DIME COMMUNITY BANCSHARES INC
Form 10-K
March 13, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Year Ended December 31, 2013

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 0-27782

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

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

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

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

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

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

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

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

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 x NO o

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

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).
LARGE ACCELERATED FILER o ACCELERATED FILER x NON-ACCELERATED FILER o
SMALLER REPORTING COMPANY o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2013 was approximately $447.2 million based upon the $13.29 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2013.

As of March 12, 2014, there were 36,720,170 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 22, 2014 and any adjournment thereof, are incorporated by reference in Part III.

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

Forward-looking statements are based upon various assumptions and analyses made by 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. Busines

General

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered savings bank. The Bank maintains its headquarters in the Williamsburg section of the borough of Brooklyn, New York and operates twenty-five full-service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York.

The Bank's principal business has been, and continues to be, gathering retail 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.

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 NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches. The Bank's primary lending area is the NYC metropolitan area, although its overall lending area is larger, extending approximately 150 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's mortgage loans are secured by properties located in its primary lending area, with approximately 86% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2013.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from other savings banks, commercial banks, mortgage banks and insurance companies. The Bank 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, 2013.

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.

Lending Activities

The Bank originates primarily low or moderate loan-to-value, non-recourse loans on multifamily and commercial real estate properties to limited liability companies.

Loan Portfolio Composition. At December 31, 2013, the Bank's loan portfolio totaled $3.69 billion, consisting primarily of mortgage loans secured by multifamily residential apartment buildings, including buildings organized under a cooperative form of ownership; commercial properties; real estate construction and land acquisition; and one- to four-family residences and individual condominium or cooperative apartments. Within the loan portfolio, $2.92 billion, or 79.0%, were classified as multifamily residential loans; $700.6 million, or 19.0%, were classified as commercial real estate loans; $74.0 million, or 2.0%, were classified as one- to four-family residential, including condominium or cooperative apartments; and $268,000 were loans to finance real estate construction and land acquisition within the NYC metropolitan area. Of the total mortgage loan portfolio outstanding on December 31, 2013, $2.64 billion, or 71.6%, were adjustable-rate mortgage loans ("ARMs") and $1.05 billion, or 28.4%, were fixed-rate loans. Of the Bank's multifamily residential and commercial real estate loans, over 70% were ARMs at December 31, 2013, 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, 2013, the Bank's loan portfolio additionally included $2.1 million in consumer loans, composed of depositor, consumer installment and other loans. As of December 31, 2013, $2.12 billion, or 57.4% of the loan portfolio, was scheduled to mature or reprice within five years.

The Bank does not originate or purchase loans, either whole loans or collateral underlying MBS, that would be considered subprime 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 both federal and New York State laws and regulations (See "Item 1. Business - Regulation – Regulation of New York State Chartered Savings Banks").

At December 31, 2013, the Bank had $83.8 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2014. At December 31, 2012, the Bank had $60.5 million of loan commitments that were accepted by the borrowers. All of these closed during the year ended December 31, 2013.

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,								
	2013	Percent of Total	2012	Percent of Total	2011	Percent of Total	2010	Percent of Total	2009
	Dollars in Thousands								
Real Estate loans:									
Multifamily residential	$2,917,380	78.97 %	$2,671,533	76.30 %	$2,599,850	75.13 %	$2,500,265	72.09 %	$2,377,278
Commercial real estate	700,606	18.96	735,224	21.00	751,586	21.72	833,168	24.02	834,724
One- to four-family, including condominium and cooperative apartment	73,956	2.00	91,876	2.62	100,712	2.91	117,268	3.38	131,891
Construction and land acquisition	268	0.01	476	0.01	5,827	0.17	15,238	0.44	44,544
Total real estate loans	3,692,210	99.94	3,499,109	99.93	3,457,975	99.93	3,465,939	99.93	3,388,437
Consumer loans:									
Depositor loans	763	0.02	712	0.02	483	0.01	530	0.02	830
Consumer installment and other	1,376	0.04	1,711	0.05	1,966	0.06	2,010	0.05	2,391
Total consumer loans	2,139	0.06	2,423	0.07	2,449	0.07	2,540	0.07	3,221
Gross loans	3,694,349	100.00%	3,501,532	100.00%	3,460,424	100.00%	3,468,479	100.00%	3,391,658
Net unearned costs	5,170		4,836		3,463		5,013		4,017
Allowance for loan losses	(20,153)		(20,550)		(20,254)		(19,166)		(21,505)
Loans, net	$3,679,366		$3,485,818		$3,443,633		$3,454,326		$3,374,170
Loans serviced for others:									
One- to four-family including	$6,746		$8,786		$10,841		$12,559		$15,657

condominium and cooperative apartment					
Multifamily residential	240,517	353,034	475,673	583,751	654,452
Total loans serviced for others	$247,263	$361,820	$486,514	$596,310	$670,109

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Loan Originations, Purchases, Sales and Servicing. For the year ended December 31, 2013, total loan originations were $1.07 billion. The Bank originates both ARMs and fixed-rate loans, depending upon customer demand and market rates of interest. ARMs were 86% 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. 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. From December 2002 through February 2009, the Bank sold multifamily residential loans to Fannie Mae ("FNMA") pursuant to a multifamily seller/servicing agreement entered into in December 2002. The contract expired on December 31, 2008 and was not renewed; however, the Bank retained servicing and a first loss position on the portfolio of sold loans. 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 the servicing rights in connection with multifamily loans it sells in the secondary market. The loan servicing fees on multifamily residential loans sold to FNMA varied, and were derived based upon the difference between the actual origination rate and contractual pass-through rate of the loans at the time of sale. At December 31, 2013, the Bank had recorded mortgage servicing rights ("MSR") of $628,000 associated with the sale of one- to four-family and multifamily residential loans to FNMA and other third party institutions.

The Bank sold participation interests in multifamily loans totaling $24.4 million to third party financial institutions during the year ended December 31, 2012, but did not sell any participation interests during either the year ended December 31, 2013 or December 31, 2011. These sales were individually negotiated transactions, made primarily to generate additional liquidity, or, in certain instances, to reduce concentrations of credit (as a percentage of capital) with individual borrowers.

Prior to February 2013, the Bank generally sold its newly originated one- to four-family fixed-rate mortgage loans in the secondary market. Sales of fixed-rate one- to four-family mortgage loans totaled $2.2 million, $8.3 million, and $5.6 million, respectively, during the years ended December 31, 2013, 2012, and 2011, all of which were sold through an origination assistance agreement with PHH Mortgage ("PHH"). 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, and concurrently ended its origination assistance agreement with PHH.

At December 31, 2013, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained totaled $247.3 million. $38.9 million were sold without recourse. The remaining $208.4 million were whole loans sold to FNMA subject to a recourse exposure totaling $15.4 million at December 31, 2013.

