

BCB BANCORP INC  
Form 10-Q  
May 10, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 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, 2013**

**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: 0-50275**

**BCB Bancorp, Inc.**

**(Exact name of registrant as specified in its charter)**

**New Jersey  
(State or other jurisdiction of  
incorporation or organization)**

**26-0065262  
(IRS Employer  
I.D. No.)**

**104-110 Avenue C Bayonne, New Jersey 07002**  
(Address of principal executive offices) (Zip Code)

**(201) 823-0700**

(Registrant's telephone number, including area code)

(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. T Yes £ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer £ Accelerated Filer S

Non-Accelerated Filer £ Smaller Reporting Company £

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 1, 2013, BCB Bancorp, Inc., had 8,407,496 shares of common stock, no par value, outstanding.

**BCB BANCORP INC. AND SUBSIDIARIES**

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## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statements of Financial Condition

(In Thousands, Except Share and Per Share Data, Unaudited)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$5,558	\$ 6,242
Interest-earning deposits	31,476	27,905
Total cash and cash equivalents	37,034	34,147
Interest earning time deposits	986	986
Securities available for sale	1,418	1,240
Securities held to maturity, fair value \$147,897 and \$171,603 respectively	142,217	164,648
Loans held for sale	1,328	1,602
Loans receivable, net of allowance for loan losses of \$13,344 and \$12,363 respectively	930,276	922,301
Premises and equipment	13,356	13,568
Federal Home Loan Bank of New York stock	6,933	7,698
Interest receivable	4,275	4,063
Other real estate owned	4,339	3,274
Deferred income taxes	10,322	10,053
Other assets	5,706	7,778
Total Assets	\$1,158,190	\$ 1,171,358

## LIABILITIES AND STOCKHOLDERS' EQUITY

## LIABILITIES

Non-interest bearing deposits	\$102,084	\$ 85,950
Interest bearing deposits	841,712	854,836
Total deposits	943,796	940,786
Short-term Borrowings	—	17,000
Long-term Debt	114,124	114,124
Other Liabilities	7,526	7,867
Total Liabilities	1,065,446	1,079,777

## STOCKHOLDERS' EQUITY

Preferred stock: \$0.01 par value, 10,000,000 shares authorized,

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issued and outstanding 865 shares of series A 6% noncumulative perpetual preferred stock (liquidation preference value \$10,000 per share)	—	—
Additional paid-in capital preferred stock	8,570	8,570
Common stock; \$0.064 stated value; 20,000,000 shares authorized, 10,842,479 and 10,841,079 shares, respectively, issued; 8,472,683 shares and 8,496,508 shares, respectively outstanding	694	694
Additional paid-in capital common stock	91,875	91,846
Treasury stock, at cost, 2,369,796 and 2,344,571 shares, respectively	(27,424 )	(27,177 )
Retained earnings	20,146	18,883
Accumulated other comprehensive loss, net of taxes	(1,117 )	(1,235 )
Total Stockholders' equity	92,744	91,581
 Total Liabilities and Stockholders' equity	 \$1,158,190	 \$ 1,171,358

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statements of Income

(In Thousands, except for per share amounts, Unaudited)

	Three Months Ended March 31,	
	2013	2012
Interest income:		
Loans	\$ 12,992	\$ 11,973
Investments, taxable	1,062	1,534
Investments, non-taxable	12	12
Other interest-earning assets	11	30
Total interest income	14,077	13,549
Interest expense:		
Deposits:		
Demand	103	194
Savings and club	86	167
Certificates of deposit	1,248	1,568
	1,437	1,929
Borrowed money	1,223	1,323
Total interest expense	2,660	3,252
Net interest income	11,417	10,297
Provision for loan losses	1,200	600
Net interest income after provision for loan losses	10,217	9,697
Non-interest income:		
Fees and service charges	424	490
Gain on sales of loans originated for sale	119	640
Gain on sale of securities held to maturity	224	128
Other	17	24
Total non-interest income	784	1,282
Non-interest (benefit) expense:		
Salaries and employee benefits	3,466	3,933
Occupancy expense of premises	812	846
Equipment	1,166	1,448
Professional fees	459	431
Director fees	168	210
Regulatory assessments	265	310
Advertising	102	117
Other real estate owned	(84	) 245
Other	550	842

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Total non-interest expense	6,904	8,382
Income before income tax provision	4,097	2,597
Income tax provision	1,687	1,009
Net Income	\$ 2,410	\$ 1,588
Preferred stock dividends	130	—
Net Income available to common stockholders	\$ 2,280	\$ 1,588
Net Income per common share-basic and diluted		
Basic	\$ 0.27	\$ 0.17
Diluted	\$ 0.27	\$ 0.17
Weighted average number of common shares outstanding		
Basic	8,492	9,436
Diluted	8,494	9,449

See accompanying notes to consolidated financial statements.



IndexBCB BANCORP INC. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
(In Thousands, Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net Income	\$ 2,410	\$ 1,588
Other comprehensive income, net of tax:		
Unrealized gains on available-for-sale securities:		
Unrealized holding gains arising during the period (a)	107	87
Less: reclassification adjustment for gains included in net income (b)	—	—
Benefit plans (c)	11	—
Other comprehensive income	118	87
Comprehensive income	\$ 2,528	\$ 1,675

(a) Represents the net change of the unrealized gain on available-for-sale securities. Represents unrealized gains of \$178,000 and \$145,000, respectively, less deferred taxes of \$71,000 and \$58,000, respectively.

(b) No sales of available-for-sale securities occurred during the three months ended March 31, 2013 and 2012.

Represents the net change of unrecognized loss included in net periodic pension cost. Represents a gross change of (c)\$18,000 less deferred taxes of \$7,000 for the three months ended March 31, 2013. The Statements of Income line items impacted by these amounts are salaries and employee benefits and income tax provision.

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statement of Changes in Stockholders' Equity

(In Thousands, except share and per share data, Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income Loss
Beginning Balance at January 1, 2013	\$—\$694		\$100,416	\$(27,177)	\$18,883	\$(1,000)
Exercise of Stock Options (1,400 shares)	—	—	12	—	—	—
Stock-based compensation expense	—	—	17	—	—	—
Treasury Stock Purchases (25,225 shares)	—	—	—	(247 )	—	—
Dividends payable on Series A 6% noncumulative perpetual preferred stock	—	—	—	—	(130 )	—
Cash dividends on common stock (\$0.12 per share) declared	—	—	—	—	(1,017 )	—
Net income	—	—	—	—	2,410	—
Other comprehensive income	—	—	—	—	—	11
Ending Balance at March 31, 2013	\$—\$694		\$100,445	\$(27,424)	\$20,146	\$(1,000)

See accompanying notes to consolidated financial statements.

