

NORTHEAST COMMUNITY BANCORP INC  
Form 10-Q  
May 15, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

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

Commission file number: 0-51852

**Northeast Community Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

**United States of America**

(State or other jurisdiction of incorporation or organization)

**06-1786701**

(I.R.S. Employer Identification No.)

**325 Hamilton Avenue, White Plains, New York 10601**  
(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-accelerated Filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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

As of May 1, 2015, there were 12,229,302 shares of the registrant's common stock outstanding.

**NORTHEAST COMMUNITY BANCORP, INC.**

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**

|  | March 31,<br>2015                                  | December 31,<br>2014 |
|--|--|----------------------|
|  | (In thousands,<br>except share and per share data) |                      |
| <b>ASSETS</b>  |  |                      |
| Cash and amounts due from depository institutions                                      | \$ 3,065   | \$ 3,676             |
| Interest-bearing deposits  | 44,562   | 30,334               |
| Cash and cash equivalents  | 47,627   | 34,010               |
| Certificates of deposit  | 150  | 150                  |
| Securities available-for-sale  | 38   | 40                   |
| Securities held-to-maturity (fair value of \$6,462 and \$6,805, respectively)          | 6,268  | 6,595                |
| Loans receivable, net of allowance for loan losses of \$3,920 and \$3,816 respectively | 426,203  | 423,445              |
| Loans held-for-sale  | 5,464  | —                    |
| Premises and equipment, net  | 11,624   | 11,718               |
| Investments in restricted stock, at cost   | 2,041  | 1,933                |
| Bank owned life insurance  | 21,266   | 21,113               |
| Accrued interest receivable  | 1,555  | 1,453                |
| Goodwill   | 749  | 749                  |
| Intangible assets  | 269  | 284                  |
| Other real estate owned  | 8,707  | 8,733                |
| Other assets   | 5,556  | 5,202                |
| Total assets   | \$ 537,517   | \$ 515,425           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |                      |
| <b>Liabilities</b>   |  |                      |
| <b>Deposits:</b>   |  |                      |
| Non-interest bearing   | \$ 37,514  | \$ 37,088            |
| Interest bearing   | 356,404  | 336,964              |
| Total deposits   | 393,918  | 374,052              |
| Advance payments by borrowers for taxes and insurance                                  | 4,260  | 3,338                |
| Federal Home Loan Bank advances  | 32,380   | 30,000               |
| Accounts payable and accrued expenses  | 4,041  | 4,225                |
| Total liabilities  | 434,599  | 411,615              |
| <b>Stockholders' equity:</b>   |  |                      |
| Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued            | —  | —                    |

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|   |            |   |            |   |
|---|------------|---|------------|---|
| Common stock, \$0.01 par value;<br>19,000,000 shares authorized; 13,225,000 shares issued;<br>outstanding: 12,239,302 and 12,331,202 shares, respectively | 132        |   | 132        |   |
| Additional paid-in capital  | 56,987     |   | 57,007     |   |
| Unearned Employee Stock Ownership Plan (“ESOP”) shares  | (2,787     | ) | (2,851     | ) |
| Retained earnings   | 55,252     |   | 55,548     |   |
| Treasury stock – at cost, 985,698 and 893,798 shares, respectively  | (6,645     | ) | (5,999     | ) |
| Accumulated other comprehensive loss  | (21        | ) | (27        | ) |
| Total stockholders’ equity  | 102,918    |   | 103,810    |   |
| Total liabilities and stockholders’ equity  | \$ 537,517 |   | \$ 515,425 |   |

See Notes to Unaudited Consolidated Financial Statements

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

|  | Three Months Ended<br>March 31,                       |           |
|--|---|-----------|
|  | 2015  | 2014      |
|  | (In thousands, except share and<br>per share<br>data) |           |
| <b>INTEREST INCOME:</b>  |   |           |
| Loans  | \$ 5,123  | \$ 4,691  |
| Interest-earning deposits  | 11  | 4         |
| Securities – taxable   | 64  | 73        |
| Total Interest Income  | 5,198   | 4,768     |
| <b>INTEREST EXPENSE:</b>   |   |           |
| Deposits   | 907   | 754       |
| Borrowings   | 37  | 65        |
| Total Interest Expense   | 944   | 819       |
| Net Interest Income  | 4,254   | 3,949     |
| <b>PROVISION FOR LOAN LOSSES</b>   | 667   | —         |
| Net Interest Income after Provision for Loan Losses                      | 3,587   | 3,949     |
| <b>NON-INTEREST INCOME:</b>  |   |           |
| Other loan fees and service charges                                      | 113   | 106       |
| Earnings on bank owned life insurance                                    | 153   | 153       |
| Investment advisory fees   | 187   | 203       |
| Other  | 5   | 5         |
| Total Non-Interest Income  | 458   | 467       |
| <b>NON-INTEREST EXPENSES:</b>  |   |           |
| Salaries and employee benefits   | 2,039   | 2,258     |
| Occupancy expense  | 407   | 421       |
| Equipment  | 132   | 159       |
| Outside data processing  | 286   | 254       |
| Advertising  | 18  | 11        |
| Other real estate owned expense  | 421   | 75        |
| FDIC insurance premiums  | 94  | 127       |
| Other  | 886   | 839       |
| Total Non-Interest Expenses  | 4,283   | 4,144     |
| Income (Loss) before Provision for Income Taxes                          | (238  | ) 272     |
| <b>PROVISION (BENEFIT) FOR INCOME TAXES</b>                              | (82   | ) 57      |
| Net Income (Loss)  | \$ (156   | ) \$ 215  |
| Net Income (Loss) per Common Share - Basic and Diluted                   | \$ (0.01  | ) \$ 0.02 |
| Weighted Average Number of Common Shares Outstanding - Basic and Diluted | 12,004  | 12,197    |
| Dividends Declared per Common Share                                      | \$ 0.03   | \$ 0.03   |

See Notes to Unaudited Consolidated Financial Statements

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

|  | Three Months<br>Ended March 31,<br>(In thousands) |        |
|--|---|--------|
|  | 2015  | 2014   |
| Net income (loss)  | \$ (156 )   | \$ 215 |
| Other comprehensive income:  |   |        |
| Defined benefit pension:   |   |        |
| Reclassification adjustments out of accumulated<br>other comprehensive loss: |   |        |
| Amortization of prior service cost (1)                                       | 5   | 6      |
| Amortization of actuarial gain (1)   | (2 )  | (1 )   |
| Actuarial gains arising during period  | 7   | 15     |
| Total  | 10  | 20     |
| Income tax effect (2)  | (4 )  | (8 )   |
| Total other comprehensive income   | 6   | 12     |
| Total comprehensive income (loss)  | \$ (150 )   | \$ 227 |

(1) Amounts are included in salaries and employees benefits in the unaudited consolidated statements of operations as part of net periodic pension cost. See Note 10 for further information.

(2) Amounts are included in provision for income taxes in the unaudited consolidated statements of operations.

See Notes to Unaudited Consolidated Financial Statements



Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)****Three Months Ended March 31, 2015 and 2014 (in thousands, except share and per share data)**

|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Unearned<br>ESOP<br>Shares | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Equity |
|--|-----------------|----------------------------------|----------------------------|----------------------|-------------------|---|-----------------|
| Balance at December 31, 2013                 | \$ 132          | \$ 57,083                        | \$ (3,111 )                | \$ 54,428            | \$ (4,291 )       | \$ (73 )                                      | \$ 104,168      |
| Net income                                   | —               | —                                | —                          | 215                  | —                 | —   | 215             |
| Other comprehensive income                   | —               | —                                | —                          | —                    | —                 | 12  | 12              |
| Purchase of 114,400 shares of treasury stock | —               | —                                | —                          | —                    | (833 )            | —   | (833 )          |
| Cash dividends declared (\$0.03 per share)   | —               | —                                | —                          | (146 )               | —                 | —   | (146 )          |
| ESOP shares earned                           | —               | (18 )                            | 65                         | —                    | —                 | —   | 47              |
| Balance – March 31, 2014                     | \$ 132          | \$ 57,065                        | \$ (3,046 )                | \$ 54,497            | \$ (5,124 )       | \$ (61 )                                      | \$ 103,463      |
| Balance at December 31, 2014                 | \$ 132          | \$ 57,007                        | \$ (2,851 )                | \$ 55,548            | \$ (5,999 )       | \$ (27 )                                      | \$ 103,810      |
| Net loss                                     | —               | —                                | —                          | (156 )               | —                 | —   | (156 )          |
| Other comprehensive income                   | —               | —                                | —                          | —                    | —                 | 6   | 6               |
| Purchase of 91,900 shares of treasury stock  | —               | —                                | —                          | —                    | (646 )            | —   | (646 )          |
| Cash dividends declared (\$0.03 per share)   | —               | —                                | —                          | (140 )               | —                 | —   | (140 )          |
| ESOP shares earned                           | —               | (20 )                            | 64                         | —                    | —                 | —   | 44              |
| Balance – March 31, 2015                     | \$ 132          | \$ 56,987                        | \$ (2,787 )                | \$ 55,252            | \$ (6,645 )       | \$ (21 )                                      | \$ 102,918      |

See Notes to Unaudited Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|  | Three Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 2015                            | 2014        |
|  | (In thousands)                  |             |
| Cash Flows from Operating Activities:  |                                 |             |
| Net (loss) income  | \$ (156 )                       | \$ 215      |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                                 |             |
| Net accretion of securities discounts, net   | (36 )                           | (10 )       |
| Provision for loan losses  | 667                             | —           |
| Depreciation   | 159                             | 184         |
| Net amortization of deferred loan fees and costs   | 28                              | 46          |
| Amortization of intangible assets  | 15                              | 16          |
| Deferred income tax benefit  | (7 )                            | (96 )       |
| Loss on sale of real estate owned  | 93                              | —           |
| Loss provision on real estate owned  | 142                             | —           |
| Earnings on bank owned life insurance  | (153 )                          | (153 )      |
| ESOP compensation expense  | 44                              | 47          |
| Increase in accrued interest receivable  | (102 )                          | (171 )      |
| (Increase) decrease in other assets  | (351 )                          | 2,247       |
| Decrease in accounts payable and accrued expenses  | (172 )                          | (165 )      |
| Net Cash Provided by Operating Activities  | 171                             | 2,160       |
| Cash Flows from Investing Activities:  |                                 |             |
| Net increase in loans  | (9,619 )                        | (14,581 )   |
| Proceeds from sale of real estate owned  | 493                             | —           |
| Principal repayments on securities available-for-sale                                    | 2                               | 6           |
| Principal repayments on securities held-to-maturity                                      | 363                             | 491         |
| Net purchase of FHLB of NY stock   | (108 )                          | —           |
| Capitalized cost on real estate owned  | —                               | (11 )       |
| Purchases of premises and equipment  | (65 )                           | (52 )       |
| Net Cash Used In Investing Activities  | (8,934 )                        | (14,147 )   |
| Cash Flows from Financing Activities:  |                                 |             |
| Net increase in deposits   | 19,866                          | 6,270       |
| Proceeds from FHLB of NY advances  | 7,380                           | 5,000       |
| Repayment of FHLB of NY advances   | (5,000 )                        | (5,000 )    |
| Purchase of treasury stock   | (646 )                          | (833 )      |
| Increase in advance payments by borrowers for taxes and insurance                        | 922                             | 484         |
| Cash dividends paid  | (142 )                          | (149 )      |
| Net Cash Provided by Financing Activities  | 22,380                          | 5,772       |
| Net Increase (Decrease) in Cash and Cash Equivalents                                     | 13,617                          | (6,215 )    |
| Cash and Cash Equivalents - Beginning  | 34,010                          | 31,531      |
| Cash and Cash Equivalents - Ending   | \$ 47,627                       | \$ 25,316   |
| SUPPLEMENTARY CASH FLOWS INFORMATION   |                                 |             |
| Income taxes paid (refunded)   | \$ 150                          | \$ (1,906 ) |
| Interest paid  | \$ 943                          | \$ 819      |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES                                 |                                 |             |