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,				
	2013	2012	2011	2010	2009
	Dollars in Thousands				
Gross loans:					
At beginning of period	$3,501,532	$3,460,424	$3,468,479	$3,391,658	$3,288,218
Real estate loans originated:					
Multifamily residential	872,421	942,326	563,696	467,160	369,424
Commercial real estate	187,202	142,418	98,607	58,687	49,827
One- to four-family, including condominium and cooperative apartment (1)	5,896	12,184	7,094	7,431	25,399
Equity lines of credit on multifamily residential or commercial properties	7,578	2,764	7,685	6,540	8,808
Construction and land acquisition	-	-	1,712	1,901	10,944
Total mortgage loans originated	1,073,097	1,099,692	678,794	541,719	464,402
Other loans originated	1,354	1,414	1,552	1,756	1,639
Total loans originated	1,074,451	1,101,106	680,346	543,475	466,041
Loans purchased (2)	52,031	30,425	54,364	45,096	90,648
Less:					
Principal repayments (including satisfactions and refinances)	923,110	1,020,525	698,928	427,307	327,433
Loans sold (3)	8,087	67,593	38,320	75,221	119,350
Write down of principal balance for expected loss	1,685	2,305	5,517	8,902	5,515
Loans transferred to other real estate owned	783	-	-	320	951
Gross loans at end of period	$3,694,349	$3,501,532	$3,460,424	$3,468,479	$3,391,658

(1) Includes one- to four-family home equity and home improvement loans.

(2) Includes $52.0 million, $30.4 million, $26.4 million, $22.3 million and $31.5 million of serviced loans previously sold to a third party that were re-acquired during the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

(3) Includes $6.1 million, $30.9 million, $29.8 million and $47.0 million of note sales on problem loans from portfolio during the years ended December 31, 2013, 2012, 2011 and 2010, respectively. Problem loan note sales were immaterial during the year ended December 31, 2009.

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, 2013 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 prepayments or scheduled principal amortization.

	Real Estate Loans	Consumer Loans	Total
	(Dollars in Thousands)		
Amount due to Mature or Reprice During the Year Ending:			
December 31, 2014	$160,439	$ 2,139	$162,578
December 31, 2015	209,950	-	209,950
December 31, 2016	411,703	-	411,703
December 31, 2017	672,755	-	672,755
December 31, 2018	661,202	-	661,202
Sub-total (within 5 years)	2,116,049	2,139	$2,118,188

December 31, 2019 and beyond	1,576,161	-	1,576,161
TOTAL	$3,692,210	$ 2,139	$3,694,349

The following table sets forth the outstanding principal balance of the Bank's real estate and consumer loan portfolios (including loans held for sale) at December 31, 2013 that is due to mature or reprice after December 31, 2014, and whether such loans have fixed or adjustable interest rates:

	Due after December 31, 2014		
	Fixed	Adjustable	Total
	(Dollars in Thousands)		
Real estate loans	$1,023,816	$2,507,955	$3,531,771
Consumer loans	-	-	-
Total loans	$1,023,816	$2,507,955	$3,531,771

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, 2013, $2.92 billion, or 79.0% of the Bank's gross loan portfolio, were multifamily residential loans. Of the multifamily residential loans, $2.71 billion, or 92.9%, were secured by apartment buildings and $205.8 million, or 7.1%, were secured by buildings organized under a cooperative form of ownership. The Bank also had $700.6 million of commercial real estate loans in its portfolio at December 31, 2013, representing 19.0% of its total loan portfolio. Of the $700.6 million, approximately $324.7 million were secured by collateral containing strictly commercial tenants, while the remaining $375.9 million had a portion of the underlying collateral composed of residential units.

At December 31, 2013, the Bank had commitments accepted by borrowers to originate $83.8 million of multifamily residential and commercial real estate loans, compared to $60.5 million outstanding at December 31, 2012.

At December 31, 2013, 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, 2013, mixed-use properties classified as multifamily residential or commercial real estate loans totaled $1.37 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, 2013, had an average outstanding balance of approximately $1.9 million. Multifamily residential loans in this range are generally secured by buildings that contain between 5 and 100 apartments. As of December 31, 2013, the Bank had a total of $2.70 billion of multifamily residential loans in its portfolio secured by buildings with under 100 units, representing over 90% of its multifamily residential real estate loan portfolio.

At December 31, 2013, the Bank had 126 multifamily residential or commercial real estate loans in portfolio with principal balances greater than $5.0 million, totaling $1.05 billion. Within this total were twenty-five loans totaling $383.2 million with outstanding balances greater than $10.0 million. These 126 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 56% and 203%, respectively, on all multifamily real estate loans originated during the year ended December 31, 2013, and 50% and 204%, respectively, on commercial real estate loans originated during the year ended December 31, 2013. The Bank additionally requires all multifamily 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, 2013, approximately $375.9 million, or 53.7%, 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 $1.8 million at December 31, 2013.

The Bank's three largest multifamily residential loans at December 31, 2013 were: (i) a $37.3 million loan initially originated in September 2008 (subsequently re-financed in March 2012) secured by seventeen mixed-use buildings located in Manhattan, New York, containing, in aggregate, 401 residential units and 11 commercial units; (ii) a $29.4 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 $20.6 million loan originated in November 2012 secured by nine residential apartment buildings located in Farmingdale, New York, containing 272 residential units. Each of these loans made all contractual payments during the year ended December 31, 2013.

The Bank's three largest commercial real estate loans at December 31, 2013 were: (i) an $18.8 million loan initially originated in February 2013 secured by a three-story building located in Manhattan, New York containing 14 retail stores; (ii) a $17.2 million loan originated in December 2010 secured by a mixed use building located in Manhattan, New York, containing 82 residential units and 6 retail units, and (iii) a $14.5 million loan originated in September 2011 secured by a building with 10 stores located in Manhattan, New York.

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). In 2003, the Bank began originating small investment property loans. This program was discontinued in 2008 since, in the opinion of management, the loan's small average size combined with market rates that were deemed insufficient for this asset class, made the program unattractive. Small investment property loans were typically sourced through loan brokers. At December 31, 2013, the Bank held $37.8 million of loans in portfolio classified as small investment property, or approximately 1.0% of the gross loan portfolio, with, at the time of origination, a weighted average borrower FICO score of 694 and a weighted average loan-to-value ratio of 58%.

One- to Four-Family Residential and Condominium / Cooperative Apartment Lending. During the year ended December 31, 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, 2013, $74.0 million, or 2.0%, of the Bank's loans consisted of one- to four-family residential and condominium or cooperative apartment loans.

Home Equity and Home Improvement Loans. Home equity loans and home improvement loans, the great majority of which are included in one- to four-family loans, are originated to a maximum of $500,000. The combined balance of the first mortgage and home equity or home improvement loan may not exceed 75% of the appraised value of the collateral property at the time of origination of the home equity or home improvement loan. Interest on home equity and home improvement loans is 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 $11.8 million at December 31, 2013.

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 $8.3 million at December 31, 2013, on outstanding total lines of $46.6 million.

Construction Lending. The Bank had no unfunded construction loan commitments, 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, 2013 and 2012.

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. For larger loans, generally those in excess of $500,000, the Bank maintains a Loan Operating Committee entrusted with loan approval authority. The Chief Executive Officer, President, Chief Financial Officer, Chief Accounting Officer, Chief Lending Officer, Director of Credit Administration and Chief Retail Officer are members of the Loan Operating Committee. The Loan Operating Committee has authority to approve all portfolio loan originations. 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, 2013 and December 31, 2012, the Company had neither whole loans nor loans underlying MBS that would be considered subprime 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 consolidated financial statements for a discussion of impaired investment securities and MBS.