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## BCB BANCORP INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(In Thousands, Unaudited)

	Three Months Ended March	
	31,	
	2013	2012
Cash Flows from Operating Activities :		
Net Income	\$ 2,410	\$ 1,588
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	299	275
Amortization and accretion, net	429	497
Provision for loan losses	1,200	600
Deferred income tax (benefit)	(347)	(776)
Loans originated for sale	(5,505)	(15,541)
Proceeds from sale of loans originated for sale	3,309	16,856
Gain on sales of loans originated for sale	(119)	(640)
(Gain) loss on sales of other real estate owned	(21)	137
Fair value adjustment of other real estate owned	(110)	—
Gain on sales of securities held to maturity	(224)	(128)
Stock compensation expense	17	2
(Increase) decrease in interest receivable	(212)	258
Decrease in other assets	2,072	1,114
(Decrease) increase in accrued interest payable	(18)	13
(Decrease) increase in other liabilities	(435)	423
Net Cash Provided by Operating Activities	2,745	4,678
Cash flows from investing activities:		
Proceeds from repayments and calls on securities held to maturity	17,107	19,414
Purchases of securities held to maturity	(1,359)	(40,658)
Proceeds from sale of loans acquired	—	10,836
Proceeds from sale of securities held to maturity	6,327	16,290
Proceeds from sales of real estate owned	806	1,583
Purchases of loans	(227)	(2,243)
Net (Increase) decrease in loans receivable	(7,948)	2,911
Improvements to other real estate owned	—	(59)
Additions to premises and equipment	(87)	(423)
Purchase of Federal Home Loan Bank of New York stock	(1,301)	—
Redemption of Federal Home Loan Bank of New York stock	2,066	631
Net Cash Provided By Investing Activities	15,384	8,282
Cash flows from financing activities:		

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Net increase in deposits	3,010	3,897
Repayment of long-term debt	—	(15,407 )
Repayment of short-term debt	(17,000 )	—
Purchases of treasury stock	(247 )	(1,857 )
Cash dividend paid common stock	(1,017 )	(1,135 )
Exercise of stock options	12	30
Net Cash Used In Financing Activities	(15,242 )	(14,472 )
Net Increase (Decrease) In Cash and Cash Equivalents	2,887	(1,512 )
Cash and Cash Equivalents-Beginning	34,147	117,087
Cash and Cash Equivalents-Ending	\$ 37,034	\$ 115,575
Supplementary Cash Flow Information:		
Cash paid during the year for:		
Income taxes	\$ 1	\$ 500
Interest	\$ 2,678	\$ 3,239
Non-cash items:		
Transfer of loans to other real estate owned	\$ 1,740	\$ 1,118
Reclassification of loans originated for sale to held to maturity	\$ 2,589	\$ 479

See accompanying notes to consolidated financial statements.

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**BCB Bancorp Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**Note 1 – Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the “Company”) and the Company’s wholly owned subsidiaries, BCB Community Bank (the “Bank”), BCB Holding Company Investment Company, BCB New York Asset Management, Inc. and Pamrapo Service Corporation. The Company’s business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. These results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2013 or any other future period. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2012, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In preparing these consolidated financial statements, BCB Bancorp, Inc., evaluated the events and transactions that occurred between March 31, 2013, and the date these consolidated financial statements were issued.

**Significant Event**

On October 29<sup>th</sup> and 30<sup>th</sup>, 2012, Hurricane Sandy struck the Northeast section of the country. The Bank’s market area has been significantly impacted by the storm which resulted in widespread flooding, wind damage and power outages. The storm temporarily disrupted our branch network and our ability to service our customers, however within one week, all of our offices were fully functional. The Bank has conducted a quantitative analysis identifying 122 loans with outstanding principal loan balances totaling approximately \$38.0 million, of which \$22.0 million of these loans identified have either completed the restoration or have paid the loan in full. The remaining \$16.0 million are at various stages of completion and are closely monitored by the bank. Based on this analysis, the bank has made an additional provision for loan losses totaling \$500,000 to mitigate any potential losses. Executive Management will continue to monitor the ongoing status on a monthly basis to determine if the established provision needs adjustment.

**Note 2 – Reclassification**

Certain amounts as of December 31, 2012 and the period ended March 31, 2012 have been reclassified to conform to the current period's presentation. These changes had no effect on the Company's results of operations or financial position.

Index**Note 3 – Pension and Other Postretirement Plans**

The Company assumed, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan (“Pension Plan”), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the “Pension Plan” to the freeze date have been retained. Accordingly, no employees are permitted to commence participation in the Pension Plan and future salary increases and future years of service are not considered when computing an employee’s benefits under the Pension Plan. The Pension Plan is funded in conformity with the funding requirements of applicable government regulations. The Company also acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan (“SERP”) in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 ( the “Normal Retirement Age”), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

Periodic pension and SERP cost, which is recorded as part of salaries and employee benefits expense in our Consolidated Statements of Income, is comprised of the following. (In Thousands):

	Three months ended March 31,	
	2013	2012
Pension plan:		
Interest cost	\$ 98	\$ 111
Expected return on plan assets	(137 )	(100 )
Amortization of unrecognized loss	18	28
Net periodic pension cost	(21 )	39
SERP plan:		
Interest cost	\$ 4	\$ 5
Net periodic postretirement cost	\$ 4	\$ 5

Index**Note 3 – Pension and Other Postretirement Plans (Continued)**

The Company, under the plan approved by its shareholders on April 28, 2011 (“2011 Stock Plan”), authorized the issuance of up to 900,000 shares of common stock of BCB Bancorp, Inc. pursuant to grants of stock options. Employees and directors of BCB Bancorp, Inc. and BCB Community Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. On January 17, 2013, a grant of 130,000 options was declared for certain members of the Board of Directors which vest at a rate of 10% per year, over ten years commencing on the first anniversary of the grant date. The exercise price was recorded as of the close of business on January 17, 2013 and a Form 4 was filed for each Director who received a grant with the Securities and Exchange Commission consistent with their filing requirements.