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|   |          |        |
|---|----------|--------|
| Dividends declared and not paid                     | \$ 140   | \$ 146 |
| Loans receivable transferred to loans held-for-sale | \$ 5,464 | \$ —   |
| Loans receivable transferred to real estate owned   | \$ 702   | \$ —   |

See Notes to Unaudited Consolidated Financial Statements

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**NORTHEAST COMMUNITY BANCORP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION**

Northeast Community Bancorp, Inc. (the “Company”) is a federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the “Bank”), in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The Bank is a New York State-chartered savings bank and completed its conversion from a federally-chartered savings bank effective as of the close of business on June 29, 2012. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank’s wholly owned subsidiaries, New England Commercial Properties, LLC (“NECP”) and NECB Financial Services Group, LLC. NECB Financial Services Group was formed by the Bank in the second quarter of 2012 as a complement to the Bank’s existing investment advisory and financial planning services division, Hayden Wealth Management. As of the filing of this Form 10-Q, NECB Financial Services Group has not conducted any business. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders’ equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2014 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. That data, along with the interim financial information presented in the unaudited consolidated statements of financial condition, income, comprehensive income, stockholders’ equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2014.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses. In preparing these consolidated financial statements, the Company evaluated the events that occurred after March 31, 2015 and through the date these consolidated financial statements were issued.

**Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at unpaid principal balances plus net deferred loan origination costs less an allowance for loan losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is established on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured and in the process of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six consecutive months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest on loans that have been restructured is accrued according to the renegotiated terms, unless on non-accrual. Net loan origination fees and costs are deferred and amortized into income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date.

### **Loans Held-For-Sale**

Loans held-for-sale are carried at the lower of aggregate cost or fair value, based on observable inputs in the secondary market. Changes in fair value of loans held-for-sale are recognized in earnings.

### **Allowance for Loan Losses**

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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**NOTE 1 – BASIS OF PRESENTATION (Continued)**

**Allowance for Loan Losses (Continued)**

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. Risk characteristics associated with the types of loans the Company underwrites are as follows:

**Multi-family, Mixed-use and Non-residential Real Estate Loans.** Loans secured by multi-family, mixed-use, and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family, mixed-use and non-residential real estate lending is the current and potential cash flow of the property and the borrower's demonstrated ability to operate that type of property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

**Commercial and Industrial Loans.** Unlike residential mortgage loans, which are generally made on the basis of a borrower's ability to make repayment from the operation and cash flow from the real property whose value tends to be more ascertainable, commercial and industrial loans are of higher risk and tend to be made on the basis of a borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. The Company seeks to minimize these risks by limiting the amount of construction loans outstanding at any time, by limiting our construction loans to borrowers who have in effect pre-sold their construction project, and by limiting our construction loans to multi-family and single family projects.

**Consumer Loans.** We offer personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts. We do not believe these loans

represent a significant risk of loss to the Company.

The allowance for loan losses consists of specific and general reserves. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment 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 records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis

The Company does not evaluate individual one-to-four family residential real estate and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring ("TDR").

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral or discounted cash flows. For loans secured by real estate, estimated fair values are determined primarily through in-house or third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values might be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discount also include estimated costs to sell the property.

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**NOTE 1 – BASIS OF PRESENTATION (Continued)**

**Allowance for Loan Losses (Continued)**

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative factors. These qualitative risk factors include:

- 1.Changes in policies and procedures in underwriting standards and collections.
- 2.Changes in economic conditions.
- 3.Changes in nature and volume of lending.
- 4.Experience of origination team.
- 5.Changes in past due loan volume and severity of classified assets.
- 6.Quality of loan review system.
- 7.Collateral values in general throughout lending territory.
- 8.Concentrations of credit.
- 9.Competition, legal and regulatory issues.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance for loan losses calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan



payments, for commercial, residential and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company's historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers. The Company's Chief Executive Officer is ultimately responsible for the timely and accurate risk rating of the loan portfolio.

Loans the terms of which are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Adversely classified, non-accrual TDRs may be returned to accrued status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. All TDR loans are classified as impaired.

In addition, banking regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is adequate as of March 31, 2015.

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**NOTE 1 – BASIS OF PRESENTATION (Continued)**

**Goodwill**

Goodwill totaled \$749,000 at March 31, 2015 and December 31, 2014 and consists of goodwill acquired in the business combination completed by the Company in November 2007. The Company tests goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting unit to the fair value of the unit. The Company estimates the fair value of the reporting unit through internal analyses and external valuation, which utilizes an income approach based on the present value of future cash flows. If the carrying value of the reporting unit exceeds its fair value, impairment exists and the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, if necessary, compares the implied fair value of a reporting unit's goodwill with its carrying value.

The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of the reporting unit to all of the assets and liabilities of that unit, including identifiable intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. No impairment charges were recorded for the three-month periods ended March 31, 2015 and 2014.

**NOTE 2 – EARNINGS PER SHARE**

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and had no potentially dilutive common stock equivalents during the three-month periods ended March 31, 2015 and 2014. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

**NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN**

The following table sets forth the amount of allocated shares, shares committed to be released, unallocated shares, allocated shares distributed to former or retired employees, and total shares held by the ESOP trust at the dates indicated:

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
| Allocated shares   | 233,289           | 207,368              |
| Shares committed to be released                                  | 6,480             | 25,921               |
| Unallocated shares   | 278,651           | 285,131              |
| Total ESOP Shares  | 518,420           | 518,420              |
| Less allocated shares distributed to former or retired employees | (35,051 )         | (35,051 )            |
| <br>Total ESOP Shares Held by Trustee                            | <br>483,369       | <br>483,369          |
| <br>Fair value of unearned shares                                | <br>\$3,340,000   | <br>\$ 2,059,000     |

The Company recognized compensation expense of \$45,000 and \$47,000 during the three-month periods ended March 31, 2015 and 2014, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

Table of Contents**Note 4 – Outside director retirement plan (“drp”)**

Net periodic pension cost for the Company’s DRP is as follows:

|                                    | Three Months<br>Ended March 31,<br>(In thousands) |       |
|------------------------------------|---|-------|
|                                    | 2015  | 2014  |
| Service cost                       | \$ 23   | \$ 18 |
| Interest cost                      | 11  | 10    |
| Amortization of prior service cost | 5   | 6     |
| Amortization of actuarial gain     | (2 )  | (1 )  |
| Total                              | \$ 37   | \$ 33 |

This plan is an unfunded, non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document.

**NOTE 5 – INVESTMENTS**

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

|   | Gross<br>Amortized<br>Cost<br>(In thousands) | Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|--|---------------------|-------------------------------|---------------|
| March 31, 2015                            |  |                     |                               |               |
| Securities available-for-sale:            |  |                     |                               |               |
| Mortgage-backed securities – residential: |  |                     |                               |               |
| Federal Home Loan Mortgage Corporation    | \$33   | \$ —                | \$ —                          | \$33          |
| Federal National Mortgage Association     | 5  | —                   | —                             | 5             |
| Total                                     | \$38   | \$ —                | \$ —                          | \$38          |
| Securities held-to-maturity:              |  |                     |                               |               |
| Mortgage-backed securities – residential: |  |                     |                               |               |
| Government National Mortgage Association  | \$4,827                                      | \$ 145              | \$ —                          | \$4,972       |
| Federal Home Loan Mortgage Corporation    | 180  | 5                   | —                             | 185           |
| Federal National Mortgage Association     | 122  | 3                   | —                             | 125           |

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|   |         |        |      |         |
|---|---------|--------|------|---------|
| Collateralized mortgage obligations-GSE | 1,139   | 41     | —    | 1,180   |
| Total                                   | \$6,268 | \$ 194 | \$ — | \$6,462 |

Table of Contents**NOTE 5 – INVESTMENTS (Continued)**

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| (In thousands)                            |                   |                              |                               |               |
| December 31, 2014                         |                   |                              |                               |               |
| Securities available-for-sale:            |                   |                              |                               |               |
| Mortgage-backed securities – residential: |                   |                              |                               |               |
| Federal Home Loan Mortgage Corporation    | \$34              | \$ 1                         | \$ —                          | \$35          |
| Federal National Mortgage Association     | 5                 | —                            | —                             | 5             |
| Total                                     | \$39              | \$ 1                         | \$ —                          | \$40          |
| Securities held-to-maturity:              |                   |                              |                               |               |
| Mortgage-backed securities – residential: |                   |                              |                               |               |
| Government National Mortgage Association  | \$5,065           | \$ 159                       | \$ —                          | \$5,224       |
| Federal Home Loan Mortgage Corporation    | 186               | 6                            | —                             | 192           |
| Federal National Mortgage Association     | 128               | 3                            | —                             | 131           |
| Collateralized mortgage obligations-GSE   | 1,216             | 42                           | —                             | 1,258         |
| Total                                     | \$6,595           | \$ 210                       | \$ —                          | \$6,805       |

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

|                                     | March 31, 2015    |            |
|-------------------------------------|-------------------|------------|
|                                     | Amortized<br>Cost | Fair Value |
| (In thousands)                      |                   |            |
| Due after five but within ten years | \$ 6              | \$ 6       |
| Due after ten years                 | 32                | 32         |
| Total                               | \$ 38             | \$ 38      |

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

|                                     | March 31, 2015    |            |
|-------------------------------------|-------------------|------------|
|                                     | Amortized<br>Cost | Fair Value |
| (In thousands)                      |                   |            |
| Due after one but within five years | \$61              | \$ 62      |

|                                     |         |          |
|-------------------------------------|---------|----------|
| Due after five but within ten years | 149     | 152      |
| Due after ten years                 | 6,058   | 6,248    |
| Total                               | \$6,268 | \$ 6,462 |