Monitoring and Collection of Delinquent Loans

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

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

Accrual of interest is generally discontinued on a loan that meets any of the following three criteria: (i) full payment of principal or interest is not expected; (ii) principal or interest has been in default for a period of 90 days or more (unless the loan is deemed to be both 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 delinquent 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 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. The Bank generally seeks to sell OREO properties as expeditiously as possible. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

Non-accrual Loans

Within the Bank's permanent portfolio, non-accrual loans totaled $12.5 million and $8.9 million at December 31, 2013 and December 31, 2012, respectively, representing 0.34% and 0.25% of total loans at December 31, 2013 and December 31, 2012, respectively. Fourteen loans totaling $8.9 million were added to non-accrual status during the year ended December 31, 2013. Partially offsetting this increase were eight non-accrual loans totaling $2.9 million that were either satisfied or disposed of at a value at or below their recorded balance, $327,000 of principal charge-offs that were recognized on three non-accrual loans, four non-accrual loans totaling $1.1 million that were returned to accrual status and two non-accrual loans totaling $783,000 that were transferred to OREO.

Impaired Loans

A loan is considered impaired when, based on 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.

Generally, the Bank considers troubled debt restructurings ("TDR") and non-accrual multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans in excess of the FNMA conforming loan limits for high-cost areas such as the Bank's primary lending area ("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.

Impairment is typically measured using the difference between the outstanding loan principal balance and either: 1) the likely realizable value of a note sale; 2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or 3) the present value of estimated future cash flows (using the loan's pre-modification rate for some of the performing TDRs). If a TDR is substantially performing in accordance with its restructured terms, management will look to either the potential net liquidation proceeds of the underlying collateral 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.

The recorded investment in loans deemed impaired was approximately $30.2 million, consisting of sixteen loans, at December 31, 2013, compared to $53.1 million, consisting of twenty-six loans, at December 31, 2012. Fourteen impaired loans with a recorded balance totaling $28.4 million were either satisfied or disposed of during the year ended December 31, 2013. Additionally during the year ended December 31, 2013, a $402,000 impaired loan remained current on all contractual amounts owed for a time period deemed sufficient to warrant its removal from impaired status, and a $765,000 impaired loan was transferred to OREO. Principal charge-offs totaling $327,000 and principal amortization totaling $556,000 were also recognized on impaired loans during the year ended December 31, 2013. Partially offsetting these declines were seven loans totaling $7.5 million that were added to impaired status during the year ended December 31, 2013.

The following is a reconciliation of non-accrual and impaired loans at December 31, 2013:

	(Dollars in Thousands)
Non-accrual loans	$ 12,549
Non-accrual one- to four-family, including condominium and cooperative apartment, and consumer loans deemed homogeneous loans	(980)
TDRs retained on accrual status	18,620
Impaired loans	$ 30,189

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 without the loan being fully re-underwritten under current market terms
- 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.

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 meets any of the criteria for non-accrual status under the Bank's policy, as disclosed on page F-12.

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

At both December 31, 2013 and 2012, the great majority of 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 net cash flows of the underlying property was utilized as the primary means of determining impairment. Any shortfall in the present value of the expected cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected cash flows at the time of the original loan agreement was recognized as either an allocated reserve (in the event that it related to lower expected interest payments) or a charge-off (if related to lower expected principal payments). For TDRs on non-accrual status, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment, and any shortfall in valuation from the recorded balance 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 is a summary of TDRs by type of underlying collateral:

	At December 31, 2013		At December 31, 2012	
	# loans	Aggregate Recorded Balance	# loans	Aggregate Recorded Balance
(Dollars in Thousands)				
Loan secured by:				
One- to four-family residential real estate (1)	3	$ 934	3	$ 948
Multifamily residential and residential mixed use real estate	4	1,148	5	1,953
Commercial mixed use real estate	-	-	1	729
Commercial real estate	5	22,245	13	47,493
Total	12	$ 24,327	22	$ 51,123

(1) With the exception of one TDR at December 31, 2013 with an outstanding balance of $322,000, these TDRs were secured by mixed use properties containing four units or less.

OREO

Property acquired by the Bank, or a subsidiary, as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses the likely realizable value of the property quarterly thereafter. The lower of the appraisal or the formal marketed value is used when determining the likely realizable value of OREO at each reporting period. Any declines in likely realizable value are recognized immediately through earnings. The Bank typically seeks to dispose of OREO properties in a timely manner. As a result, OREO properties have generally not warranted a subsequent independent appraisal.

The Bank owned one OREO property with a balance of $18,000 at December 31, 2013 and no OREO properties with a recorded balance at December 31, 2012.

The following table sets forth information regarding non-accrual loans, other non-performing assets, OREO, TDRs, and impaired loans at the dates indicated:

	At December 31,				
	2013	2012	2011	2010	2009
Non-accrual Loans and Non-Performing Assets	(Dollars in Thousands)				
One- to four-family residential including condominium and cooperative apartment	$1,242	$938	$2,205	$223	$397
Multifamily residential and residential mixed use real estate	1,197	507	7,069	5,010	7,820
Commercial real estate and commercial mixed use real estate	10,107	7,435	16,674	11,992	3,070
Consumer	3	8	4	17	7
Sub-total	12,549	8,888	25,952	17,242	11,294
Non-accrual loans held for sale	-	560	3,022	2,926	-
Total non-accrual loans	12,549	9,448	28,974	20,168	11,294
Non-performing pooled trust preferred securities ("TRUPS")	889	892	1,012	564	688
OREO	18	-	-	-	755
Total non-performing assets	13,465	10,340	29,986	20,732	12,737
Ratios:					
Total non-accrual loans to total loans	0.34 %	0.25 %	0.84 %	0.58 %	0.33 %
Total non-performing assets to total assets	0.33	0.26	0.75	0.51	0.32
TDRs and Impaired Loans					
TDRs	$24,327	$51,123	$48,753	$22,558	$5,317
Impaired loans (1)	30,189	53,144	73,406	44,097	15,049

(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 five real estate loans with an aggregate outstanding balance of $1.0 million at December 31, 2013, and one loan with an outstanding balance of $190,000 at December 31, 2012, all of which were 90 days or more past due on their respective contractual maturity dates. The five loans at December 31, 2013, which included the $190,000 loan outstanding at December 31, 2012, 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 all contractual amounts owed were expected to be received. Therefore, these loans remained on accrual status and were deemed performing assets at both December 31, 2013 and December 31, 2012.

(ii) Loans Delinquent 30 to 89 Days

The Bank had 6 real estate loans, totaling $1.6 million, that were delinquent between 30 and 89 days at December 31, 2013, a net reduction of $5.5 million compared to 13 such loans totaling $7.1 million at December 31, 2012. The 30 to 89 day delinquent levels fluctuate monthly, and are generally considered a less accurate indicator of near-term credit quality trends than non-accrual loans.