A summary of stock option activity, adjusted to retroactively reflect subsequent stock dividends, follows:

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2012	274,296	\$ <b>8.93-29.25</b>	\$ 11.97
Options forfeited	(3,125	) 11.84	11.84
Options exercised	(1,400	) <b>8.93-9.34</b>	9.05
Options granted	130,000	9.03	9.03
Outstanding at March 31, 2013	399,771	\$ <b>8.93-29.25</b>	\$ 11.03

**As of March 31, 2013, stock options which are granted and were exercisable totaled 220,271 stock options.**

The key valuation assumptions and fair value of stock options granted during the three months ended March 31, 2013 were:

Expected life	7.75 years
Risk-free interest rate	1.44 %
Volatility	30.56 %
Dividend yield	4.57 %
Fair value	\$1.59



It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to the 179,500 unexercisable options outstanding as of March 31, 2013 is \$272,380 over a weighted average period of 9.46 years.

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Index**Note 4 – Earnings Per Share**

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. For the three months ended March 31, 2013 and 2012, the weighted average of outstanding options considered to be anti-dilutive were 350,072 and 238,197, respectively, and were therefore excluded from the diluted net income per common share calculation.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	For the Three Months Ended March 31,					
	2013			2012		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
	(In Thousands, Except per share data)					
Net income available to common stockholders	\$2,280			\$1,588		
Basic earnings per share-						
Income available to						
Common stockholders	\$2,280	8,492	\$ 0.27	\$1,588	9,436	\$ 0.17
Effect of dilutive securities:						
Stock options	—	2		—	13	
Diluted earnings per share-						
Income available to						
Common stockholders	\$2,280	8,494	\$ 0.27	\$1,588	9,449	\$ 0.17

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**Note 5 – Securities Available for Sale**

	March 31, 2013			
	Gross	Gross		Fair
	Unrealized	Unrealized		Value
	Cost	Gains	Losses	
	(In Thousands)			

Equity Securities-Financial Institutions	\$1,097	\$ 321	\$ —	\$1,418
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	December 31, 2012			
	Gross	Gross		Fair
	Unrealized	Unrealized		Value
	Cost	Gains	Losses	
	(In Thousands)			

Equity Securities-Financial Institutions	\$1,097	\$ 143	\$ —	\$1,240
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Index**Note 6 – Securities Held to Maturity**

	March 31, 2013			
	Gross	Gross		
	Amortized	Unrealized	Unrealized	Fair Value
	Cost	Gains	Losses	
	(In Thousands)			
Residential mortgage-backed securities:				
Due after one year through five years	\$3	\$ —	\$ —	\$3
Due after five years through ten years	5,170	42	35	5,177
Due after ten years	135,306	5,639	65	140,880
	140,479	5,681	100	146,060
Municipal obligations:				
Due after five to ten years	969	67	—	1,036
Due after ten years	393	27	—	420
	1,362	94	—	1,456
Trust originated preferred security:				
Due after ten years	376	5	—	381
	1,738	99	—	1,837
	\$142,217	\$ 5,780	\$ 100	\$ 147,897

The amortized cost and carrying values shown above are categorized by contractual final maturity. Actual maturities will differ from contractual final maturities due to scheduled monthly payments related to mortgage-backed securities and due to the borrowers having the right to prepay obligations with or without prepayment penalties. As of March 31, 2013 and December 31, 2012, all residential mortgage backed securities held in the portfolio were Government Sponsored Enterprise securities.

Management has periodically decided to sell certain mortgage-backed securities that were issued by the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”). While these securities were classified as held to maturity, ASC 320 (formerly FAS 115) allows sales of securities so designated, provided that a substantial portion (at least 85%) of the principal balance has been amortized prior to the sale. During the three months ended March 31, 2013, proceeds from sales of securities held to maturity totaled approximately \$6,327,000 and resulted in gross gains of approximately \$239,000 and gross losses of approximately \$15,000.

Index**Note 6 – Securities Held to Maturity (Continued)**

	December 31, 2012			
	Gross	Gross		
	Amortized	Unrealized	Unrealized	Fair Value
	Cost	Gains	Losses	
	(In Thousands)			
Residential mortgage-backed securities:				
Due within one year	\$—	\$ —	\$ —	\$—
Due after one year through five years	4	—	—	4
Due after five years through ten years	9,480	171	18	9,633
Due after ten years	153,425	6,747	38	160,134
	162,909	6,918	56	169,771
Municipal obligations:				
Due after five to ten years	388	28	—	416
Due after ten years	975	65	—	1,040
	1,363	93	—	1,456
Trust originated preferred security:				
Due after ten years	376	—	—	376
	\$164,648	\$ 7,011	\$ 56	\$ 171,603

Index**Note 6 – Securities Held to Maturity (Continued)**

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities held to maturity were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
March 31, 2013						
Residential mortgage-backed securities	\$ 11,054	\$ 98	\$ 1,019	\$ 2	\$ 12,073	\$ 100
	\$ 11,054	\$ 98	\$ 1,019	\$ 2	\$ 12,073	\$ 100
December 31, 2012						
Residential mortgage-backed securities	\$ 14,093	\$ 56	\$ —	\$ —	\$ 14,093	\$ 56
	\$ 14,093	\$ 56	\$ —	\$ —	\$ 14,093	\$ 56

Management does not believe that any of the unrealized losses as of March 31, 2013, (which are related to ten residential mortgage-backed securities including two that have been in an unrealized loss position for more than twelve months) represent an other-than-temporary impairment as they are primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities as all these securities were issued by U.S. Agencies, including FNMA, FHLMC and GNMA. Additionally, the Company has the ability, and management has the intent, to hold such securities for the time necessary to recover cost and does not have the intent to sell the securities, and it is more likely than not that it will not have to sell the securities before recovery of their cost.

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## Note 7 - Loans Receivable and Allowance for Loan Losses

The following table presents the recorded investment in loans receivable as of March 31, 2013 and December 31, 2012 by segment and class.