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

**NOTE 6 – FAIR VALUE DISCLOSURES**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company’s securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets and liabilities on a non-recurring basis, such as impaired loans and other real estate owned. U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1

Table of Contents**NOTE 6 – FAIR VALUE DISCLOSURES (Continued)**

measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

*Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

*Level 2:* Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For financial assets measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

| Description                               | Total          | (Level 1)  | (Level 2)                           | (Level 3)                       |
|---|----------------|--|-------------------------------------|---------------------------------|
|   |                | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| March 31, 2015:                           | (In thousands) |  |                                     |                                 |
| Recurring:                                |                |  |                                     |                                 |
| Mortgage-backed securities - residential: |                |  |                                     |                                 |
| Federal Home Loan Mortgage Corporation    | \$33           | \$ —   | \$ 33                               | \$ —                            |
| Federal National Mortgage Association     | 5              | —  | 5                                   | —                               |
| Total                                     | \$38           | \$ —   | \$ 38                               | \$ —                            |
| Nonrecurring:                             |                |  |                                     |                                 |
| Real estate owned                         | \$2,111        | \$ —   | \$ —                                | \$ 2,111                        |
| Loans held-for-sale - non-residential     | \$5,464        | \$ —   | \$ 5,464                            | \$ —                            |
| December 31, 2014:                        |                |  |                                     |                                 |
| Recurring:                                |                |  |                                     |                                 |
| Mortgage-backed securities - residential: |                |  |                                     |                                 |



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|  |         |    |   |       |          |
|--|---------|----|---|-------|----------|
| Federal Home Loan Mortgage Corporation | \$35    | \$ | — | \$ 35 | \$ —     |
| Federal National Mortgage Association  | 5       |    | — | 5     | —        |
| Total                                  | \$40    | \$ | — | \$ 40 | \$ —     |
| Nonrecurring:                          |         |    |   |       |          |
| Real estate owned                      | \$2,137 | \$ | — | \$ —  | \$ 2,137 |

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

**Quantitative Information about Level 3 Fair Value Measurements**

| (In thousands)             | Fair Value Estimate | Valuation Techniques        | Unobservable Input        | Range (Weighted Average Rate) |
|----------------------------|---------------------|-----------------------------|---------------------------|-------------------------------|
| <b>March 31, 2015:</b>     |                     |                             |                           |                               |
| Impaired real estate owned | \$ 2,111            | Appraisal of collateral (1) | Appraisal adjustments (2) | 5.62% - 6.43% (6.36%)         |
|                            |                     |                             | Liquidation expenses (2)  | 5.26% - 8.97% (5.63%)         |
| <b>December 31, 2014:</b>  |                     |                             |                           |                               |
| Impaired real estate owned | \$ 2,137            | Appraisal of collateral (1) | Appraisal adjustments (2) | 1.34% - 20.00% (10.22%)       |
|                            |                     |                             | Liquidation expenses (2)  | 0.25% - 1.29% (0.29%)         |

Table of Contents**NOTE 6 – FAIR VALUE DISCLOSURES (Continued)**

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and aged (2) appraisals. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The carrying amounts and fair values of the Company's financial instruments are summarized below:

| (In thousands)                  | Carrying Amount | Fair Value | Fair Value at March 31, 2015   |                                   |
|---------------------------------|-----------------|------------|--|-----------------------------------|
|                                 |                 |            | Quoted Prices in Significant Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) |
| <b>Financial Assets</b>         |                 |            |  |                                   |
| Cash and cash equivalents       | \$47,627        | \$47,627   | \$—  | \$ 47,627                         |
| Certificates of deposit         | 150             | 150        | —  | 150                               |
| Securities available-for-sale   | 38              | 38         | —  | 38                                |
| Securities held-to-maturity     | 6,268           | 6,462      | —  | 6,462                             |
| Loans receivable                | 426,203         | 428,219    | —  | —                                 |
| Loans held-for-sale             | 5,464           | 5,464      | —  | 5,464                             |
| Investments in restricted stock | 2,041           | 2,041      | —  | 2,041                             |
| Accrued interest receivable     | 1,555           | 1,555      | —  | 1,555                             |
| <b>Financial Liabilities</b>    |                 |            |  |                                   |
| Deposits                        | 393,918         | 389,168    | —  | 389,168                           |
| FHLB of New York advances       | 32,380          | 32,353     | —  | 32,353                            |
| Accrued interest payable        | 4               | 4          | —  | 4                                 |

| Fair Value at December 31, 2014                                |                                   |
|--|-----------------------------------|
| Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) |
| Significant Unobservable Inputs                                | Significant Unobservable Inputs   |

| (In thousands)                  | Carrying<br>Amount | Fair Value | Markets<br>for<br>Identical<br>Assets |                        |         |
|---------------------------------|--------------------|------------|---------------------------------------|------------------------|---------|
|                                 |                    |            | (Level<br>1)                          | (Level 2)<br>(Level 3) |         |
| <b>Financial Assets</b>         |                    |            |                                       |                        |         |
| Cash and cash equivalents       | \$34,010           | \$34,010   | \$—                                   | \$34,010               | \$ —    |
| Certificates of deposit         | 150                | 150        | —                                     | 150                    | —       |
| Securities available-for-sale   | 40                 | 40         | —                                     | 40                     | —       |
| Securities held-to-maturity     | 6,595              | 6,805      | —                                     | 6,805                  | —       |
| Loans receivable                | 423,445            | 429,467    | —                                     | —                      | 429,467 |
| Investments in restricted stock | 1,933              | 1,933      | —                                     | 1,933                  | —       |
| Accrued interest receivable     | 1,453              | 1,453      | —                                     | 1,453                  | —       |
| <b>Financial Liabilities</b>    |                    |            |                                       |                        |         |
| Deposits                        | 374,052            | 377,276    | —                                     | 377,276                | —       |
| FHLB of New York advances       | 30,000             | 29,970     | —                                     | 29,970                 | —       |
| Accrued interest payable        | 3                  | 3          | —                                     | 3                      | —       |

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**NOTE 6 – FAIR VALUE DISCLOSURES (Continued)**

The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at March 31, 2015 and December 31, 2014:

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

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

**Securities**

Fair values for securities available-for-sale and held-to-maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

**Loans**

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction, other loans secured by real estate, commercial and industrial loans, and consumer. Certain types, such as commercial loans and consumer loans, are further segmented by maturity and type of collateral.

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications. For non-performing loans, fair value is calculated by discounting the estimated future cash flows from the remaining carrying value at a market rate. For impaired loans which the Company has measured and recorded impairment generally based on the fair value of the loan's collateral, fair value is generally determined based upon independent third-party appraisal of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

### **Loans Held-For-Sale**

Fair value of loans held-for-sale is determined by utilizing Level 2 inputs based on observable inputs in the secondary market.

### **Restricted Stock**

The carrying amount of the restricted stock, consisting of Federal Home Loan Bank of New York (“FHLB”) stock and Atlantic Community Bankers Bank (“ACBB”) stock, approximates its fair value, and considers the limited marketability of these securities.

### **Deposit Liabilities**

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

### **FHLB of New York Advances**

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

### **Off-Balance- Sheet Financial Instruments**

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At March 31, 2015 and December 31, 2014, the estimated fair values of these off-balance-sheet financial instruments were immaterial.



Table of Contents**NOTE 6 – FAIR VALUE DISCLOSURES (Continued)****Off-Balance- Sheet Financial Instruments (Continued)**

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

The above information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

**NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES**

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

|                               | March<br>31,<br>2015 | December 31,<br>2014 |
|-------------------------------|----------------------|----------------------|
|                               | (In thousands)       |                      |
| Residential real estate:      |                      |                      |
| One-to-four family            | \$13,720             | \$ 13,314            |
| Multi-family                  | 193,628              | 188,017              |
| Mixed-use                     | 62,572               | 61,546               |
| Total residential real estate | 269,920              | 262,877              |
| Non-residential real estate   | 77,861               | 82,622               |
| Construction                  | 44,464               | 46,607               |
| Commercial and industrial     | 37,179               | 34,407               |
| Consumer                      | 139                  | 142                  |
| <br>Total Loans               | <br>429,563          | <br>426,655          |

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|                           |           |            |
|---------------------------|-----------|------------|
| Allowance for loan losses | (3,920 )  | (3,816 )   |
| Deferred loan costs, net  | 560       | 606        |
| Net Loans                 | \$426,203 | \$ 423,445 |

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Table of Contents**NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)****At and for the Three Months Ended March 31, 2015 (in thousands)**

|   | Residential<br>Real<br>Estate | Non-<br>residential<br>Real<br>Estate | Construction | Commercial<br>and<br>Industrial | Consumer | Unallocated | Total     |
|---|-------------------------------|---------------------------------------|--------------|---------------------------------|----------|-------------|-----------|
| Allowance for loan losses:                            |                               |                                       |              |                                 |          |             |           |
| Beginning balance                                     | \$2,023                       | \$692                                 | \$492        | \$494                           | \$—      | \$115       | \$3,816   |
| Charge-offs   | —                             | (588 )                                | —            | —                               | —        | —           | (588 )    |
| Recoveries  | —                             | 25                                    | —            | —                               | —        | —           | 25        |
| Provision (credit)                                    | 108                           | 613                                   | 18           | 43                              | —        | (115)       | 667       |
| Ending balance  | \$2,131                       | \$742                                 | \$510        | \$537                           | \$—      | \$—         | \$3,920   |
| Ending balance: individually evaluated for impairment | \$—                           | \$—                                   | \$—          | \$—                             | \$—      | \$—         | \$—       |
| Ending balance: collectively evaluated for impairment | \$2,131                       | \$742                                 | \$510        | \$537                           | \$—      | \$—         | \$3,920   |
| Loans receivable:                                     |                               |                                       |              |                                 |          |             |           |
| Ending balance  | \$269,920                     | \$77,861                              | \$44,464     | \$37,179                        | \$139    | \$—         | \$429,563 |
| Ending balance: individually evaluated for impairment | \$4,918                       | \$2,423                               | \$—          | \$2,567                         | \$—      | \$—         | \$9,908   |
| Ending balance: collectively evaluated for impairment | \$265,002                     | \$75,438                              | \$44,464     | \$34,612                        | \$139    | \$—         | \$419,655 |

**For the Three Months Ended March 31, 2014 (in thousands)**

|                            | Residential<br>Real<br>Estate | Non-<br>residential<br>Real<br>Estate | Construction | Commercial<br>and<br>Industrial | Consumer | Unallocated | Total   |
|----------------------------|-------------------------------|---------------------------------------|--------------|---------------------------------|----------|-------------|---------|
| Allowance for loan losses: |                               |                                       |              |                                 |          |             |         |
| Beginning balance          | \$ 2,556                      | \$ 896                                | \$ 97        | \$ 456                          | \$ —     | \$ 10       | \$4,015 |
| Charge-offs                | —                             | (34 )                                 | —            | —                               | —        | —           | (34 )   |
| Recoveries                 | —                             | 224                                   | —            | —                               | —        | —           | 224     |
| Provision                  | 32                            | (74 )                                 | 38           | (55 )                           | —        | 59          | —       |
| Ending balance             | \$ 2,588                      | \$ 1,012                              | \$ 135       | \$ 401                          | \$ —     | \$ 69       | \$4,205 |