(iii) Temporary Loan Modifications

At December 31, 2013, the Bank had 3 loans totaling $1.8 million that were either current or less than 30 days delinquent, and were mutually modified with the borrowers in a manner that: (i) did not involve a full re-underwriting of the loan; and (ii) did not meet the criteria for TDR. At December 31, 2012, there were 4 such loans totaling $2.4 million. These modifications, which have a typical term of 12 months, were granted by the Bank to borrowers who requested cash flow relief in order to assist them through periods of sub-optimal occupancy. The key features of these modified loans were: 1) they permitted only minor reductions in the cash flow requirements of debt service; and 2) there was no forgiveness of contractual principal and interest amounts due to the Bank. The terms of modification were generally in the form of either: (1) temporary suspension of monthly principal amortization, which, given the balloon repayment feature of these loans, typically constitutes a minor concession; or (2) a temporary reduction in interest rate, or a permanent reduction to an interest rate higher than that offered a prime borrower and generally reflective of the credit condition of the loan at the time of modification. In consideration of paragraph 12c of ASC 310-40-15, the interest rate on these temporary modifications was consistent with a "market rate" that: 1) the Bank would have offered a different borrower with comparable loan-to-value and debt service coverage ratios; and 2) the borrower could have received from another financial institution at the time of modification. To date, none of these temporarily modified loans have had their maturities extended, nor would this be a typical negotiable item for the Bank. Although all of the temporarily modified loans at December 31, 2013 and 2012 were secured by real estate, none of them were reliant upon liquidation of the underlying collateral for repayment of the outstanding loan. In the rare instance in which the Bank also held a second lien on a first mortgage that was temporarily modified, it would consider the combined debt obligations of both liens in determining potential impairment. Any impairment determined based upon this combined debt would result in a charge-off of the second lien initially, and the first loan only after the full second lien has been eliminated.

Any temporary modification that either: 1) reduced the contractual rate below market as defined in the previous paragraph; 2) forgave principal owed; or 3) satisfied any of the other criteria designated in ASC 310-40-15 was deemed a TDR at December 31, 2013 and 2012. Any adjustments to interest rates for loans experiencing sub-optimal underwriting conditions would be authorized under the loan approval and underwriting polices that are summarized beginning on page F-9.

Based upon the criteria established by the Bank to review its potential problem loans for impairment, designation of these temporarily modified loans as TDRs would not have had a material impact upon the determination of the adequacy of the Bank's allowance for loan losses at either December 31, 2013 or 2012.

During the year ended December 31, 2012, the Bank offered temporary assistance in the form of a three-month deferral of principal and interest payments on three of its real estate loans that were adversely impacted by Hurricane Sandy. Otherwise, there were no temporary modifications entered into during the years ended December 31, 2013 and 2012. The following table summarizes temporary modifications entered into during the periods indicated:

	At or for the Year Ended December 31, 2013		At or for the Year Ended December 31, 2012	
(Dollars in Thousands)	# Loans	Balance	# Loans	Balance
Loans modified in a manner that did not meet the definition of a TDR	-	$ -	3	$ 3,815
Concessions granted:				
Deferral of principal and interest amounts due	-	-	3	3,815
Deferral of principal amounts due	-	-	-	-
Below market interest rate granted	-	-	-	-
Outstanding principal balance immediately before and after modification	-	-	3	3,815

Problem Loans Serviced for FNMA Subject to the First Loss Position

The Bank services a pool of multifamily loans sold to FNMA which had an outstanding principal balance of $208.4 million at December 31, 2013. At December 31, 2013, within the pool of multifamily loans sold to FNMA, a $400,000 loan was delinquent between 30 and 89 days, and no loans were 90 days or more delinquent. At December 31, 2012, within the pool of multifamily loans sold to FNMA, a $229,000 loan was delinquent between 30 and 89 days, and one $474,000 loan was 90 days or more delinquent.

Pursuant to the sale agreement with FNMA, the Bank retained an obligation (off-balance sheet contingent liability) to absorb a portion of any losses (as defined in the agreement) incurred by FNMA in connection with the loans sold (the "First Loss Position"). The First Loss Position totaled $15.4 million at December 31, 2013. Against this contingent liability, the Bank charged through earnings a recorded liability (reserve for First Loss Position) of $1.0 million as of December 31, 2013, leaving approximately $14.4 million of potential charges to earnings for future losses (if any). In February 2014, the Bank re-acquired the remaining pool of multifamily loans sold to FNMA (including the delinquent loan discussed above), and has thus extinguished the First Loss Position and related reserve. No reserves for losses on these loans were included in the Bank's allowance for loan losses upon acquisition. In the event that subsequent adverse conditions warrant losses to be recognized, such losses will be accounted for under the Bank's allowance for loan losses.

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, 2013 and 2012, engaged the services of an experienced third-party loan review firm to perform a review of the loan portfolio. The review program covered 100% of construction and land development loans and 65% of the non-one- to four-family and consumer loan portfolio. Included within the annual 65% target were: (1) the twenty largest loans in the multifamily and commercial real estate loan portfolio; (2) the ten largest pure commercial real estate loans; (3) the ten largest commercial mixed use real estate loans; (4) the ten largest multifamily residential real estate loans; (5) the ten largest residential mixed use real estate loans; (6) 30% of all new loan originations during the year; (7) 100% of the internally criticized and classified loans; (8) all individual loans exceeding $5.0 million; (9) all borrower relationships in excess of $10 million (over a 12-month period that commenced in mid-2012), and (10) 70% of all commercial real estate loans. The loan review firm also reviewed a sampling of one- to four-family residential, including condominium and cooperative apartment, and consumer loans, all of which represented relatively small segments of the Bank's total loan portfolio during the years ended December 31, 2013 and 2012.

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

	At or for the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Total loans outstanding at end of period [1]	$3,699,519	$3,506,368	$3,463,887	$3,473,492	$3,395,675
Average total loans outstanding during the period[1]	$3,667,231	$3,443,136	$3,447,035	$3,455,659	$3,287,445
Allowance for loan losses:					
Balance at beginning of period	$20,550	$20,254	$19,166	$21,505	$17,454
Provision for loan losses	369	3,921	6,846	11,209	13,152
Charge-offs					
Multifamily residential	(504)	(2,478)	(2,750)	(10,864)	(7,266)
Commercial real estate	(400)	(1,342)	(2,307)	(2,760)	(1,220)
One- to four-family including condominium and cooperative apartment	(117)	(777)	(89)	(257)	(498)
Construction	-	(3)	(962)	-	-
Consumer	(21)	(10)	(29)	(3)	(28)
Total charge-offs	(1,042)	(4,610)	(6,137)	(13,884)	(9,012)
Recoveries	276	903	212	64	19
Reserve for loan commitments transferred from (to) other liabilities	-	82	167	272	(108)
Balance at end of period	$20,153	$20,550	$20,254	$19,166	$21,505
Allowance for loan losses to total loans at end of period	0.54%	0.59%	0.58%	0.55%	0.63%
	160.59	231.21	78.04	95.03	190.41

Allowance for loan losses to total non-performing loans at end of period					
Allowance for loan losses to total non-performing loans and TDRs at end of period	64.66	42.58	29.08	58.81	174.36
Ratio of net charge-offs to average loans outstanding during the period	0.02	0.11	0.17	0.40	0.27

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

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

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.

	At December 31,									
	2013		2012		2011		2010		2009	
	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	$1,771	0.82 %	$520	1.52 %	$2,175	2.12 %	$-	1.27 %	$1,943	0.44 %
Substandard loans not deemed impaired	53	0.15	795	0.44	-	-	-	-	-	-
Special Mention loans	185	0.42	145	0.54	800	0.56	1,880	1.31	2,411	1.67
Pass graded loans:										
Multifamily residential	13,743	78.49	14,118	75.99	14,057	74.67	13,797	71.35	11,999	69.66
Commercial real estate	4,189	17.81	4,750	19.08	2,893	19.67	2,945	22.53	3,774	23.49
One-to four-family including condominium and cooperative apartment	188	1.75	195	2.36	303	2.82	404	3.32	1,040	3.78
Construction and land acquisition	-	-	-	-	-	0.09	106	0.14	308	0.87

Consumer	24	0.06	27	0.07	26	0.07	34	0.08	30	0.09
Total	$20,153	100.00%	$20,550	100.00%	$20,254	100.00%	$19,166	100.00%	$21,505	100.00%

Reserve Liability on the First Loss Position

The Bank had recourse exposure under the First Loss Position associated with multifamily loans that it sold to FNMA between December 2002 and February 2009, and maintained an actual reserve liability related to this contingent First Loss Position. The reserve liability reflected estimated probable losses on this loan pool at each period end. For performing loans within the FNMA serviced pool, the reserve recognized was based upon the historical loss experience on this loan pool. For problem loans within the pool, estimated losses were determined in a manner consistent with impaired loans within the Bank's loan portfolio. In February 2014, the Bank re-acquired all such remaining loans. As a result, the First Loss Position and related reserve liability were extinguished.