	March 31, 2013	December 31, 2012
	(In Thousands)	
Real estate mortgage:		
Residential	\$201,514	\$ 202,926
Commercial and multi-family	614,182	588,268
Construction	17,940	23,310
	833,636	814,504
Commercial:		
Business loans	22,752	20,415
Lines of credit	28,367	39,253
	51,119	59,668
Consumer:		
Passbook or certificate	666	736
Home equity lines of credit	18,605	17,841
Home equity	40,377	42,552
Automobile	31	37
Personal	544	567
	60,223	61,733
Deposit overdrafts	146	294
Total Loans	945,124	936,199
Deferred loan fees, net	(1,504 )	(1,535 )
Allowance for loan losses	(13,344 )	(12,363 )
	(14,848 )	(13,898 )
Net Loans	\$930,276	\$ 922,301

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Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

**Allowance for Loan Losses**

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a general allocated reserve for impaired loans, a specific reserve for impaired loans and an unallocated portion.

The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio by loans that are performing and loans that are impaired. Loans which are performing are evaluated collectively by loan class or loan type. The allowance for performing loans is evaluated based on historical loan loss experience, including consideration of peer loss analysis, with an adjustment for qualitative factors due to economic conditions in the Bank's market. Impaired loans are loans which are 90 days or more delinquent or troubled debt restructured. These loans are individually evaluated for impairment either by current appraisal or net present value of expected cash flows. Management reviews the overall estimate of this allowance for reasonableness and bases the loan loss provision accordingly.



The portfolio of performing loans is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for these loans:

Residential single family real estate loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate residential family real estate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Commercial and multi-family real estate lending entails significant additional risks as compared with residential family property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Construction lending is generally considered to involve a high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of the general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not necessarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residence.

Commercial business lending is generally considered high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Commercial business loans and lines of credit are primarily secured by inventories and other business assets. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Home equity lending entails certain risks such as interest rate risk and risk of non-repayment. The marketability of the underlying property may be adversely affected by higher interest rates, decreasing the collateral securing the loan. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Home equity line of credit lending entails securing an equity interest in the borrower's home. The risk associated with this type of lending is the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower. This type of

lending is often priced on an adjustable rate basis with the rate set at or above a predefined index. Adjustable-rate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default.

Consumer loans generally have more credit risk than loans secured by real estate because of the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans generally have shorter terms and higher interest rates than other lending. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan.

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Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates lack some element of precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly. In addition, as an integral part of their examination process, the Federal Deposit Insurance Corporation will periodically review the allowance for loan losses and may require us to adjust the allowance based on their analysis of information available to it at the time of its examination.

**Classified Assets.** The Company's policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as "substandard," "doubtful," "loss" or "special mention." An asset is considered substandard if it is inadequately protected by its current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that "some loss" will be sustained if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weakness present makes "collection or liquidation in full" on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted, and the loan, or a portion thereof, is charged-off. Assets may be designated special mention because of potential weaknesses that do not currently warrant classification in one of the aforementioned categories.

When the Company classifies problem loans, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. As of March 31, 2013, we had \$8.8 million in loans classified as doubtful, \$13.7 million in loans classified as substandard, and \$18.4 million in loans classified as special mention. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily because either updated financial information has not been provided timely, or the collateral underlying the loan is in the process of being revalued.

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list (risk ratings 1-4) are treated as "pass" for grading purposes:

5 – *Special Mention*- Loans currently performing but with potential weaknesses including adverse trends in borrower's operations, credit quality, financial strength, or possible collateral deficiency.

6 – *Substandard*- Loans that are inadequately protected by current sound worth, paying capacity, and collateral support. The loan needs special and corrective attention.

7 – *Doubtful*- Weaknesses in credit quality and collateral support make full collection improbable, but pending reasonable factors remain sufficient to defer the loss status.

8 – *Loss*- Continuance as a bankable asset is not warranted. However, this does not preclude future attempts at partial recovery.

The current methodology for this calculation is determined with the Company's specific Historical Loss Percentage ("HLP") for each loan type, using two years of prior Bank data (or eight quarters). The relative weights of prior quarters are decayed logarithmically and are further adjusted based on the trend of the historical loss percentage at the time. Also, instead of applying consistent percentages to each of the credit risk grades, the current methodology applies a higher factor to classified loans based on a delinquency risk trend and concentration risk trend by using the past due and non-accrual as a percentage of the specific loan category.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Bank's allowance for loan losses for the three months ended March 31, 2013 and recorded investment in loans receivable at March 31, 2013. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class. (In Thousands):

	Residential	Commercial & Multi-family	Commercial Construction	Commercial Business (1)	Home Equity (2)	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance								
December 31, 2012	\$ 1,967	\$ 8,051	\$ 959	\$ 820	\$ 475	\$ 59	\$ 32	\$ 12,363
Charge-offs	\$ —	\$ —	\$ —	\$ 223	\$ —	\$ —	\$ —	\$ 223
Recoveries	\$ —	\$ —	\$ 3	\$ 1	\$ —	\$ —	\$ —	\$ 4
Provisions	\$ 183	\$ 229	\$ (202)	\$ 777	\$ 68	\$ (6)	\$ 151	\$ 1,200
Ending balance								
March 31, 2013	\$ 2,150	\$ 8,280	\$ 760	\$ 1,375	\$ 543	\$ 53	\$ 183	\$ 13,344
Ending balance: individually evaluated for impairment	\$ 390	\$ 1,398	\$ 96	\$ 886	\$ 169	\$ 3	\$ —	\$ 2,942
Ending balance: collectively evaluated for impairment	\$ 1,648	\$ 6,882	\$ 664	\$ 489	\$ 374	\$ 50	\$ 183	\$ 10,290
Ending balance: loans acquired with deteriorated credit quality	\$ 112	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 112
Loans receivables:								
Ending balance	\$ 201,514	\$ 614,182	\$ 17,940	\$ 51,119	\$ 58,982	\$ 1,387	\$ —	\$ 945,124
Ending balance: individually evaluated for impairment	\$ 11,903	\$ 23,285	\$ 332	\$ 3,505	\$ 3,195	\$ 3	\$ —	\$ 42,223
Ending balance: collectively evaluated for impairment	\$ 187,451	\$ 588,099	\$ 17,608	\$ 47,288	\$ 55,694	\$ 1,384	\$ —	\$ 897,524
Ending balance: loans acquired with deteriorated credit quality	\$ 2,160	\$ 2,798	\$ —	\$ 326	\$ 93	\$ —	\$ —	\$ 5,377

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- (1) Includes business lines of credit.**
  - (2) Includes home equity lines of credit.**