Table of Contents**NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)****At December 31, 2014 (in thousands)**

|   | Residential<br>Real<br>Estate | Non-residential<br>Real<br>Estate | Commercial<br>Construction<br>and<br>Industrial | Commercial<br>and<br>Consumer<br>Lending | Unallocated | Total     |
|---|-------------------------------|-----------------------------------|---|--|-------------|-----------|
| Allowance for loan losses:                            |                               |                                   |   |  |             |           |
| Ending balance - Total                                | \$2,023                       | \$692                             | \$492   | \$494                                    | \$—         | \$3,816   |
| Ending balance: individually evaluated for impairment | \$—                           | \$—                               | \$—   | \$—                                      | \$—         | \$—       |
| Ending balance: collectively evaluated for impairment | \$2,023                       | \$692                             | \$492   | \$494                                    | \$—         | \$3,816   |
| Loans receivable:                                     |                               |                                   |   |  |             |           |
| Ending balance - Total                                | \$262,877                     | \$82,622                          | \$46,607  | \$34,407                                 | \$142       | \$426,655 |
| Ending balance: individually evaluated for impairment | \$5,367                       | \$8,697                           | \$—   | \$2,555                                  | \$—         | \$16,619  |
| Ending balance: collectively evaluated for impairment | \$257,510                     | \$73,925                          | \$46,607  | \$31,852                                 | \$142       | \$410,036 |

The following is a summary of impaired loans at March 31, 2015 and December 31, 2014:

|                                      | March 31, 2015 |           |           |  | December 31, 2014 |           |           |  |
|--------------------------------------|----------------|-----------|-----------|--|-------------------|-----------|-----------|--|
|                                      | Unpaid         |           |           |  | Unpaid            |           |           |  |
|                                      | Recorded       | Principal | Related   |  | Recorded          | Principal | Related   |  |
|                                      | Investment     | Balance   | Allowance |  | Investment        | Balance   | Allowance |  |
|                                      | (In thousands) |           |           |  |                   |           |           |  |
| With no related allowance recorded:  |                |           |           |  |                   |           |           |  |
| Residential real estate-Multi-family | \$4,918        | \$5,260   | \$ —      |  | \$5,367           | \$5,709   | \$ —      |  |
| Non-residential real estate          | 2,423          | 3,193     | —         |  | 8,697             | 11,714    | —         |  |
| Commercial and industrial            | 2,567          | 2,567     | —         |  | 2,555             | 2,555     | —         |  |
| Subtotal                             | \$9,908        | \$11,020  | \$ —      |  | \$16,619          | \$19,978  | \$ —      |  |
| With an allowance recorded:          | —              | —         | —         |  | —                 | —         | —         |  |
| Total:                               |                |           |           |  |                   |           |           |  |
| Residential real estate-Multi-family | \$4,918        | \$5,260   | \$ —      |  | \$5,367           | \$5,709   | \$ —      |  |
| Non-residential real estate          | 2,423          | 3,193     | —         |  | 8,697             | 11,714    | —         |  |

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|                           |         |           |      |          |           |      |
|---------------------------|---------|-----------|------|----------|-----------|------|
| Commercial and industrial | 2,567   | 2,567     | —    | 2,555    | 2,555     | —    |
| Total                     | \$9,908 | \$ 11,020 | \$ — | \$16,619 | \$ 19,978 | \$ — |

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Table of Contents**NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

Further information pertaining to impaired loans follows:

|                                      | Three Months<br>Ended March 31,<br>2015 |                                  | Three Months<br>Ended March 31, 2014 |                                  |
|--------------------------------------|---|----------------------------------|--------------------------------------|----------------------------------|
|                                      | Average<br>Recorded<br>Investmen        | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment    | Interest<br>Income<br>Recognized |
| (In thousands)                       |   |                                  |                                      |                                  |
| With no related allowance recorded:  |   |                                  |                                      |                                  |
| Residential real estate-Multi-family | \$5,142                                 | \$ 42                            | \$ 8,639                             | \$ 48                            |
| Non-residential real estate          | 5,560                                   | 20                               | 9,498                                | 10                               |
| Commercial and industrial            | 2,561                                   | —                                | —                                    | —                                |
| Subtotal                             | \$13,263                                | \$ 62                            | \$ 18,137                            | \$ 58                            |
| With an allowance recorded:          |   |                                  |                                      |                                  |
| Non-residential real estate          | \$—                                     | \$ —                             | \$ 2,039                             | \$ 16                            |
| Subtotal                             | \$—                                     | \$ —                             | \$ 2,039                             | \$ 16                            |
| Total:                               |   |                                  |                                      |                                  |
| Residential real estate-Multi-family | \$5,142                                 | \$ 42                            | \$ 8,639                             | \$ 48                            |
| Non-residential real estate          | 5,560                                   | 20                               | 11,537                               | 26                               |
| Commercial and industrial            | 2,561                                   | —                                | —                                    | —                                |
| Total                                | \$13,263                                | \$ 62                            | \$ 20,176                            | \$ 74                            |

The following table provides information about delinquencies in our loan portfolio at the dates indicated.

**Age Analysis of Past Due Loans as of March 31, 2015 (in thousands)**

|                          | 30-59 Days<br>Past Due | 60 – 89<br>Days Past<br>Due | Greater<br>Than 90<br>Days | Total Past<br>Due | Current  | Total Loans<br>Receivable | Recorded<br>Investment<br>> 90 Days<br>and<br>Accruing |
|--------------------------|------------------------|-----------------------------|----------------------------|-------------------|----------|---------------------------|--|
| Residential real estate: |                        |                             |                            |                   |          |                           |  |
| One- to four-family      | \$ —                   | \$ —                        | \$ —                       | \$ —              | \$13,720 | \$13,720                  | \$ —   |

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|                             |        |      |          |          |           |            |      |
|-----------------------------|--------|------|----------|----------|-----------|------------|------|
| Multi-family                | —      | —    | 708      | 708      | 192,920   | 193,628    | —    |
| Mixed-use                   | —      | —    | —        | —        | 62,572    | 62,572     | —    |
| Non-residential real estate | —      | —    | 468      | 468      | 77,393    | 77,861     | —    |
| Construction                | —      | —    | —        | —        | 44,464    | 44,464     | —    |
| Commercial and industrial   | 425    | —    | 2,567    | 2,992    | 34,187    | 37,179     | —    |
| Consumer                    | —      | —    | —        | —        | 139       | 139        | —    |
| Total loans                 | \$ 425 | \$ — | \$ 3,743 | \$ 4,168 | \$425,395 | \$ 429,563 | \$ — |

Table of Contents**NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)****Age Analysis of Past Due Loans as of December 31, 2014 (in thousands)**

|                             | 30-59 Days<br>Past Due | 60 – 89<br>Days Past<br>Due | Greater<br>Than 90<br>Days | Total Past<br>Due | Current    | Total Loans<br>Receivable | Recorded<br>Investment<br>> 90 Days<br>and<br>Accruing |
|-----------------------------|------------------------|-----------------------------|----------------------------|-------------------|------------|---------------------------|--|
| Residential real estate:    |                        |                             |                            |                   |            |                           |  |
| One- to four-family         | \$ —                   | \$ —                        | \$ —                       | \$ —              | \$ 13,314  | \$ 13,314                 | \$ —   |
| Multi-family                | —                      | —                           | 689                        | 689               | 187,328    | 188,017                   | —  |
| Mixed-use                   | —                      | 453                         | —                          | 453               | 61,093     | 61,546                    | —  |
| Non-residential real estate | —                      | —                           | 659                        | 659               | 81,963     | 82,622                    | —  |
| Construction                | —                      | —                           | —                          | —                 | 46,607     | 46,607                    | —  |
| Commercial and industrial   | —                      | —                           | 2,555                      | 2,555             | 31,852     | 34,407                    | —  |
| Consumer                    | —                      | —                           | —                          | —                 | 142        | 142                       | —  |
| Total loans                 | \$ —                   | \$ 453                      | \$ 3,903                   | \$ 4,356          | \$ 422,299 | \$ 426,655                | \$ —   |

The following tables provide certain information related to the credit quality of the loan portfolio.

**Credit Risk Profile by Internally Assigned Grade at March 31, 2015 (in thousands)**

|                 | Residential<br>Real Estate | Non-residential<br>Real Estate | Construction | Commercial<br>and Industrial | Consumer | Total      |
|-----------------|----------------------------|--------------------------------|--------------|------------------------------|----------|------------|
| Grade:          |                            |                                |              |                              |          |            |
| Pass            | \$ 268,979                 | \$ 76,571                      | \$ 44,464    | \$ 34,162                    | \$ 139   | \$ 424,315 |
| Special Mention | 233                        | —                              | —            | 450                          | —        | 683        |
| Substandard     | 708                        | 1,290                          | —            | 2,567                        | —        | 4,565      |
| Total           | \$ 269,920                 | \$ 77,861                      | \$ 44,464    | \$ 37,179                    | \$ 139   | \$ 429,563 |

**Credit Risk Profile by Internally Assigned Grade at December 31, 2014 (in thousands)**

|                 | Residential<br>Real Estate | Non-residential<br>Real Estate | Construction | Commercial<br>and Industrial | Consumer | Total      |
|-----------------|----------------------------|--------------------------------|--------------|------------------------------|----------|------------|
| Grade:          |                            |                                |              |                              |          |            |
| Pass            | \$ 261,501                 | \$ 75,063                      | \$ 46,607    | \$ 31,352                    | \$ 142   | \$ 414,665 |
| Special Mention | 235                        | 815                            | —            | 500                          | —        | 1,550      |
| Substandard     | 1,141                      | 6,744                          | —            | 2,555                        | —        | 10,440     |

|       |            |           |           |           |        |           |
|-------|------------|-----------|-----------|-----------|--------|-----------|
| Total | \$ 262,877 | \$ 82,622 | \$ 46,607 | \$ 34,407 | \$ 142 | \$426,655 |
|-------|------------|-----------|-----------|-----------|--------|-----------|

The following table sets forth the composition of our nonaccrual loans at the dates indicated.