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 reserve liability:

	At or for the Year Ended December 31,		
	2013	2012	2011
	(Dollars in Thousands)		
Outstanding balance of multifamily loans serviced for FNMA at period end	$208,375	$256,731	$308,104
Total First Loss Position at end of period	15,428	15,428	16,356
Reserve Liability on the First Loss Position			
Balance at beginning of period	$1,383	$2,993	$2,993
Credit to reduce the liability for the First Loss Position(1)	(305)	(1,268)	-
Charge-offs and other net reductions in balance	(38)	(342)	-
Balance at period end	$1,040	$1,383	$2,993

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

During the years ended December 31, 2012 and 2011, the Bank received approval from FNMA to reduce the total First Loss Position by $928,000 and $433,000, respectively, for losses incurred. No such approval was received during the year ended December 31, 2013.

Reserve for Loan Commitments

At December 31, 2013, the Bank maintained a reserve of $25,000 associated with unfunded loan commitments accepted by the borrower at December 31, 2013. 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 Financial Officer, Chief Risk Officer, Treasurer and other senior officers. The strategies take into account the overall composition of the Bank's balance sheet, including loans and deposits, and are intended to protect and enhance the Bank's earnings and market value, and effectively manage both interest rate risk and liquidity. The strategies are reviewed periodically by the ALCO and reported to the Board of Directors.

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.

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. Federal 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 core 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, 2013 and 2012. The Bank may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2013 and 2012, the Bank did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

Federal Agency Obligations. Federal agency obligations purchased during the years ended December 31, 2013, 2012 and 2011 possessed contractual maturities ranging between two and five years from the date of acquisition, and all featured call dates ranging between 3 and 12 months from their date of acquisition. As a result of these call features, the average duration of these investments has typically been less than 12 months. These securities provide the Bank a favorable yield in comparison to overnight investments, possess sound credit ratings, and were readily accepted as collateral for the Bank's REPOS prior to their full repayment in October 2012. Federal agency obligation investments totaled $15.1 million at December 31, 2013.

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 both December 31, 2013 and 2012, all MBS owned by the Company possessed the highest credit rating from at least one nationally recognized rating agency, with the exception of one privately issued MBS in the Bank's portfolio with book and market values at December 31, 2013 and 2012 totaling $662,000 and $961,000, respectively. This security was downgraded to sub-investment grade by the rating agencies during 2009 due to deteriorating conditions in the national real estate market. Current credit ratings on this security range from CC to Caa1. Despite the downgrade, this security continues to perform in accordance with its contractual terms.

The Company's consolidated investment in MBS totaled $31.5 million, or 0.8% of total assets, at December 31, 2013, the great majority of which was owned by the Bank. Approximately 95.0% of the MBS portfolio at December 31, 2013 was comprised of pass-through securities guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Association ("GNMA") or FNMA. The average duration of these securities was estimated to be 1.2 years as of December 31, 2013 and 1.4 years at December 31, 2012.

At December 31, 2013, included in the MBS portfolio were $904,000 in Collateralized Mortgage Obligations ("CMOs") and Real Estate Mortgage Investment Conduits ("REMICs") owned by the Bank. All of the CMOs and REMICs were U.S agency guaranteed obligations, with the exception of one CMO issued by a highly rated private financial institution, and were rated in the highest rating category by at least one nationally recognized rating agency. None of the CMOs or REMICs had stripped principal and interest components and all occupied priority tranches within their respective issues.

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 (including CMOs and REMICs) was $1.6 million above their amortized cost at December 31, 2013. Within this total, the aggregate fair value of the agency guaranteed CMOs and REMICs exceeded their cost basis by $1,000 and the fair value of the private financial institution-issued CMO exceeded its cost basis by approximately $9,000.

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

	For the Year Ended December 31,		
	2013	2012	2011
	Dollars in Thousands		
Amortized cost at beginning of period	$47,448	$89,149	$138,283
Purchases, net	-	1,318	-
Principal repayments	(17,372)	(42,822)	(48,911)
Premium amortization, net	(114)	(197)	(223)
Amortized cost at end of period	$29,962	$47,448	$89,149

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, 2013, the Bank's investment in corporate debt obligations was comprised solely of seven TRUPS with an aggregate remaining amortized cost of $16.2 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, 2013.

At December 31, 2013, in management's judgment, the credit quality of the collateral pool underlying five of the seven securities had deteriorated to the point that full recovery of the Bank's initial investment was considered uncertain, resulting in recognition of other than temporary impairment ("OTTI") charges. The aggregate OTTI charge recognized on these securities was $9.5 million at December 31, 2013, of which $8.9 million was determined to be attributable to credit related factors and $601,000 was determined to be attributable to non-credit related factors. At December 31, 2013, these five securities had credit ratings ranging from "C" to "Caa3." The remaining two securities, which were not subject to OTTI charges as of December 31, 2013, had credit ratings ranging from "BB-" to "A" on that date. During the year ended December 31, 2013, non-credit related OTTI declined by $32,000 reflecting improvement in the estimated fair value of the five securities for which OTTI had previously been recognized.

At December 31, 2013, the remaining aggregate amortized cost of TRUPS that could be subject to future OTTI charges through earnings was $6.9 million. Of this total, unrealized losses of $1.6 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. Holding Company investments are generally intended primarily to provide future liquidity which may be utilized for general business activities. These may include, but are not limited to: (1) purchases of the Holding Company's common stock into treasury; (2) repayment of principal and interest on the Holding Company's $70.7 million trust preferred securities 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 investment policy of the Holding Company 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, 2013 and 2012, the Holding Company did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

The Holding Company cannot assure that it will engage in these investment activities in the future. At December 31, 2013, the Holding Company's principal asset was its $427.1 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 $10.4 million at December 31, 2013, of which $3.6 million was classified as available for sale, and $6.8 million was classified as trading. At December 31, 2013, the aggregate fair value of the available for sale mutual fund investments was $798,000 above their cost basis, and the aggregate fair value of mutual fund investments classified as trading was $437,000 above their cost basis. As of December 31, 2013, an aggregate OTTI charge of $106,000 remained on five actively-managed equity mutual fund investments. This OTTI charge, which was recognized during 2009, reflected both the significant deterioration in the U.S. and international equity markets at that time, as well as the extended duration of the decline.