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Index**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the activity in the Bank's allowance for loan losses for the year ended December 31, 2012 and recorded investment in loans receivable at December 31, 2012. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class. (In Thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home Equity (2)	Consumer	Unallocated	Total
Allowance for credit losses:								
Beginning balance	\$2,679	\$5,798	\$304	\$1,041	\$677	\$10	\$—	\$10,509
Charge-offs	\$793	\$1,360	\$292	\$612	\$24	\$—	\$—	\$3,081
Recoveries	\$—	\$35	\$—	\$—	\$—	\$—	\$—	\$35
Provisions	\$81	\$3,578	\$947	\$391	\$(178)	\$49	\$32	\$4,900
Ending balance	\$1,967	\$8,051	\$959	\$820	\$475	\$59	\$32	\$12,363
Ending balance: individually evaluated for impairment	\$392	\$1,061	\$96	\$353	\$113	\$—	\$—	\$2,015
Ending balance: collectively evaluated for impairment	\$1,470	\$6,990	\$863	\$467	\$362	\$59	\$32	\$10,243
Ending balance: loans acquired with deteriorated credit quality	\$105	\$—	\$—	\$—	\$—	\$—	\$—	\$105
Loans receivables:								
Ending balance	\$202,926	\$588,268	\$23,310	\$59,668	\$60,393	\$1,634	\$—	\$936,199
Ending balance: individually evaluated for impairment	\$10,849	\$23,586	\$130	\$3,307	\$2,557	\$—	\$—	\$40,429
Ending balance: collectively evaluated for impairment	\$189,894	\$561,880	\$23,180	\$56,034	\$57,743	\$1,634	\$—	\$890,365
Ending balance: loans acquired with deteriorated credit quality	\$2,183	\$2,802	\$—	\$327	\$93	\$—	\$—	\$5,405

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- (1) Includes business lines of credit.
  - (2) Includes home equity lines of credit.

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Index**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the activity in the Bank's allowance for loan losses for the three months ended March 31, 2012 and recorded investment in loans receivable at March 31, 2012. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class. (In Thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home Equity (2)	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance								
December 31, 2011	\$ 2,679	\$ 5,798	\$ 304	\$ 1,041	\$ 677	\$ 10	\$ —	\$ 10,509
Charge-offs	\$ 57	\$ 11	\$ 35	\$ 70	\$ —	\$ —	\$ —	\$ 173
Recoveries	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Provisions	\$ 127	\$ 53	\$ 234	\$ 104	\$ —	\$ 18	\$ 64	\$ 600
Ending balance								
March 31, 2012	\$ 2,749	\$ 5,840	\$ 503	\$ 1,075	\$ 677	\$ 28	\$ 64	\$ 10,936
Ending balance: individually evaluated for impairment	\$ 669	\$ 1,319	\$ —	\$ 257	\$ 84	\$ —	\$ —	\$ 2,329
Ending balance: collectively evaluated for impairment	\$ 1,810	\$ 4,521	\$ 348	\$ 818	\$ 583	\$ 28	\$ 64	\$ 8,172
Ending balance: loans acquired with deteriorated credit quality	\$ 270	\$ —	\$ 155	\$ —	\$ 10	\$ —	\$ —	\$ 435
Loans receivables:								
Ending balance	\$ 210,960	\$ 480,916	\$ 18,699	\$ 62,671	\$ 66,351	\$ 1,214	\$ —	\$ 840,811
Ending balance: individually evaluated for impairment	\$ 16,150	\$ 42,207	\$ 1,201	\$ 4,504	\$ 3,052	\$ 10	\$ —	\$ 67,124
Ending balance: collectively evaluated for impairment	\$ 188,179	\$ 433,950	\$ 17,166	\$ 57,777	\$ 62,985	\$ 1,204	\$ —	\$ 761,261
Ending balance: loans acquired with deteriorated								

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credit quality	\$6,631	\$ 4,759	\$ 332	\$ 390	\$314	\$—	\$ —	\$12,426
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- (1) Includes business lines of credit.
  - (2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The tables below sets forth the amounts and types of non-accrual loans in the Bank's loan portfolio, as of March 31, 2013 and December 31, 2012. Loans are placed on non-accrual status when they become more than 90 days delinquent, or when the collection of principal and/or interest become doubtful. As of March 31, 2013 and December 31, 2012, total non-accrual loans differed from the amount of total loans past due greater than 90 days due to troubled debt restructuring of loans which are maintained on non-accrual status for a minimum of six months until the borrower has demonstrated its ability to satisfy the terms of the restructured loan.

	As of March 31, 2013 (In Thousands)	As of December 31, 2012 (In Thousands)
Non-accruing loans:		
Residential	\$ 1,961	\$ 2,163
Construction	130	130
Commercial business <sup>(1)</sup>	2,702	3,159
Commercial and multi-family	11,971	13,043
Home equity <sup>(2)</sup>	1,575	1,564
Consumer	—	—
Total	\$ 18,339	\$ 20,059

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Index**Note 7-Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes the average recorded investment and interest income recognized on impaired loans by portfolio class for the three months ended March 31, 2013 and 2012. (In Thousands):

	Three Months Ended March 31,			
	2013	2013	2012	2012
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded:				
Residential Mortgages	\$5,802	\$ 86	\$ 6,268	\$ 23
Commercial and Multi-family	12,806	100	25,284	163
Construction	101	2	1,357	—
Commercial Business (1)	2,487	15	2,549	12
Home Equity (2)	2,151	15	1,889	15
Consumer	—	—	5	—
	\$23,347	\$ 218	\$ 37,352	\$ 213
With an allowance recorded:				
Residential Mortgages	\$7,746	\$ 100	\$ 9,391	\$ 155
Commercial and Multi-family	13,292	143	15,551	167
Construction	130	—	154	—
Commercial Business (1)	1,246	24	1,860	3
Home Equity (2)	819	9	288	5
Consumer	2	—	—	—
	\$23,235	\$ 276	\$ 27,244	\$ 330
Total:				
Residential Mortgages	\$13,548	\$ 186	\$ 15,659	\$ 178
Commercial and Multi-family	26,098	243	40,835	330
Construction	231	2	1,511	—
Commercial Business (1)	3,733	39	4,409	15
Home Equity (2)	2,970	24	2,177	20
Consumer	2	—	5	—
	\$46,582	\$ 494	\$ 64,596	\$ 543

- (1) Includes business lines of credit.
- (2) Includes home equity lines of credit.

