2,920,205	371,510	302,451	268	3,667,191	2,139
Allowance balance associated with loans individually evaluated for impairment	-	-	1,320	451	-	1,771	-
Allowance balance associated with loans collectively evaluated for impairment	236	13,840	1,683	2,596	3	18,358	24

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

	At December 31, 2015			For the Year Ended December 31, 2015	
	Unpaid Principal Balance at Period End	Recorded Investment at Period End(1)	Reserve Balance Allocated within the Allowance for Loan Losses at Period End	Average Recorded Investment(1)	Interest Income Recognized
One- to Four Family Residential, Including Condominium and Cooperative Apartment					
With no allocated reserve	$635	$ 598	$ -	$601	$ 44

With an allocated reserve	-	-	-	-	-
Multifamily Residential and Residential Mixed Use					
With no allocated reserve	983	983	-	1,095	71
With an allocated reserve	-	-	-	-	-
Commercial Mixed Use Real Estate					
With no allocated reserve	4,345	4,345	-	4,379	176
With an allocated reserve	-	-	-	-	-
Commercial Real Estate					
With no allocated reserve	3,642	3,635	-	5,470	140
With an allocated reserve	-	-	-	1,100	97
Construction					
With no allocated reserve	-	-	-	-	-
With an allocated reserve	-	-	-	-	-
Total					
With no allocated reserve	$9,605	$ 9,561	$ -	$11,545	$ 431
With an allocated reserve	$-	$ -	$ -	$1,100	$ 97

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

Table of Contents

	At December 31, 2014			For the Year Ended December 31, 2014	
	Unpaid Principal Balance at Period End	Recorded Investment at Period End(1)	Reserve Balance Allocated within the Allowance for Loan Losses at Period End	Average Recorded Investment(1)	Interest Income Recognized
One- to Four Family Residential, Including Condominium and Cooperative Apartment					
With no allocated reserve	$646	$ 605	$ -	$747	$ 58
With an allocated reserve	-	-	-	41	-
Multifamily Residential and Residential Mixed Use					
With no allocated reserve	1,272	1,272	-	2,147	87
With an allocated reserve	-	-	-	-	-
Commercial Mixed Use Real Estate					
With no allocated reserve	4,425	4,400	-	2,640	237
With an allocated reserve	-	-	-	1,760	-
Commercial Real Estate					
With no allocated reserve	10,306	8,207	-	7,470	148
With an allocated reserve	5,500	5,500	19	9,317	495
Construction					
With no allocated reserve	-	-	-	-	-
With an allocated reserve	-	-	-	-	-
Total					
With no allocated reserve	$16,649	$ 14,484	$ -	$13,004	$ 530
With an allocated reserve	$5,500	$ 5,500	$ 19	$11,118	$ 495

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

Table of Contents

	At December 31, 2013			For the Year Ended December 31, 2013	
	Unpaid Principal Balance at Period End	Recorded Investment at Period End(1)	Reserve Balance Allocated within the Allowance for Loan Losses at Period End	Average Recorded Investment(1)	Interest Income Recognized
One- to Four Family Residential, Including Condominium and Cooperative Apartment					
With no allocated reserve	$1,066	$ 987	$ -	$1,010	$ 42
With an allocated reserve	255	212	-	211	14
Multifamily Residential and Residential Mixed Use					
With no allocated reserve	2,494	2,345	-	2,851	163
With an allocated reserve	-	-	-	-	-
Commercial Mixed Use Real Estate					
With no allocated reserve	-	-	-	1,272	200
With an allocated reserve	4,500	4,400	1,320	880	-
Commercial Real Estate					
With no allocated reserve	8,316	7,203	-	22,787	1,100
With an allocated reserve	15,042	15,042	451	15,168	857
Construction					
With no allocated reserve	-	-	-	-	-
With an allocated reserve	-	-	-	-	-
Total					
With no allocated reserve	$11,876	$ 10,535	$ -	$27,920	$ 1,505
With an allocated reserve	$19,797	$ 19,654	$ 1,771	$16,259	$ 871

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

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 Year Ended December 31,		
	2015	2014	2013
Outstanding balance of multifamily loans serviced for FNMA at period end	$-	$-	$208,375
Total First Loss Position at end of period	-	-	15,428

Reserve Liability on the First Loss Position			
Balance at beginning of period	$-	$1,040	$1,383
Credit for losses on problem loans[1]	-	(1,040)	(305)
Charge-offs and other net reductions in balance	-	-	(38)
Balance at period end	$-	$-	$1,040

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

Table of Contents

7. MORTGAGE SERVICING ACTIVITIES AND MORTGAGE BANKING INCOME

At December 31, 2015, 2014 and 2013, the Bank was servicing loans for others having principal balances outstanding of approximately $23,109, $24,253, and $247,263, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, paying taxes and insurance and processing foreclosure. In connection with loans serviced for others, the Bank held borrowers' escrow balances of approximately $272 and $295 at December 31, 2015 and 2014, respectively.

There are no restrictions on the Company's consolidated assets or liabilities related to loans sold with servicing rights retained. Upon sale of these loans, the Company recorded an MSR, and has elected to account for the MSR under the "amortization method" prescribed under GAAP. The aggregate MSR balance was $239 at December 31, 2015, $351 at December 31, 2014 and $628 at December 31, 2013.

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

	Year Ended December 31,		
	2015	2014	2013
Gain on the sale of loans originated for sale	$-	$27	$13
Credit to reduce the liability for the First Loss Position	-	1,040	305
Mortgage banking fees	183	158	155
Net mortgage banking income	$183	$1,225	$473

8. PREMISES AND FIXED ASSETS, NET AND PREMISES HELD FOR SALE

The following is a summary of premises and fixed assets, net and premises held for sale:

	At December 31, 2015	At December 31, 2014
Land	$ 1,647	$ 7,067
Buildings	17,316	19,952
Leasehold improvements	12,125	12,045
Furniture, fixtures and equipment		