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,					
	2013		2012		2011	
	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:						
FHLMC pass through certificates	$20,686	$21,766	$32,218	$33,063	$53,662	$57,048
FNMA pass through certificates	7,168	7,619	10,233	10,899	16,583	17,727
GNMA pass through certificates	553	574	691	716	763	787
Private issuer MBS	662	680	962	955	1,613	1,504
Agency issued CMOs and REMICs	319	321	2,436	2,462	15,128	15,389
Private issuer CMOs and REMICs	574	583	908	926	1,400	1,422
Total MBS available-for-sale	29,962	31,543	47,448	49,021	89,149	93,877
INVESTMENT SECURITIES						
TRUPS Held-to-Maturity	6,939	5,163	7,828	6,267	8,910	4,924
Total investment securities held-to-maturity	6,939	5,163	7,828	6,267	8,910	4,924
Available-for-Sale:						
Federal agency obligations	15,070	15,091	29,820	29,945	170,362	170,309
Mutual funds	2,760	3,558	2,556	3,005	3,624	4,559
Total investment securities Available-for-Sale	17,830	18,649	32,376	32,950	173,986	174,888
Trading:						
Mutual funds	6,822	6,822	4,743	4,874	1,736	1,774
Total trading securities	6,822	6,822	4,743	4,874	1,736	1,774
TOTAL INVESTMENT SECURITIES AND MBS	$61,553	$62,177	$92,395	$93,112	$273,781	$275,443

(1) Amount is net of cumulative credit related OTTI totaling $9.0 million on TRUPS held-to-maturity and $106,000 on mutual funds available-for-sale at December 31, 2013, $9.0 million on TRUPS held-to-maturity and $348,000 on mutual funds available-for-sale at December 31, 2012, and $9.0 million on TRUPS held-to-maturity and $1.4 million on mutual funds available-for-sale at December 31, 2011.

The following table presents the amortized cost, fair value and weighted average yield of the Company's consolidated available-for-sale investment securities and MBS (exclusive of equity investments) at December 31, 2013, categorized by remaining period to contractual maturity.

	Amortized Cost	Fair Value	Weighted Average Tax Equivalent Yield	
	(Dollars in Thousands)			
MBS:				
Due within 1 year	$1	$1	3.99	%
Due after 1 year but within 5 years	5,319	5,598	4.66	
Due after 5 years but within 10 years	5,940	6,344	4.91	
Due after ten years	18,702	19,600	3.24	
Total	29,962	31,543	3.83	
Federal Agency obligations:				
Due within 1 year	-	-	-	
Due after 1 year but within 5 years	15,070	15,091	0.81	
Due after 5 years but within 10 years	-		-	
Due after ten years	-	-	-	
Total	15,070	15,091	0.81	
Total:				
Due within 1 year	1	1	3.99	
Due after 1 year but within 5 years	20,389	20,689	1.82	
Due after 5 years but within 10 years	5,940	6,344	4.91	
Due after ten years	18,702	19,600	3.24	
Total	$45,032	$46,634	2.82	%

The great majority of the federal agency obligations in the above table consists of one bond with a call date occurring in March 2014. Based upon current interest rates, this security may be called prior to contractual maturity. In the event it is not called, its contractual maturity occurs during the year ending December 31, 2015, and, as of December 31, 2013, it was readily disposable based upon its credit rating and fair value. With respect to MBS, the entire carrying amount of each security at December 31, 2013 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 2 years as of December 31, 2013 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, 2013, the Company owned, on a consolidated basis, $50.2 million of securities classified as available-for-sale, which represented 1.2% of total assets. Based upon the size of the available-for-sale portfolio, future variations in the market value of the available-for-sale portfolio could result in fluctuations in the Company's consolidated stockholders' equity.

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.

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Deposits. The Bank offers a variety of deposit accounts possessing a range of interest rates and terms. At December 31, 2013, the Bank offered, and presently offers, savings, money market, interest bearing and non-interest bearing checking accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. Traditionally, the Bank has relied upon direct and general marketing, customer service, convenience and long-standing relationships with customers to generate deposits. The communities in which the Bank maintains branch offices have historically provided the great majority of its deposits. At December 31, 2013, the Bank had deposit liabilities of $2.51 billion, up $27.7 million from December 31, 2012 (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, 2013, Individual Retirement Accounts totaled $299.6 million, or 12%.

The Bank is also eligible to participate in the Certificate of Deposit Account Registry Service, through which it can either purchase or sell CDs. Purchases of CDs through this program are limited by Bank policy to an aggregate of 10% of the Bank's average interest earning assets. As of December 31, 2013, 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, 2013 and 2012, total brokered deposits remained significantly below this limit.

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

	Year Ended December 31,		
DEPOSIT ACTIVITY	2013	2012	2011
	(Dollars in Thousands)		
Deposits	$4,204,263	$3,955,317	$3,561,590
Withdrawals	4,196,473	3,841,368	3,594,601
Deposits greater than Withdrawals (Withdrawals greater than Deposits)	$7,790	$113,949	$(33,011)
Interest credited	19,927	21,779	26,131
Total increase (decrease) in deposits	$27,717	$135,728	$(6,880)

At December 31, 2013, the Bank had $354.5 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	$42,901	0.98 %
After three but within six months	53,802	1.36
After six but within twelve months	68,893	1.55
After 12 months	188,949	2.05
Total	$354,545	1.72 %

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, 2013			At December 31, 2012			At December 31, 2011		
	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	$376,900	15.03 %	0.05 %	$371,792	15.00 %	0.15 %	$353,708	15.09 %	0.21 %
CDs	828,409	33.04	1.55	891,975	35.98	1.68	977,551	41.71	1.85
Money market accounts	1,040,079	41.49	0.50	961,359	38.76	0.57	772,055	32.94	0.63
Interest bearing checking accounts	87,301	3.48	0.08	95,159	3.84	0.16	99,308	4.24	0.23
Non-interest bearing checking accounts	174,457	6.96	-	159,144	6.42	-	141,079	6.02	-
Totals	$2,507,146	100.00 %	0.73 %	$2,479,429	100.00 %	0.86 %	$2,343,701	100.00 %	1.02 %

The weighted average maturity of the Bank's CDs at December 31, 2013 was 18.7 months, compared to 17.3 months at December 31, 2012. 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, 2013:

	Period to Maturity at December 31, 2013						
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, 2013	Total at December 31, 2012	Total at December 31, 2011
(Dollars in Thousands)							
1.00% and below	$302,558	$95,035	$10,334	$-	$407,927	$414,089	$374,045
1.01% to 2.00%	32,453	22,268	6,000	81,309	142,030	146,168	191,946
2.01% to 3.00%	2,926	24,715	26,961	69,321	123,923	131,691	206,906
3.01% to 4.00%	88,249	48,418	-	17,862	154,529	163,158	165,208
4.01% and above	-	-	-	-	-	36,869	39,446
Total	$426,186	$190,436	$43,295	$168,492	$828,409	$891,975	$977,551

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 $1.20 billion at December 31, 2013.

The Bank had $910.0 million and $842.5 million of FHLBNY advances outstanding at December 31, 2013 and December 31, 2012, respectively. The Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such advances.

The Company had no REPOS outstanding at December 31, 2013 and 2012. The Bank had outstanding REPOS totaling $195.0 million at December 31, 2011. The Company elected to prepay the REPOS during 2012, incurring $28.8 million in additional interest expense in 2012 on the prepayment.