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Index**Note 7-Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes the recorded investment, unpaid principal balance, and the related allowance on impaired loans by portfolio class at March 31, 2013 and December 31, 2012. (In Thousands):

	As of March 31, 2013			As of December 31, 2012		
	Recorded Investment	Unpaid Principle Recognized	Related Allowance	Recorded Investment	Unpaid Principle Recognized	Related Allowance
With no related allowance recorded:						
Residential Mortgages	\$6,146	\$ 6,528	\$ —	\$5,458	\$ 6,147	\$ —
Commercial and Multi-family	12,428	12,998	—	13,185	13,827	—
Construction	202	202	—	—	—	—
Commercial Business (1)	2,717	3,011	—	2,256	2,550	—
Home Equity (2)	2,389	2,436	—	1,912	1,959	—
Consumer	—	—	—	—	—	—
<b>Total:</b>	<b>\$23,882</b>	<b>\$ 25,175</b>	<b>\$ —</b>	<b>\$22,811</b>	<b>\$ 24,483</b>	<b>\$ —</b>
With an allowance recorded:						
Residential Mortgages	\$7,917	\$ 8,284	\$ 502	\$7,574	\$ 7,638	\$ 497
Commercial and Multi-family	13,383	13,383	1,398	13,203	13,203	1,061
Construction	130	130	96	130	130	96
Commercial Business (1)	1,114	1,114	886	1,378	1,378	353
Home Equity (2)	899	899	169	738	738	113
Consumer	3	3	3	—	—	—
<b>Total:</b>	<b>\$23,446</b>	<b>\$ 23,813</b>	<b>\$ 3,054</b>	<b>\$23,023</b>	<b>\$ 23,087</b>	<b>\$ 2,120</b>
Residential Mortgages	\$14,063	\$ 14,812	\$ 502	\$13,032	\$ 13,785	\$ 497
Commercial and Multi-family	25,811	26,381	1,398	26,388	27,030	1,061
Construction	332	332	96	130	130	96
Commercial Business (1)	3,831	4,125	886	3,634	3,928	353
Home Equity (2)	3,288	3,335	169	2,650	2,697	113
Consumer	3	3	3	—	—	—
<b>Total:</b>	<b>\$47,328</b>	<b>\$ 48,988</b>	<b>\$ 3,054</b>	<b>\$45,834</b>	<b>\$ 47,570</b>	<b>\$ 2,120</b>

- (1) Includes business lines of credit.
- (2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

A troubled debt restructuring (“TDR”) is a loan that has been modified whereby the Bank has agreed to make certain concessions to a borrower to meet the needs of both the borrower and the Bank to maximize the ultimate recovery of a loan. TDR occurs when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified using a modification that would otherwise not be granted to the borrower. The types of concessions granted are generally included, but not limited to interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal. As of March 31, 2013 and 2012, TDR’s totaled \$30.1 million and \$36.2 million, respectively.

The following table summarizes information in regards to troubled debt restructurings for the three months ended March 31, 2013 and 2012, (In thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Three Months Ended March 31, 2013			
Commercial and multi-family	1	\$ 94	\$ 94
<b>Home equity<sup>(1)</sup></b>	1	\$ 101	\$ 101

	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Three Months Ended March 31, 2012			
Residential	9	\$ 3,557	\$ 3,557
Commercial and multi-family	9	\$ 5,369	\$ 5,369
Home equity <sup>(1)</sup>	2	\$ 200	\$ 200

The loans included above are considered TDRs as a result of the Bank implementing one or more of the following concessions: granting a material extension of time, issuing a forbearance agreement, adjusting the interest rate to a below market rate, accepting interest only for a period of time or a change in amortization period. For the three months ended March 31, 2013 and 2012, TDRs totaled \$195,000 and \$9.1 million, respectively. The significant decrease in TDRs reflects the loan sales which the Bank undertook in the third and fourth quarter of 2012 as part of our balance sheet restructuring. All TDRs were considered impaired and therefore were individually evaluated for impairment in the calculation of the allowance for loan losses. Prior to their classification as TDRs, certain of these loans had been collectively evaluated for impairment in the calculation of the allowance for loan losses.

(1) Includes home equity lines of credit.





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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes information in regards to troubled debt restructurings for which there was a payment default within twelve months of restructuring (In thousands):

	Number of Contracts	Recorded Investment
Three Months Ended March 31, 2013		
Residential	1	\$ 221
Commercial and multi-family	1	\$ 194
<b>Commercial business<sup>(1)</sup></b>	2	\$ 1,179
<b>Home equity<sup>(2)</sup></b>	1	\$ 56

	Number of Contracts	Recorded Investment
Three Months Ended March 31, 2012		
Residential	2	\$ 216
Commercial and multi-family	2	\$ 1,140
Commercial business <sup>(1)</sup>	1	\$ 844
Home equity <sup>(2)</sup>	2	\$ 295

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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## Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the delinquency status of total loans receivable as of March 31, 2013:

	30-59 Days Past Due (In Thousands)	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
Residential	\$7,084	\$ 5,486	\$ 924	\$ 13,494	\$188,020	\$ 201,514	\$ —
Commercial and multi-family	17,103	4,489	8,857	30,449	583,733	614,182	—
Construction	1,929	537	130	2,596	15,344	17,940	—
<b>Commercial business<sup>(1)</sup></b>	795	445	1,437	2,677	48,442	51,119	—
<b>Home equity<sup>(2)</sup></b>	1,316	1,216	1,382	3,914	55,068	58,982	—
Consumer	32	3	—	35	1,352	1,387	—
Total	\$28,259	\$ 12,176	\$ 12,730	\$ 53,165	\$891,959	\$ 945,124	\$ —

**(1) Includes business lines of credit.**

**(2) Includes home equity lines of credit.**

The following table sets forth the delinquency status of total loans receivable at December 31, 2012:

	30-59 Days Past Due (In Thousands)	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
Residential	\$7,566	\$ 1,941	\$ 2,348	\$ 11,855	\$191,071	\$ 202,926	\$ 1,223
Commercial and multi-family	23,816	5,245	9,275	38,336	549,932	588,268	1,386
Construction	2,537	1,174	130	3,841	19,469	23,310	—
Commercial business <sup>(1)</sup>	1,495	152	1,514	3,161	56,507	59,668	—
Home equity <sup>(2)</sup>	1,380	717	1,516	3,613	56,780	60,393	227
Consumer	—	—	—	—	1,634	1,634	—
Total	\$36,794	\$ 9,229	\$ 14,783	\$ 60,806	\$875,393	\$ 936,199	\$ 2,836

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(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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Index**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of March 31, 2013. (In Thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Residential	\$ 191,896	\$ 4,483	\$ 4,288	\$ 847	\$ —	\$201,514
Commercial and multi-family	591,007	10,812	6,200	6,163	—	614,182
Construction	17,010	441	—	489	—	17,940
<b>Commercial business<sup>(1)</sup></b>	46,810	1,684	1,451	1,174	—	51,119
<b>Home equity<sup>(2)</sup></b>	56,166	977	1,751	88	—	58,982
Consumer	1,348	—	36	3	—	1,387
<b>Total</b>	<b>\$904,237</b>	<b>\$ 18,397</b>	<b>\$ 13,726</b>	<b>\$ 8,764</b>	<b>\$ —</b>	<b>\$945,124</b>

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**(1) Includes business lines of credit.**

**(2) Includes home equity lines of credit.**

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of December 31, 2012. (In Thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Residential	\$ 190,054	\$ 6,300	\$ 5,653	\$ 919	\$ —	\$202,926
Commercial and multi-family	556,814	15,036	13,206	3,212	—	588,268
Construction	22,739	—	441	130	—	23,310
Commercial business <sup>(1)</sup>	54,100	2,696	1,452	1,420	—	59,668
Home equity <sup>(2)</sup>	57,857	1,091	1,445	—	—	60,393
Consumer	1,598	—	36	—	—	1,634
<b>Total</b>	<b>\$883,162</b>	<b>\$ 25,123</b>	<b>\$ 22,233</b>	<b>\$ 5,681</b>	<b>\$ —</b>	<b>\$936,199</b>

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**(1) Includes business lines of credit.**

**(2) Includes home equity lines of credit.**



Index**Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the unpaid principal balance and the related recorded investment of acquired loans included in our Consolidated Statements of Financial Condition. (In Thousands):

	March 31, 2013	December 31, 2012
Unpaid principal balance	\$313,847	\$330,090
Recorded investment	310,287	326,717

The following table presents changes in the accretable discount on loans acquired for the three months ended March 31, 2013 and 2012. (In Dollars):

	March 31, 2013	March 31, 2012
Beginning Balance	\$ 136,209	\$ 180,722
Accretion	(11,531 )	(13,593 )
Ending Balance	\$ 124,678	\$ 167,129

No interest income is being recognized on loans acquired where the fair value of the loan was based on the cash flows expected to be received from the foreclosure and sale of the underlying collateral. The carrying value of these loans as of March 31, 2013 and March 31, 2012, was \$5.4 million and \$12.5 million, respectively.

Index**Note 8 – Fair Values of Financial Instruments**

Guidance on fair value measurements establishes 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 and liabilities (Level 1 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 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.

The only assets or liabilities that the Company measured at fair value on a recurring basis were as follows. (In Thousands):

Description	Total	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
As of March 31, 2013:				
Securities available for sale — Equity Securities	\$ 1,418	\$ 1,418	\$ —	\$ —
As of December 31, 2012:				
Securities available for sale — Equity Securities	\$ 1,240	\$ 1,240	\$ —	\$ —



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There were no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 of the fair value hierarchy during the three months ended March 31, 2013.

The Company's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 of the fair value hierarchy during the three months ended March 31, 2013.

The only assets or liabilities that the Company measured at fair value on a nonrecurring basis were as follows. (In Thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
As of March 31, 2013:				
Impaired Loans	\$20,392	\$ —	\$ —	\$ 20,392
As of December 31, 2012:				
Impaired Loans	\$20,967	\$ —	\$ —	\$ 20,967
Other Real Estate Owned	\$2,215	\$ —	\$ —	\$ 2,215

Index**Note 8 – Fair Values of Financial Instruments (Continued)**

The following tables present additional quantitative information as of March 31, 2013 and December 31, 2012 about assets measured at fair value on a nonrecurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value. (Dollars in thousands):

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

	Fair Value Valuation		Unobservable	Range
	Estimate	Techniques	Input	
<b>March 31, 2013:</b>				
Impaired Loans	\$ 20,392	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10%
			Liquidation expenses (3)	0%-10%
<b>December 31, 2012:</b>				
Impaired Loans	\$ 20,967	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10%
			Liquidation expenses (3)	0%-10%
Other Real Estate Owned	\$2,215	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-20%

(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 estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The following 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. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of March 31, 2013 and December 31, 2012.

**Cash and Cash Equivalents and Interest-Earning Time Deposits (Carried at Cost)**

The carrying amounts reported in the consolidated statements of financial condition for cash and short-term instruments approximate those assets' fair values.

## **Securities**

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets and/or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

## **Loans Held for Sale (Carried at Lower of Cost or Fair Value)**

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for specific attributes of that loan. Loans held for sale are carried at their cost as of March 31, 2013 and December 31, 2012.

## **Loans Receivable (Carried at Cost)**

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

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**Note 8 – Fair Values of Financial Instruments (Continued)**

**Impaired Loans (Generally Carried at Fair Value)**

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loans observable market price or the fair value of the collateral if the loan is collateral dependent. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

**Real Estate Owned (Generally Carried at Fair Value)**

Real Estate Owned is generally carried at fair value, when the carry value is written down to fair value, which is determined based upon independent third-party appraisals of the properties, or based upon the expected proceeds from a pending sale. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

**FHLB of New York Stock (Carried at Cost)**

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

**Interest Receivable and Payable (Carried at Cost)**

The carrying amount of interest receivable and interest payable approximates its fair value.

**Deposits (Carried at Cost)**

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

### **Long-Term Debt (Carried at Cost)**

Fair values of long-term debt are estimated using discounted cash flow analysis, based on quoted prices for new long-term debt with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

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

Fair values for the Company's off-balance sheet financial instruments (lending commitments and unused lines of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these commitments was deemed immaterial and is not presented in the accompanying table.