**Loans Receivable on Nonaccrual Status as of March 31, 2015 and December 31, 2014 (in thousands)**

|                                 | 2015    | 2014    |
|---------------------------------|---------|---------|
| Residential real estate:        |         |         |
| Multi-family                    | \$708   | \$689   |
| Mixed-use                       | —       | 453     |
| Non-residential real estate     | 468     | 659     |
| Commercial and industrial loans | 2,567   | 2,555   |
| Total                           | \$3,743 | \$4,356 |



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**NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

There were no loans modified that were deemed troubled debt restructurings during the three months ended March 31, 2015 and March 31, 2014. As of March 31, 2015, none of the loans that were modified during the previous twelve months had defaulted in the three month period ended March 31, 2015. As of March 31, 2014, none of the loans that were modified during the previous twelve months had defaulted in the three month period ended March 31, 2014.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. As of March 31, 2015, we did not have any foreclosed consumer residential real estate property and we did not have any consumer loans collateralized by real estate property for which foreclosure proceedings were in process.

**NOTE 8 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors*, which clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board (“IASB”) issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The adoption of this standard effective April 1, 2017 is not expected to have a material impact on the Company’s consolidated financial statements.

**NOTE 9 – DIVIDEND RESTRICTION**

NorthEast Community Bancorp MHC (the "MHC") held 7,273,750 shares, or 59.4%, of the Company's issued and outstanding common stock, and the minority public shareholders held 40.6% of outstanding stock, at March 31, 2015. The MHC filed notice with, and received approval from, the Federal Reserve Bank of Philadelphia to waive its right to receive cash dividends for the period from November 25, 2014 through November 24, 2015.

The MHC has waived receipt of all past dividends paid by the Company through March 31, 2015, with the exception of the dividend for the quarter ended June 30, 2012. Because the MHC determined not to waive receipt of the dividend for the quarter ended June 30, 2012, the MHC received \$218,000 in dividends in August 2012. The dividends waived are considered as a restriction on the retained earnings of the Company. As of March 31, 2015 and December 31, 2014, the aggregate retained earnings restricted for cash dividends waived were \$6,328,000 and \$6,110,000, respectively.

#### NOTE 10 – RECLASSIFICATION OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

Amounts reclassified from Accumulated Other Comprehensive Loss are as follows:

| Details about Accumulated Other Comprehensive Income Components | Three Months Ended March 31, 2015<br>(In thousands) | Three Months Ended March 31, 2014 | Affected Line Item in the Consolidated Statements of Comprehensive Income (Loss) |
|---|---|-----------------------------------|--|
| Amortization of defined benefit pension items:                  |   |                                   |  |
| Prior service costs   | \$ 5 (1)  | \$ 6 (1)                          | Salary and employee benefits   |
| Actuarial gain  | (2) (1)   | (1) (1)                           | Salary and employee benefits   |
|   | 3   | 5                                 | Total before tax   |
|   | (1)   | (1)                               | Provision for income taxes   |
| Total reclassifications for the period                          | \$ 2  | \$ 4                              | Net of taxes   |

(1) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

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

**FORWARD-LOOKING STATEMENTS**

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

**CRITICAL ACCOUNTING POLICIES**

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses and valuation of goodwill to be critical accounting policies. There have been no changes to our critical accounting policies and procedures during the three months ended March 31, 2015.

For additional information on our critical accounting policies, please refer to Note 1 of the consolidated financial statements included in our 2014 Annual Report on Form 10-K.

**First Quarter Performance Highlights**

The Company suffered a net loss of \$156,000 for the quarter ended March 31, 2015 compared to net income of \$215,000 for the same period in 2014 primarily due to increases in the provision for loan losses and non-interest expense and a decrease in non-interest income, partially offset by an increase in net interest income and a decrease in the provision for income taxes. The increase in the provision for loan losses was primarily a result of discussions that

started during the quarter ended March 31, 2015 and the decision in May 2015 by the participating financial institutions, including the Company, sharing participation in a group of related non-residential real estate mortgage loans secured by a single hotel property to market the loans for sale in response to rising concerns regarding the borrower's continuing ability to service the loans. As a result of the decision to market the loans for sale, the Company transferred the loans to the held-for-sale category, adjusting the carrying amount of the loans to fair value estimated based on market bids to purchase the loans. The adjustment resulted in additional provision for loan losses of \$588,000 recognized upon transfer. On May 12, 2015, the participating financial institutions, including the Company, agreed to a sale of the loans to a selected bidder. Upon completion of the sale, the Company expects to receive approximately \$5.5 million for its participation interests in the loans, which amount is equal to the carrying value of the loans as of March 31, 2015.

Non-performing loans (comprised of non-accrual loans) decreased by \$613,000, or 14.1%, to \$3.7 million as of March 31, 2015 from \$4.4 million as of December 31, 2014. The decrease in non-performing loans was primarily due to the foreclosure and transition into real estate owned of one mixed-use mortgage loan and one non-residential mortgage loan totaling \$664,000, partially offset by payments made by the Company for real estate taxes and water and sewer charges totaling \$52,000 on properties secured by the non-performing mortgage loans.

Our interest rate spread decreased to 3.39% for the three months ended March 31, 2015 from 3.59% for the three months ended March 31, 2014 and our net interest margin decreased to 3.59% for the three months ended March 31, 2015 from 3.81% for the three months ended March 31, 2014. The decrease in the interest rate spread and the net interest margin in the first quarter of 2015 compared to the same period in 2014 was due to a decrease of 21 basis points in the yield on our interest-earning assets that exceeded a decrease of one basis point in the cost of our interest-bearing liabilities.

Our loans receivable, net, increased by \$2.8 million, or 0.7%, to \$426.2 million as of March 31, 2015 from \$423.4 million at December 31, 2014 due primarily to increases of \$5.6 million in multi-family mortgage loans, \$2.8 million in commercial and industrial loans, \$1.0 million in mixed-use mortgage loans, and \$406,000 in one-to-four family mortgage loans, partially offset by decreases of \$4.8 million in non-residential mortgage loans, \$2.1 million in construction mortgage loans and \$3,000 in consumer loans. The decrease in non-residential mortgage loans was largely due to the transfer of the participation loans discussed above, totaling \$5.5 million, to loans held-for-sale from loans receivable, net.

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

Total assets increased by \$22.1 million, or 4.3%, to \$537.5 million at March 31, 2015 from \$515.4 million at December 31, 2014. The increase in total assets was due primarily to increases of \$13.6 million in cash and cash equivalents, \$2.8 million in loans receivable, net, \$5.5 million in loans held-for-sale, \$354,000 in other assets, \$153,000 in bank owned life insurance, \$108,000 in restricted stock, and \$102,000 in accrued interest receivable, partially offset by decreases of \$327,000 in securities held-to-maturity, \$94,000 in premises and equipment, and \$26,000 in real estate owned. The increase in total assets was funded primarily from increases of \$19.9 million in deposits, \$2.4 million in FHLB advances, and \$922,000 in advance payments by borrowers for taxes and insurance.

Loans receivable, net, increased by \$2.8 million, or 0.7%, to \$426.2 million at March 31, 2015 from \$423.4 million at December 31, 2014 due primarily to loan originations totaling \$17.1 million which exceeded loan repayments totaling \$8.2 million, partially offset by the transfer of \$5.5 million in non-residential mortgage loans to loans held-for-sale. The increase in the mortgage loan portfolio was due to increases of \$5.6 million, or 3.0%, in the multi-family mortgage loan portfolio to \$193.6 million at March 31, 2015 from \$188.0 million at December 31, 2014, \$2.8 million, or 8.1%, in the commercial and industrial loan portfolio to \$37.2 million at March 31, 2015 from \$34.4 million at December 31, 2014, \$1.0 million, or 1.7%, in the mixed-use mortgage loan portfolio to \$62.6 million at March 31, 2015 from \$61.5 million at December 31, 2014, and \$406,000, or 3.1%, in the one-to-four family mortgage loan portfolio to \$13.7 million at March 31, 2015 from \$13.3 million at December 31, 2014, partially offset by decreases of \$4.8 million, or 5.8%, in the non-residential mortgage loan portfolio to \$77.9 million at March 31, 2015 from \$82.6 million at December 31, 2014, \$2.1 million, or 4.6%, in the construction mortgage loan portfolio to \$44.5 million at March 31, 2015 from \$46.6 million at December 31, 2014 and \$3,000, or 2.1%, in the consumer loan portfolio to \$139,000 at March 31, 2015 from \$142,000 at December 31, 2014.

The increases in the multi-family and mixed-use mortgage loan portfolio and the commercial and industrial loan portfolio were due to the Company's more aggressive origination activities in our two lending regions in the New York City metropolitan area for purposes of increasing interest income. The decrease in the non-residential mortgage loan portfolio was due to the transfer of \$5.5 million in non-residential mortgage loans to loans held-for-sale. The decrease in the construction mortgage loan portfolio was due to the satisfaction of construction mortgage loans as builders completed and sold projects to buyers.

Cash and cash equivalents increased by \$13.6 million, or 40.0%, to \$47.6 million at March 31, 2015 from \$34.0 million at December 31, 2014 due primarily to increases in deposits and FHLB advances, offset by an increase in the loan portfolio. Bank owned life insurance increased by \$153,000, or 0.7%, to \$21.3 million at March 31, 2015 from \$21.1 million at December 31, 2014 due to accrued earnings during 2015. Other assets increased by \$354,000, or 6.8%, to \$5.6 million at March 31, 2015 from \$5.2 million at December 31, 2014 due to an increase in miscellaneous assets. Investments in restricted stocks increased by \$108,000, or 5.6%, to \$2.0 million at March 31, 2015 from \$1.9 million at December 31, 2014 due to increases in mortgage-related assets and borrowings from the FHLB that triggered an increase in the required amount of FHLB restricted stock.

Real estate owned decreased by \$26,000, or 0.3%, to \$8.7 million at March 31, 2015 from \$8.7 million at December 31, 2014 due to the foreclosure and transition into real estate owned of one mixed-use mortgage loan totaling \$471,000 and one non-residential mortgage loan totaling \$231,000, partially offset by the sale of one mixed-use real estate owned totaling \$471,000 and one multi-family real estate owned totaling \$115,000 and the establishment of valuation allowances of \$122,000 for one mixed-use real estate owned and \$20,000 for one non-residential real estate owned.

Accrued interest receivable increased by \$102,000, or 7.0%, to \$1.6 million at March 31, 2015 from \$1.4 million at December 31, 2014 due primarily to an increase in the mortgage loan portfolio. Securities held-to-maturity decreased by \$327,000, or 5.0%, to \$6.3 million at March 31, 2015 from \$6.6 million at December 31, 2014 due primarily to repayments. Premises and equipment decreased by \$94,000, or 0.8%, to \$11.6 million at March 31, 2015 from \$11.7 million at December 31, 2014 due primarily to depreciation.