FHLBNY Advances:

	At or for the Year Ended December 31,		
	2013	2012	2011
	(Dollars in Thousands)		
Balance outstanding at end of period	$910,000	$842,500	$939,775
Average interest cost at end of period	2.35 %	2.68 %	2.88 %
Weighted average balance outstanding during the period	$761,491	$826,176	$945,614
Average interest cost during the period	2.89 %	2.96 %	3.17 %
Maximum balance outstanding at month end during period	$910,000	$939,775	$990,525

Subsidiary Activities

In addition to the Bank, the Holding Company's direct and indirect subsidiaries consist of eight wholly-owned corporations, two of which are directly owned by the Holding Company and six of which are directly owned by the Bank. The following table presents an overview of the Holding Company's subsidiaries, other than the Bank, as of December 31, 2013:

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

(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, 2013, the Company had 346 full-time and 67 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 income) over a multi-year period a portion of the balance of its tax bad debt reserves as of June 30, 1996. At the time of enactment of the recapture requirement, the Bank had already provided a deferred income tax liability for the post 1987 increase to the tax bad debt reserve for financial reporting purposes. There was thus no adverse impact to the Bank's financial condition or results of operations as a result of the legislation.

Distributions. Capital distributions to the Bank's shareholder are considered distributions from the Bank's "base year tax bad debt reserve" (i.e., its reserve as of December 31, 1987, to the extent thereof), and then from its supplemental reserve for losses on loans. Capital distributions include distributions: (i) in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes; (ii) for redemption of stock; and (iii) for partial or complete liquidation.

An amount based on the total capital distributions paid will be included in the Bank's taxable income in the year of distribution. The amount of additional taxable income created from a capital distribution is the amount that, when reduced by the amount of the tax attributable to this income, is equal to the amount of the distribution. Thus, assuming a 35% federal corporate income tax rate, approximately one and one-half times the amount of such distribution (but not in excess of the amount of the above-mentioned reserves) would be includable in income for federal income tax purposes. The Bank does not currently intend to make distributions that would result in a recapture of any portion of its base year tax bad debt reserves. Dividends paid out of current or accumulated earnings and profits will not be included in the Bank's income. (See "Part I - Item 1 – Business - Regulation - Regulation of New York State Chartered Savings Banks - Limitation on Capital Distributions," for a discussion of limits on capital distributions by the Bank to its shareholder).

Corporate Alternative Minimum Tax. The Bank's federal tax rate for the year ended December 31, 2013 was 35% of taxable income. The Internal Revenue Code of 1986, as amended imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. AMTI is derived by adjusting corporate taxable income in a manner that negates the deferral or deduction of certain expense or deduction items compared to their customary tax treatment. Thus, the Bank's AMTI is increased by 75% of the amount by which the Bank's adjusted current earnings exceed its AMTI (determined without regard to this adjustment and prior to reduction for net operating losses).

State and Local Taxation

State of New York. The Company is subject to New York State ("NYS") franchise tax based on one of several alternative methods, whichever results in the greatest tax. These methods are as follows: 1) entire net income, which is federal taxable income with adjustments; 2) .01% of assets; or 3) the alternative minimum tax of 3% (after the exclusion of certain preferential items).

Until 2010, NYS permitted deductions, within specified formula limits, for additions to the Bank's tax bad debt reserves for purposes of computing its entire net income. During 2010, NYS enacted a change in tax law that no longer permits the Bank to avail itself of this deduction.

In general, the Holding Company is not required to pay NYS tax on dividends and interest received from the Bank.

The statutory NYS tax rate for the year ended December 31, 2013 approximated 8.63% of taxable income. This rate included a metropolitan commuter transportation district surcharge of 17% of the tax amount.

NYC. The Holding Company and the Bank are both subject to a NYC banking corporation tax based on one of several methods, whichever results in the greatest tax. These methods are as follows: 1) 9.0% of entire net income allocated to NYC, which is federal taxable income with adjustments; 2) .01% of assets; or 3) the alternative minimum tax of 3% (after the exclusion of certain preferential items).

NYC generally conforms its tax law to NYS tax law in the determination of taxable income (including the laws relating to tax bad debt reserves). NYC tax law, however, did not allow a deduction for the carryover of a net operating loss of a banking company. However, as a result of a change to the NYC tax law, net operating losses incurred in tax years after 2008 may be carried over.

State of Delaware. As a Delaware holding company not earning income in Delaware, the Holding Company is exempt from Delaware corporate income tax, however, it is required to file an annual report and pay an annual franchise tax to the State of Delaware.

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 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, 2013, 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. As a new independent Bureau within the FRB, it is possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

The Reform Act created minimum standards for the origination of mortgages, and in January 2013, the CFPB issued final regulations governing consumer mortgage lending (including mortgage servicing, certain mortgage origination standards and "qualified mortgages"), all of which had become effective by January, 2014. The Bank has fully implemented all applicable standards of the Reform Act.

The Reform Act restricts proprietary trading and the sponsorship of, and investment in, hedge and private equity funds by banking entities. The federal banking agencies adopted final rules implementing these restrictions in December 2013. Management is evaluating these regulations to determine their potential impact on the Bank and/or Holding Company.

In December 2013, the Office of the Comptroller of the Currency (the "OCC"), the FDIC, the FRB, the SEC and the Commodity Futures Trading Commission ("CFTC") adopted final rules implementing Section 619 of the Reform Act. Section 619 and the final implementing rules are commonly referred to as the "Volcker Rule." All banking organizations have been granted until July 21, 2015 to conform their activities and investments to the requirements of the final Volcker Rule.

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.

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 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." The Basel III Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III

Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the Basel III Capital Rules implement certain provisions of the Reform Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The Basel III Capital Rules apply to banking organizations, including depository institutions and ultimate parent savings and loan holding companies, such as the Bank and Holding Company, respectively, and are effective on January 1, 2015, subject to phase-in periods until January 1, 2019 for certain of their components. The Holding Company, as a savings and loan holding company, has not previously been subject to consolidated risk-based capital requirements.
The Basel III Capital Rules are intended to increase both the amount and quality of regulatory capital. Among other things, the Basel III Capital Rules: a) introduce a new capital measure entitled "Common Equity Tier 1" ("CET1"); b) specify that tier 1 capital consist of CET1 and "Additional Tier 1" capital instruments satisfying revised requirements that permit inclusion in tier 1 capital; c) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and d) expand the scope of the deductions or adjustments from capital as compared to the existing regulations. Under the Basel III Capital Rules, for most banking organizations, including the Holding Company, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock, and the most common forms of Tier 2 capital are subordinated debt and a portion of the allowance for loan and lease losses, in each case, subject to the Basel III Capital Rules' specific requirements.

Under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss ("AOCI") items included in stockholders' equity (for example, marks-to-market of securities held in the available for sale portfolio) under GAAP are reversed for the purposes of determining regulatory capital ratios. The effects of certain AOCI items are not excluded by default under the Basel III Capital Rules, but non-advanced approaches banking organizations, including the Holding Company and the Bank, may make a one-time, permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the Holding Company's and the Bank's periodic regulatory reports in the beginning of 2015. The Holding Company and the Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio.

The Basel III Capital Rules also provide a permanent exemption from the proposed phase out of existing trust preferred securities and cumulative perpetual preferred stock from regulatory capital for banking organizations with less than $15 billion in total assets, while also implementing stricter eligibility requirements for regulatory capital instruments that should serve to disallow the inclusion of all non-exempt issuances of trust preferred securities and cumulative perpetual preferred stock from tier 1 capital. The Basel III Capital Rules also provide additional constraints on the inclusion of minority interests, mortgage servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions in tier 1 capital, as well as providing stricter risk weighting rules to these assets.

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 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 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 will begin 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 and requiting 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 the Holding Company will become subject to consolidated capital rules. Management believes that, as of December 31, 2013, the Holding Company and the Bank would have satisfied all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were then in effect.

The Basel III Capital Rules did not address the proposed liquidity coverage ratio ("LCR") called for by the Basel Committee's Basel III framework, which, if implemented, could require the Bank to hold high-quality liquid assets sufficient to cover its total net cash outflows over a specified period (30 days in the Basel Committee's Basel III framework). In October 2013, the federal banking agencies proposed rules implementing the LCR for advanced approaches banking organizations and a modified version of the LCR for bank holding companies and certain savings and loan holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to the Holding Company or the Bank. The federal banking agencies have not yet proposed rules to implement the Basel III framework's net stable funding ratio.

FDIC Guidance on Managing Market Risk. On October 8, 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.

NYSDFS Actions Regarding Online Payday Lending. On August 5, 2013, the NYSDFS published a letter identifying 35 payday lenders believed to be engaged in unlawful activities in New York. The letter was sent to 117 banks, including the Bank, as well as NACHA, which administers the Automated Clearing House ("ACH") network. It requests that the banks cooperate with NYSDFS to create a new set of model safeguards and procedures to prevent the 35 lenders, as well as the broader payday lending industry, from accessing New York customer accounts and the ACH payments system in general.

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 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.

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.

The Bank has not yet determined whether and to what extent, if any, the guidelines will affect the business and operations of the Bank, or whether any such effect could adversely impact the Bank.

Interagency Guidance on Nontraditional Mortgage Product Risks. On October 4, 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.

Statement on Subprime Lending. On June 29, 2007, the Agencies issued a final Statement on Subprime Mortgage Lending (the "Subprime Mortgage Statement") to address growing concerns regarding the subprime mortgage market, particularly with respect to rapidly rising subprime default rates. In particular, the Subprime Mortgage Statement indicated concern that many subprime borrowers were not prepared for "payment shock" and that subprime lending practices compounded the risk for financial institutions. The Subprime Mortgage Statement described the prudent safety and soundness and consumer protection standards that financial institutions should adopt to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to expiration of the initial fixed interest rate period without penalty. The Subprime Mortgage Statement also reinforced the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the Agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to satisfy the contractual payment obligations on their home loans.

The Company has never originated subprime loans. The Company has evaluated the Nontraditional Mortgage Product Guidance and the Subprime Mortgage Statement and determined its risk management practices, underwriting guidelines and consumer protection standards to be in compliance.

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 subject to 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, 2013, the Bank maintained 80.3% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2013, 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.

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.

Capital Requirements. Current FDIC regulations require State Nonmember Banks, such as the Bank, to satisfy three minimum capital standards: (i) a minimum Tier 1 risk-based capital ratio of 4%, (ii) a total risk-based capital ratio of 8%, and (iii) a leverage capital ratio of 4%. For depository institutions that have been assigned a composite rating of one (the highest rating of the FDIC under the Uniform Financial Institutions Rating System), the minimum required leverage capital ratio is 3%. For any other depository institution, the minimum required leverage capital ratio is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution. In assessing an institution's capital adequacy, in addition to these numeric factors, the FDIC considers qualitative factors, and possesses the authority to establish increased capital requirements for individual institutions when necessary. These capital requirements will be superseded by the new capital requirements in the Basel III Capital Rules, effective on January 1, 2015.

The FDIC, through its general oversight of the safety and soundness of insured depository institutions, will continue to retain the power to impose minimum capital requirements on individual institutions, including if they are not in compliance with certain written FDIC guidelines regarding interest rate risk ("IRR") compliance analysis. The FDIC has not imposed any such requirements on the Bank.

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

	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized"	
As of December 31, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Tangible capital	$376,717	9.52 %	$158,298	4.0 %	$197,872	5.00 %

Leverage capital	376,717	9.52	158,298	4.0 %	197,872	5.00
Tier I risk-based capital (to risk weighted assets)	376,717	12.64	119,169	4.0 %	178,753	6.00
Total risk-based capital (to risk weighted assets)	397,935	13.36	238,338	8.0 %	297,922	10.00

The following is a reconciliation of stockholders' equity to regulatory capital for the Bank:

	At December 31, 2013		
	Tangible Capital	Leverage Capital	Total Risk-Based Capital
	(Dollars in Thousands)		
Stockholders' equity	$427,209	$427,209	$ 427,209
Non-allowable assets:			
MSR	(63)	(63)	(63)
Accumulated other comprehensive loss	5,209	5,209	5,209
Goodwill	(55,638)	(55,638)	(55,638)
Tier 1 risk-based capital	376,717	376,717	376,717
General regulatory valuation allowance	-	-	21,218
Total (Tier 2) risk based capital	376,717	376,717	397,935
Minimum capital requirement	158,298	158,298	238,338
Regulatory capital excess	$218,419	$218,419	$ 159,597

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, 2013, 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 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 an "Outstanding" CRA rating in its most recent examination. Regulations additionally require that the Bank publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements.

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 an 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.

Under the FDIA, the FDIC possesses enforcement authority for FDIC insured depository institutions and has the authority to bring enforcement action, including civil and criminal 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. 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. Under FDIA, the FDIC has the authority to recommend that enforcement action be taken with respect to a particular insured depository institution.

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.

Real Estate Lending Standards. On October 30, 2009, the Agencies adopted a policy statement supporting prudent commercial real estate loan workouts (the "Policy Statement"). The Policy Statement provides guidance for examiners, and for financial institutions that are working with commercial real estate borrowers experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. Financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers' financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing an institution's risk-management practices for loan workout activities.

PCA. Under the FDIC PCA regulations, the FDIC is required to take certain, and authorized to take other, supervisory actions against undercapitalized insured depository institutions, including the Bank. For this purpose, an insured depository institution is placed in one of five categories based on its capital: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Generally, a capital restoration plan must be filed with the FDIC within 45 days of the date a bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, the institution becomes subject to various mandatory supervisory actions, including restrictions on growth of assets and other forms of expansion. Generally, under current FDIC regulations, an insured depository institution is treated as well capitalized if its total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 6% or greater, its leverage ratio is 5% or greater, and it is not subject to any order or directive by the FDIC to meet a specific capital level. As of December 31, 2013, the Bank satisfied all capital ratios necessary to be categorized "well capitalized" under the PCA regulatory framework. The current PCA regulations will be amended by the Basel III Capital Rules effective January 1, 2015.

When appropriate, the FDIC can require corrective action by a savings and loan holding company under the PCA provisions of FDICIA.

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. The Bank's total expense in 2013 for the FICO bond assessment was $227,000. These 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. 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.

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.

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-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 $48.1 million at December 31, 2013. 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 0.25 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. The Company is 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, bank regulators are directed to consider a holding company's effectiveness in preventing money laundering when ruling on FRA and Bank Merger Act applications.

Regulation of 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 Bank Holding Company Act of 1956, as amended ("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 new 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.

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 United States economy has undergone a severe recession and remains in a period of limited growth and historically high unemployment. Business activity across a wide range of industries and regions has been challenged and individuals, local governments and many businesses are experiencing financial difficulties.

The Company'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.

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, 2013 the Bank had three 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 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, 2013, the Bank's one year interest rate gap was negative 11%, 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.

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

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

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

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

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

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

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