Deposits increased by \$19.9 million, or 5.3%, to \$393.9 million at March 31, 2015 from \$374.0 million at December 31, 2014. The increase in deposits was primarily attributable to increases of \$17.2 million in certificates of deposit, \$2.1 million in regular savings accounts, \$426,000 in non-interest bearing accounts, and \$113,000 in NOW and money market accounts. The increase in certificates of deposit was due to the offering of competitive interest rates for non-broker certificates of deposit gathered through a non-broker nationwide certificate of deposit listing service from banks and credit unions in amounts greater than \$75,000 and less than \$250,000. The increase in certificates of deposit was also due to the offering of competitive interest rates by our Massachusetts branch offices. As a result, we obtained an additional \$9.2 million in non-broker certificates of deposit through the listing service and \$8.0 million in non-broker certificates of deposit through our Massachusetts branch offices since December 31, 2014. The increase in regular savings accounts was due to the successful marketing efforts by our New York branch offices.

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FHLB advances increased by \$2.4 million, or 7.9%, to \$32.4 million at March 31, 2015 from \$30.0 million at December 31, 2014. The increase in deposits and FHLB advances was primarily attributable to efforts by the Company to increase liquidity, fund loan originations, increase reliance on long term certificates of deposit, and diversify sources of funds. Advance payments by borrowers for taxes and insurance increased by \$922,000, or 27.6%, to \$4.3 million at March 31, 2015 from \$3.3 million at December 31, 2014 due primarily to an increase in the mortgage loan portfolio.

Stockholders' equity decreased by \$892,000, or 0.9%, to \$102.9 million at March 31, 2015, from \$103.8 million at December 31, 2014. This decrease was primarily the result of stock repurchases of \$646,000, cash dividends declared and paid of \$140,000, and comprehensive loss of \$150,000, partially offset by the amortization of \$44,000 for the ESOP for the period.

**Comparison of Operating Results for the Three Months Ended March 31, 2015 and 2014**

**General.** Net income decreased by \$371,000, or 172.6%, to a net loss of \$156,000 for the quarter ended March 31, 2015 from net income of \$215,000 for the quarter ended March 31, 2014. The decrease was primarily the result of increases of \$667,000 in provision for loan losses and \$139,000 in non-interest expenses and a decrease of \$9,000 in non-interest income, partially offset by an increase of \$305,000 in net interest income and a decrease of \$139,000 in the provision for income taxes.

**Net Interest Income.** Net interest income increased by \$305,000, or 7.7%, to \$4.3 million for the three months ended March 31, 2015 from \$3.9 million for the three months ended March 31, 2014. The increase in net interest income resulted primarily from an increase of \$430,000 in interest income, partially offset by an increase of \$125,000 in interest expense.

The net interest spread decreased by 20 basis points to 3.39% for the three months ended March 31, 2015 from 3.59% for the three months ended March 31, 2014. The net interest margin decreased by 22 basis points between these periods from 3.81% for the quarter ended March 31, 2014 to 3.59% for the quarter ended March 31, 2015. The decrease in the interest rate spread and the net interest margin in the first quarter of 2015 compared to the same period in 2014 was due to a decrease of 21 basis points in the yield on our interest-earning assets that exceeded a decrease of one basis point in the cost of our interest-bearing liabilities.

The average yield on our interest-earning assets decreased by 21 basis points to 4.39% for the three months ended March 31, 2015 from 4.60% for the three months ended March 31, 2014 and the cost of our interest-bearing liabilities decreased by one basis point to 1.00% for the three months ended March 31, 2015 from 1.01% for the three months ended March 31, 2014. The decrease in the yield on our interest-earning assets was due to a decrease in the yield on loans receivable, offset by increases in the yield on securities and other interest-earning assets. The decrease in the

cost of our interest-bearing liabilities was due to a decrease in the cost of borrowed money, offset by an increase in the cost of interest-bearing deposits.



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The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended March 31, 2015 and 2014.

|   | Three Months Ended March 31, |                              |                |                    |                              |                |
|---|------------------------------|------------------------------|----------------|--------------------|------------------------------|----------------|
|   | 2015                         |                              |                | 2014               |                              |                |
|   | Average<br>Balance           | Interest<br>and<br>Dividends | Yield/<br>Cost | Average<br>Balance | Interest<br>and<br>Dividends | Yield/<br>Cost |
| (Dollars in thousands)                                  |                              |                              |                |                    |                              |                |
| Assets:   |                              |                              |                |                    |                              |                |
| Interest-earning assets:                                |                              |                              |                |                    |                              |                |
| Loans (1)   | \$432,907                    | \$ 5,123                     | 4.73 %         | \$377,558          | \$ 4,691                     | 4.97 %         |
| Securities (including restricted stock)                 | 8,539                        | 64                           | 3.00           | 9,988              | 73                           | 2.92           |
| Other interest-earning assets                           | 32,619                       | 11                           | 0.13           | 26,751             | 4                            | 0.06           |
| Total interest-earning assets                           | 474,065                      | 5,198                        | 4.39           | 414,297            | 4,768                        | 4.60           |
| Allowance for loan losses                               | (3,824 )                     |                              |                | (4,129 )           |                              |                |
| Non-interest-earning assets                             | 52,675                       |                              |                | 49,363             |                              |                |
| Total assets  | \$522,916                    |                              |                | \$459,531          |                              |                |
| Liabilities and equity:                                 |                              |                              |                |                    |                              |                |
| Interest-bearing liabilities:                           |                              |                              |                |                    |                              |                |
| Interest-bearing demand                                 | \$72,172                     | \$ 85                        | 0.47 %         | \$63,210           | \$ 55                        | 0.35 %         |
| Savings and club accounts                               | 83,514                       | 116                          | 0.56           | 85,383             | 115                          | 0.54           |
| Certificates of deposit                                 | 190,588                      | 706                          | 1.48           | 155,010            | 584                          | 1.51           |
| Total interest-bearing deposits                         | 346,274                      | 907                          | 1.05           | 303,603            | 754                          | 0.99           |
| Borrowings  | 31,751                       | 37                           | 0.47           | 21,000             | 65                           | 1.24           |
| Total interest-bearing liabilities                      | 378,025                      | 944                          | 1.00           | 324,603            | 819                          | 1.01           |
| Noninterest-bearing demand                              | 33,430                       |                              |                | 23,262             |                              |                |
| Other liabilities                                       | 7,532                        |                              |                | 7,742              |                              |                |
| Total liabilities                                       | 418,987                      |                              |                | 355,607            |                              |                |
| Stockholders' equity                                    | 103,929                      |                              |                | 103,924            |                              |                |
| Total liabilities and stockholders' equity              | \$522,916                    |                              |                | \$459,531          |                              |                |
| Net interest income                                     |                              | \$ 4,254                     |                |                    | \$ 3,949                     |                |
| Interest rate spread                                    |                              |                              | 3.39 %         |                    |                              | 3.59 %         |
| Net interest margin                                     |                              |                              | 3.59 %         |                    |                              | 3.81 %         |
| Net interest-earning assets                             | \$96,040                     |                              |                | \$89,694           |                              |                |
| Interest-earning assets to interest-bearing liabilities | 125.41 %                     |                              |                | 127.63 %           |                              |                |

(1) Includes loans held-for-sale for the three months ended March 31, 2015.

Total interest income increased by \$430,000, or 9.0%, to \$5.2 million for the three months ended March 31, 2015 from \$4.8 million for the three months ended March 31, 2014. Interest income on loans increased by \$432,000, or 9.2%, to \$5.1 million for the three months ended March 31, 2015 from \$4.7 million for the three months ended March 31, 2014. The increase was primarily the result of an increase of \$55.3 million, or 14.7%, in the average balance of the loan portfolio to \$432.9 million for the three months ended March 31, 2015 from \$377.6 million for the three months ended March 31, 2014 as originations outpaced repayments and charge-offs, net of recoveries. The increase in the average balance of the loan portfolio was offset by a decrease of 24 basis points in the average yield on loans to 4.73% for the three months ended March 31, 2015 from 4.97% for the three months ended March 31, 2014. The decrease in the average yield on loans was due to the pay-off of numerous higher yielding mortgage loans and the refinancing and/or re-pricing to lower interest rates of numerous mortgage loans in our loan portfolio.

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Interest income on securities decreased by \$9,000, or 12.3%, to \$64,000 for the three months ended March 31, 2015 from \$73,000 for the three months ended March 31, 2014. The decrease was primarily due to a decrease of \$1.4 million, or 14.5%, in the average balance of securities to \$8.5 million for the three months ended March 31, 2015 from \$10.0 million for the three months ended March 31, 2014, offset by an increase of eight basis points in the average yield on securities to 3.00% for the three months ended March 31, 2015 from 2.92% for the three months ended March 31, 2014. The decrease in the average balance was due to the principal repayments on investment securities, offset by an increase in restricted stock. The increase in the yield was due to dividends from FHLB New York stock that yielded approximately 4.0% and an increase in FHLB New York stock as a percentage of total investment securities.

Interest income on other interest-earning assets (consisting solely of interest-earning deposits) increased by \$7,000, or 175.0%, to \$11,000 for the three months ended March 31, 2015 from \$4,000 for the three months ended March 31, 2014. The increase was primarily due to an increase of seven basis points in the average yield on other interest-earning assets to 0.13% for the three months ended March 31, 2015 from 0.06% for the three months ended March 31, 2014 and an increase of \$5.9 million, or 21.9%, in the average balance of interest-earning assets to \$32.6 million for the three months ended March 31, 2015 from \$26.8 million for the three months ended March 31, 2014. The increase in the yield was due to the placement of other interest-earning assets in one of our correspondent banks to generate higher yield. The increase in the average balance was due to an increase in deposits and borrowings.

Total interest expense increased by \$125,000, or 15.3%, to \$944,000 for the three months ended March 31, 2015 from \$819,000 for the three months ended March 31, 2014. Interest expense on deposits increased by \$153,000, or 20.3%, to \$907,000 for the three months ended March 31, 2015 from \$754,000 for the three months ended March 31, 2014. The increase in the interest expense on deposits was a result of an increase of \$42.7 million, or 14.1%, in the average balance of interest bearing deposits to \$346.3 million for the three months ended March 31, 2015 from \$303.6 million for the three months ended March 31, 2014. The increase in the interest expense on deposits was also a result of an increase of six basis points in the average cost of interest-bearing deposits to 1.05% for the three months ended March 31, 2015 from 0.99% for the three months ended March 31, 2014.

The interest expense of our interest-bearing demand deposits increased by \$30,000, or 54.5%, to \$85,000 for the three months ended March 31, 2015 from \$55,000 for the three months ended March 31, 2014. The increase in interest expense in our interest-bearing demand deposits was due to an increase of \$9.0 million, or 14.2%, in the average balance of our interest-bearing demand deposits to \$72.2 million for the three months ended March 31, 2015 from \$63.2 million for the three months ended March 31, 2014 and an increase of 12 basis points in the average interest cost to 0.47% for the three months ended March 31, 2015 from 0.35% for the three months ended March 31, 2014 as we offered competitive interest rates to generate deposits.

The interest expense of our interest-bearing savings and club deposits increased by \$1,000, or 0.9%, to \$116,000 for the three months ended March 31, 2015 from \$115,000 for the three months ended March 31, 2014. The increase in interest expense in our interest-bearing savings and club deposits was due to a two basis point increase in the average interest cost to 0.56% for the three months ended March 31, 2015 from 0.54% for the three months ended March 31, 2014 as we continued to offer competitive interest rates to generate deposits. This was offset by a decrease of \$1.9

million, or 2.2%, in the average balance of our interest-bearing savings and club deposits to \$83.5 million for the three months ended March 31, 2015 from \$85.4 million for the three months ended March 31, 2014.

The interest expense of our interest-bearing certificates of deposit increased by \$122,000, or 20.9%, to \$706,000 for the three months ended March 31, 2015 from \$584,000 for the three months ended March 31, 2014. The increase in interest expense in our interest-bearing certificates of deposit was due to an increase of \$35.6 million, or 23.0%, in the average balance of our interest-bearing certificates of deposit to \$190.6 million for the three months ended March 31, 2015 from \$155.0 million for the three months ended March 31, 2014. The increase in our interest-bearing certificates was due to management's decision to continue offering competitive interest rates to generate deposits through our Massachusetts branch offices and through a non-broker nationwide certificate of deposit listing service. The increase in interest expense of our interest-bearing certificates of deposit was offset by a three basis point decrease in the average interest cost on such certificates to 1.48% for the three months ended March 31, 2015 from 1.51% for the three months ended March 31, 2014. The decrease in the average interest cost of our interest-bearing certificates of deposit was due to the re-pricing of maturing certificates of deposit.

Interest expense on borrowings decreased by \$28,000, or 43.1%, to \$37,000 for the three months ended March 31, 2015 from \$65,000 for the three months ended March 31, 2014. The decrease in interest expense on borrowings was due to a decrease of 77 basis points in the cost of borrowed money to 0.47% for the three months ended March 31, 2015 from 1.24% for the three months ended March 31, 2014 due primarily to the maturity and repayment of higher costing FHLB advances and new lower cost FHLB advances obtained during the twelve months ended March 31, 2015. The decrease in the cost of borrowings was partially offset by an increase of \$10.8 million, or 51.2%, in the average balance of borrowed money to \$31.8 million for the three months ended March 31, 2015 from \$21.0 million for the three months ended March 31, 2014.

***Provision for Loan Losses.*** The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three months ended March 31, 2015 and 2014.

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|   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2015                            | 2014     |
|   | (Dollars in thousands)          |          |
| Allowance at beginning of period  | \$ 3,816                        | \$ 4,015 |
| Provision for loan losses   | 667                             | —        |
| Charge-offs   | (588 )                          | (34 )    |
| Recoveries  | 25                              | 224      |
| Net (Charge-offs) Recovery  | (563 )                          | 190      |
| Allowance at end of period  | \$ 3,920                        | \$ 4,205 |
| End of period - Allowance to non-performing loans                           | 104.73 %                        | 88.99 %  |
| End of period - Allowance to total loans outstanding                        | 0.91 %                          | 1.09 %   |
| Net charge-offs (recoveries) to average loans outstanding during the period | 0.14 %                          | (0.05 )% |

The allowance to non-performing loans ratio increased to 104.73% at March 31, 2015 from 88.99% at March 31, 2014 due primarily to a decrease in non-performing loans to \$3.7 million at March 31, 2015 from \$4.7 million at March 31, 2014, offset by a decrease of \$285,000 in the allowance for loan losses. The decrease in non-performing loans was due to the foreclosure and transition to real estate owned of two mortgage loans totaling \$2.6 million, the conversion from non-performing to performing status of one mortgage loan totaling \$859,000 and the satisfaction of one mortgage loan totaling \$775,000 and two commercial and industrial loans totaling \$81,000, partially offset by the addition of two commercial and industrial loans totaling \$3.3 million and one mortgage loan totaling \$708,000.

The allowance for loan losses was \$3.9 million at March 31, 2015, \$3.8 million at December 31, 2014, and \$4.2 million at March 31, 2014. We recorded a provision for loan losses of \$667,000 for the three month period ended March 31, 2015 compared to no provision for loan losses for the three months ended March 31, 2014.

We charged-off \$588,000 against three related non-residential mortgage loans during the three months ended March 31, 2015 compared to charge-offs of \$34,000 against one non-residential mortgage loan during the three months ended March 31, 2014. We recorded recoveries of \$25,000 during the three months ended March 31, 2015 compared to recoveries of \$224,000 during the three months ended March 31, 2014.

The reduction in the allowance for loan losses was also due to the Company's decision during the third quarter of 2014 to revise the methodology used to calculate the historical loss factor. In this regard, the Company revised the historical loss look back period from three to two years as a result of the Company's determination that the Company's historical loss charge-offs from 2009 to 2012 was a result of the recent economic recession, that the bulk of the loss charge-offs from 2009 to 2012 occurred in 2012, that there has not been a significant amount of loss charge-offs during the past two years, and that the Company's loan portfolio has weathered the recession with no further anticipated significant loss charge-offs.

**Non-interest Income.** Non-interest income decreased by \$9,000, or 1.9%, to \$458,000 for the three months ended March 31, 2015 from \$467,000 for the three months ended March 31, 2014. The decrease was primarily due to a decrease of \$16,000 in advisory fee income generated by our wealth management division, offset by an increase of \$7,000 in other loan fees and service charges. The decrease in advisory fee income from our wealth management division was due to a decrease in assets under management. The increase in other loan fees and service charges was due to an increase in loan fees.

**Non-interest Expense.** Non-interest expense increased by \$139,000, or 3.4%, to \$4.3 million for the three months ended March 31, 2015 from \$4.1 million for the three months ended March 31, 2014. The increase resulted primarily from increases of \$346,000 in real estate owned expense, \$47,000 in other non-interest expense, \$32,000 in outside data processing expense, and \$7,000 in advertising expense, partially offset by decreases of \$219,000 in salaries and employee benefits, \$33,000 in FDIC insurance expense, \$27,000 in equipment expense and \$14,000 in occupancy expense.

Real estate owned expense increased by \$346,000, or 461.3%, to \$421,000 in 2015 from \$75,000 in 2014 due to increased operating expenses related to five foreclosed properties during the quarter ended March 31, 2015 compared to one foreclosed property during the quarter ended March 31, 2014. In addition, the Company established valuation allowances totaling \$142,000 against one mixed-use real estate owned and one non-residential real estate owned and sold two foreclosed properties for a net loss of \$93,000 during the quarter ended March 31, 2015.

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Other non-interest expense increased by \$47,000, or 5.6%, to \$886,000 in 2015 from \$839,000 in 2014 due mainly to increases of \$39,000 in miscellaneous other non-interest expenses, \$25,000 in legal fees, \$3,000 in service contracts, and \$1,000 in insurance expenses, partially offset by decreases of \$11,000 in audit and accounting fees, \$7,000 in directors compensation, and \$3,000 in office supplies and stationery expense. The increase in miscellaneous other non-interest expenses was partially due to increases of \$36,000 in consulting fees, \$8,000 in miscellaneous loan underwriting expenses, and \$2,000 in dues and subscriptions, partially offset by decreases of \$9,000 in donations. The increase in legal fees was partially due to an increase in foreclosure expenses.

Outside data processing expense increased by \$32,000, or 12.6%, to \$286,000 in 2015 from \$254,000 in 2014 due to an upgrade in data services. Advertising expense increased by \$7,000, or 63.6%, to \$18,000 in 2015 from \$11,000 in 2014 due to marketing efforts to promote services and products.

Salaries and employee benefits, which represented 47.6% of the Company's non-interest expense during the quarter ended March 31, 2015, decreased by \$219,000, or 9.7%, to \$2.0 million in 2015 from \$2.3 million in 2014 due to a reduction in the number of full time equivalent employees to 91 at March 31, 2015 from 102 at March 31, 2014, offset by the staffing of the Rockland County, New York loan production office. The reduction in staff occurred in the wealth management department, branch operations, lending operations, and headquarters support personnel as part of a continued effort to contain expenses.

FDIC insurance expense decreased by \$33,000, or 26.0%, to \$94,000 in 2015 from \$127,000 in 2014 due to a decrease in the Company's quarterly assessment multiplier, offset by an increase in the Company's assessment base from 2014 to 2015. Equipment expense decreased by \$27,000, or 17.0%, to \$132,000 in 2015 from \$159,000 in 2014 due to decreases in the purchases of additional equipment and continued efforts to contain expenses. Occupancy expense decreased by \$14,000, or 3.3%, to \$407,000 in 2015 from \$421,000 in 2014 due to a reimbursement of rental expense for our First Avenue branch office, offset by an increase in the operating expenses for our Massachusetts branch offices primarily due to the severe winter weather.

***Provision for Income Taxes.*** Income taxes decreased by \$139,000, or 243.9%, to a benefit of \$82,000 for the three months ended March 31, 2015 from an expense of \$57,000 for the three months ended March 31, 2014. The decrease resulted primarily from a \$510,000 decrease in pre-tax income in 2015 compared to 2014. The effective tax rate was a benefit of 34.5% for the three months ended March 31, 2015 and an expense of 21.0% for the three months ended March 31, 2014.

**NON PERFORMING ASSETS**

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

|  | At<br>March 31,<br>2015 | At<br>December 31, 2014 |
|--|-------------------------|-------------------------|
|  | (Dollars in thousands)  |                         |
| Non-accrual loans  | \$ 3,743                | \$ 4,356                |
| Loans past due 90 days or more and accruing                                  | —                       | —                       |
| Total non-performing loans   | 3,743                   | 4,356                   |
| Other real estate owned  | 8,841                   | 8,733                   |
| Total non-performing assets  | 12,584                  | 13,089                  |
| Accruing troubled debt restructurings  | 12,217                  | 12,263                  |
| Nonaccrual troubled debt restructurings                                      | 468                     | 448                     |
| Total troubled debt restructurings   | 12,685                  | 12,711                  |
| Less nonaccrual troubled debt restructurings in total nonaccrual loans       | 468                     | 448                     |
| Total troubled debt restructurings and non-performing assets                 | \$ 24,801               | \$ 25,352               |
| Total non-performing loans to total loans (including loans held-for-sale)    | 0.86%                   | 1.02%                   |
| Total non-performing assets to total assets                                  | 2.34%                   | 2.54%                   |
| Total non-performing assets and troubled debt restructurings to total assets | 4.61%                   | 4.92%                   |

The non-accrual loans at March 31, 2015 consisted of four loans in the aggregate, comprised of one multi-family mortgage loan, one non-residential mortgage loans, and two commercial and industrial loans.



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Non-performing loans decreased by \$613,000, or 14.1%, to \$3.7 million as of March 31, 2015 from \$4.4 million as of December 31, 2014. The decrease in non-performing loans was primarily due to the foreclosure and transition into real estate owned of one mixed-use mortgage loan and one non-residential mortgage loan totaling \$702,000, partially offset by payments totaling \$52,000 made by the Company for real estate taxes and similar items to protect the collateral position of the Company.

The one non-accrual multi-family mortgage loan had an outstanding balance of \$708,000 at March 31, 2015 and is secured by a 23 unit apartment building. This loan was classified as substandard at March 31, 2015. The Company has commenced foreclosure action and the Court has appointed a receiver of rent. We are evaluating the options currently available to us.

The one non-accrual non-residential mortgage loan had an outstanding balance of \$468,000, net of charge-off of \$400,000, at March 31, 2015 and is secured by a strip shopping center and warehouse. This loan was classified as substandard at March 31, 2015. The property was severely damaged by fire and the Company and the borrower are currently suing the insurance company and the borrower's insurance agent as part of the Company's collection efforts. The Court has issued a trial date for July 2015. We are evaluating the options currently available to us.

The two non-accrual commercial and industrial loans had an aggregate balance of \$2.6 million at March 31, 2015, consisting of a line of credit with an outstanding balance of \$1.4 million and remaining available line of credit of \$76,000 and a term loan with an outstanding balance of \$1.1 million. The loans are secured by the assets of a construction company. The Company is working with the borrower and the borrower's surety bonding company to cure the delinquencies and/or satisfy the loans.

Based on recent fair value analyses of these properties, the Company does not anticipate any losses beyond the amounts already charged off.

At March 31, 2015, we owned five foreclosed properties with a net balance of \$8.8 million consisting of an office building located in Lawrenceville, New Jersey, an office building located in Pittsburgh, Pennsylvania, a mixed-use property located in Peabody, Massachusetts, a building housing auto repair and auto rental facilities located in Brockton, Massachusetts, and a building housing a restaurant and fish market located in Milford, New Hampshire.

The Brockton, Massachusetts property has a contract of sale that we expect to be completed in the second quarter of 2015. We have been marketing the remaining four properties for sale or rental.

The Company sold one foreclosed multi-family property and acquired and sold one foreclosed mixed-use property during the quarter ended March 31, 2015 resulting in a net loss of \$93,000.

## TROUBLED DEBT RESTRUCTURED LOANS

There were no loans modified that were deemed to be TDRs during the three months ended March 31, 2015. As of March 31, 2015, none of the loans that were modified during the previous twelve months had defaulted in the twelve month period ended March 31, 2015. There were no charge-offs of loans classified as TDRs in the three months ended March 31, 2015.

The following tables show the activity in TDR loans for the period indicated:

|                              | Residential<br>Real<br>Estate<br>(in thousands) | Nonresidential<br>Real Estate | Construction | Commercial<br>and<br>Industrial | Consumer | Total    |
|------------------------------|---|-------------------------------|--------------|---------------------------------|----------|----------|
| Balance at December 31, 2014 | \$4,226   | \$ 8,485                      | \$ —         | \$ —                            | \$ —     | \$12,711 |
| Additions                    | —   | —                             | —            | —                               | —        | —        |
| Repayments                   | (20 )   | (478 )                        | —            | —                               | —        | (498 )   |
| Amortization of TDR reserves | 4   | —                             | —            | —                               | —        | 4        |
| Balance - March 31, 2015     | \$4,210   | \$ 8,007                      | \$ —         | \$ —                            | \$ —     | \$12,217 |
| Related allowance            | \$—   | \$ —                          | \$ —         | \$ —                            | \$ —     | \$—      |

There were no loans modified that were deemed to be TDRs during the three months ended March 31, 2014. As of March 31, 2014, none of the loans that were modified during the previous twelve months had defaulted in the twelve month period ended March 31, 2014. There were no charge-offs of loans classified as TDRs in the three months ended March 31, 2014. Additions for the period consist of real estate taxes and similar items paid to protect the collateral position of the Company.

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The following tables show the activity in TDR loans for the period indicated:

|                              | Residential    |             | Construction | Commercial and |          | Total    |
|------------------------------|----------------|-------------|--------------|----------------|----------|----------|
|                              | Real Estate    | Real Estate |              | Industrial     | Consumer |          |
|                              | (in thousands) |             |              |                |          |          |
| Balance at December 31, 2013 | \$6,419        | \$ 10,385   | \$ —         | \$ —           | \$ —     | \$16,804 |
| Additions                    | 11             | 61          | —            | —              | —        | 72       |
| Repayments                   | (15 )          | (6 )        | —            | —              | —        | (21 )    |
| Amortization of TDR reserves | 7              | 37          | —            | —              | —        | 44       |
| Balance - March 31, 2014     | \$6,422        | \$ 10,477   | \$ —         | \$ —           | \$ —     | \$16,899 |
| Related allowance            | \$—            | \$ —        | \$ —         | \$ —           | \$ —     | \$—      |

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending, and investing activities during any given period. Cash and cash equivalents totaled \$47.6 million at March 31, 2015 and consisted primarily of interest-bearing deposits at other financial institutions (predominantly ACBB, the FHLB of New York, and the Federal Reserve Bank of New York) and miscellaneous cash items. Securities classified as available-for-sale provide an additional source of liquidity. Total securities classified as available-for-sale were \$38,000 at March 31, 2015.

At March 31, 2015, we had \$112.9 million in loan commitments outstanding, consisting of \$50.1 million in unused commercial and industrial loan lines of credit, \$30.0 million in unused loans in process, \$28.7 million in loan commitments, \$4.0 million in unused real estate equity lines of credit, and \$117,000 in consumer lines of credit. We also had \$1.7 million in stand-by letters of credit at March 31, 2015.

Certificates of deposit due within one year of March 31, 2015 totaled \$68.8 million. This represented 34.7% of certificates of deposit at March 31, 2015. We believe a large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we paid on the certificates of deposit due on or before March 31, 2015. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of deposit accounts and FHLB advances. At March 31, 2015, we had the ability to borrow \$83.7 million, net of \$32.4 million in outstanding advances, from the FHLB of New York. We also have the ability to borrow \$8.0 million from the ACBB via a line of credit, although the Company has thus far not utilized this line of credit.

At March 31, 2015, we had no overnight advances outstanding. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and for the repurchase, if any, of its shares of common stock. At March 31, 2015, the Company had liquid assets of \$7.2 million and \$2.2 million in loan participations originated by the Bank which are held by the Company.

**Capital Management.** The Bank is subject to various regulatory capital requirements administered by the FDIC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2015, the Bank exceeded all regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines.

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

For the three months ended March 31, 2015 and the year ended December 31, 2014, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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

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

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

We have an Asset/Liability Committee, comprised of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Retail Banking Officer, and three Chief Lending Officers, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

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

**Quantitative Aspects of Market Risk.** We use an interest rate sensitivity analysis prepared by an independent third party to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 400 basis point increase or 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in our net portfolio value at March 31, 2015 that would occur in the event of an immediate change in interest rates based on the independent third party assumptions, with no effect given to any steps that we might take to counteract that change.

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| Basis Point (“bp”) | Net Portfolio Value<br>(Dollars in thousands) |             |           | Net Portfolio Value<br>as % of<br>Portfolio Value of<br>Assets<br>NPV |          |
|--------------------|---|-------------|-----------|---|----------|
|                    | \$  | \$          | %         | Ratio   | Change   |
| Change in Rates    | Amount  | Change      | Change    | Ratio   | Change   |
| 400                | \$ 100,844                                    | \$ (14,718) | (12.74) % | 20.04%  | (115) bp |
| 300                | 104,203                                       | (11,359)    | (9.83) %  | 20.33%  | (86) bp  |
| 200                | 109,825                                       | (5,737)     | (4.96) %  | 20.95%  | (24) bp  |
| 100                | 112,807                                       | (2,755)     | (2.38) %  | 21.10%  | ( 9) bp  |
| 0                  | 115,562                                       |             |           | 21.19%  |          |
| (100)              | 122,920                                       | 7,358       | 6.37 %    | 22.07%  | 88 bp    |

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

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

#### Item 4. Controls and Procedures

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

regarding required disclosure.

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On October 31, 2011, a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the "Court"), against the MHC and each of the directors of the Company and the MHC as defendants, and against the Company as a nominal defendant. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a "second-step" conversion of the MHC. As relief, the complaint requested, among other things, that the Company's board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company's motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second step conversion or permitting disinterested consideration by new, independent board members of a second step conversion. Stilwell also asserted claims against the MHC, as majority shareholder of the Company.



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The defendants and the Company filed a motion to dismiss on February 1, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company's directors and the MHC to proceed. The defendants and the Company appealed that decision to the Supreme Court of the State of New York's Appellate Division, First Department, ("Appellate Division") on November 27, 2013. On June 12, 2014, the Appellate Division affirmed the Court's decision.

Additionally, on February 21, 2014, Stilwell moved to disqualify the Company's counsel, which represents the Company, the individual directors, and MHC in this litigation. On December 30, 2014, the New York Supreme Court Appellate Division, First Department, affirmed the Court's decision to deny Stilwell's disqualification motion.

The parties have completed fact discovery and expert discovery. On January 14, 2015, Stilwell filed a certification of readiness for trial. Motions for summary judgment were filed by both parties on March 3, 2015. Oppositions to summary judgment were submitted on March 31, 2015. Replies in support of summary judgment were submitted on April 21, 2015. All summary judgment papers were filed with the Court on April 22, 2015.

The Company and Bank are also subject to claims and litigation that arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company and Bank in connection with such claims and litigation, it is the opinion of management that the disposition or ultimate determination of such claims and litigation will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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

On November 25, 2014, the Company announced that its Board of Directors approved the repurchase for up to 255,123 shares of the Company's outstanding common stock held by persons other than the MHC. The following table presents information regarding the Company's stock repurchases during the three months ended March 31, 2015:

| Period                    | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Program | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------|----------------------------------|------------------------------|---|--|
| January 1 to January 31   | 41,900                           | \$ 7.10                      | 41,900  | 168,223  |
| February 1 to February 28 | 10,000                           | 7.02                         | 10,000  | 158,223  |
| March 1 to March 31       | 40,000                           | 6.96                         | 40,000  | 118,223  |
| Total                     | 91,900                           | \$ 7.03                      | 91,900  | 118,223  |

### Item 3. Defaults Upon Senior Securities

Not applicable

### Item 4. Mine Safety Disclosures

Not applicable.

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**Item 5. Other Information**

None

**Item 6. Exhibits**

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

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

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

The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

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**Signatures**

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

Northeast Community Bancorp, Inc.

Date: May 15, 2015 By: /s/ Kenneth A. Martinek  
Kenneth A. Martinek  
Chief Executive Officer

Date: May 15, 2015 By: /s/ Donald S. Hom  
Donald S. Hom  
Executive Vice President and Chief Financial Officer