Index**Note 8 – Fair Values of Financial Instruments (Continued)**

The carrying values and estimated fair values of financial instruments were as follows as of March 31, 2013 and December 31, 2012:

As of March 31, 2013

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)					
Financial assets:					
Cash and cash equivalents	\$37,034	\$37,034	\$ 37,034	\$ —	\$ —
Interest earning time deposits	986	986	986	—	—
Securities available for sale	1,418	1,418	1,418	—	—
Securities held to maturity	142,217	147,897	—	147,897	—
Loans held for sale	1,328	1,357	—	1,357	—
Loans receivable	930,276	970,621	—	—	970,621
FHLB of New York stock	6,933	6,933	—	6,933	—
Interest receivable	4,275	4,275	—	4,275	—
Financial liabilities:					
Deposits	943,796	948,120	541,235	406,885	—
Long-term debt	114,124	127,080	—	127,080	—
Interest payable	771	771	—	771	—

As of December 31, 2012

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)					
Financial assets:					
Cash and cash equivalents	\$34,147	\$34,147	\$ 34,147	\$ —	\$ —
Interest earning time deposits	986	986	986	—	—
Securities available for sale	1,240	1,240	1,240	—	—

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Securities held to maturity	164,648	171,603	—	171,603	—
Loans held for sale	1,602	1,637	—	1,637	—
Loans receivable	922,301	963,472	—	—	963,472
FHLB of New York stock	7,698	7,698	—	7,698	—
Interest receivable	4,063	4,063	—	4,063	—
Financial liabilities:					
Deposits	940,786	944,960	527,318	417,642	—
Long-term debt	131,124	144,211	—	144,211	—
Interest payable	789	789	—	789	—

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**Note 9 – New Accounting Pronouncements**

The Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Update (“ASU”) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the statement where net income is presented or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in their entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments in this ASU apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. For public entities, the amendments in this ASU are effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted this ASU on January 1, 2013 by including the required disclosures in the notes included on the consolidated statements of comprehensive income. The adoption of ASU 2013-02 did not have an impact on the Company's financial condition, results of operations, or cash flows.



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**ITEM 2.**

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

**Financial Condition**

Total assets decreased by \$13.2 million or 1.1% to \$1.158 billion at March 31, 2013 from \$1.171 billion at December 31, 2012. The decrease in total assets occurred primarily as a result of a decrease in securities held to maturity of \$22.4 million, partially offset by an increase in net loans receivable of \$8.0 million. Management is concentrating on maintaining adequate liquidity in anticipation of funding loans in the loan pipeline as well as seeking opportunities in the secondary market that provide reasonable returns. It is our intention to grow the balance sheet at a measured pace consistent with our capital levels and as business opportunities permit.

Total cash and cash equivalents increased by \$2.9 million or 8.5% to \$37.0 million at March 31, 2013 from \$34.1 million at December 31, 2012. Investment securities classified as held-to-maturity decreased by \$22.4 million or 13.6% to \$142.2 million at March 31, 2013 from \$164.6 million at December 31, 2012. This decrease in investment securities resulted primarily from allowable sales of \$6.3 million of mortgage-backed securities from the held-to-maturity portfolio and \$17.1 million of repayments and prepayments in the mortgage-backed securities portfolio, partially offset by purchases of \$1.4 million in investment securities.

Net loans receivable increased by \$8.0 million or 0.9% to \$930.3 million at March 31, 2013 from \$922.3 million at December 31, 2012. The increase resulted primarily from a \$19.1 million increase in real estate mortgages comprising residential, commercial and multi-family, construction and participation loans with other financial institutions partially offset by a \$8.5 million decrease in commercial loans comprising business loans and commercial lines of credit, net of amortization, and a \$1.5 million decrease in consumer loans, net of amortization partially offset by a \$981,000 increase in the allowance for loan losses. As of March 31, 2013, the allowance for loan losses was \$13.3 million or 72.8% of non-performing loans and 1.41% of gross loans. As a result of the loans acquired in the business combination transactions being recorded at their fair value, the balances in the allowance for loan losses that were on the balance sheets of the former Pamrapo Bancorp, Inc., and Allegiance Community Bank are precluded from being reported in the allowance balance previously discussed, consistent with generally accepted accounting principles.

Deposit liabilities increased by \$3.0 million or 0.3% to \$943.8 million at March 31, 2013 from \$940.8 million at December 31, 2012. The increase resulted primarily from a \$16.1 million increase in non-interest bearing deposits along with an increase of \$6.5 million in savings and club deposits which more than offset a \$10.9 million decrease in certificate of deposits, a decrease of \$7.7 million in NOW deposits and a decrease of \$955,000 in money market interest bearing deposits. Consistent with our customer's preferences, we have attempted to shift our funding from

higher cost time deposit accounts to more liquid and lower cost core deposits. During the quarter ended March 31, 2013, the Federal Open Market Committee (FOMC) has continued its mindset of a continuing accommodative monetary policy. This has resulted in historically low short term market rates that have further resulted in low time deposit account yields which in turn has had the effect of decreasing interest expense.

We had no short-term borrowed money at March 31, 2013 compared with \$17.0 million in short-term borrowings at December 31, 2012. Long-term borrowed money remained constant at \$114.1 million at March 31, 2013 and December 31, 2012, respectively. The purpose of the borrowings reflects the use of long term and short term Federal Home Loan Bank advances to augment deposits as the Bank's funding source for originating loans and investing in GSE investment securities.

Stockholders' equity increased by \$1.1 million or 1.2% to \$92.7 million at March 31, 2013 from \$91.6 million at December 31, 2012. The increase in stockholders' equity is primarily attributable to net income of \$2.4 million. During the period the Company repurchased 25,225 shares of the Company's common stock at a cost of \$247,000, and paid a cash dividend during the quarter totaling \$1.0 million on common shares and the accrued a dividend payable on the preferred shares of \$130,000 payable in the second quarter. As of March 31, 2013, the Bank's Tier 1, Tier 1 Risk-Based and Total Risk Based Capital Ratios were 8.40%, 12.90% and 14.16% respectively.

## Results of Operations

Net income increased by \$822,000 or 51.8% to \$2.41 million for the three months ended March 31, 2013 compared with net income of \$1.59 million for three months ended March 31, 2012. The increase in net income was due to an increase in total interest income along with decreases in total interest expense and non-interest expense, partially offset by increases in the provision for loan losses and the income tax provision and a decrease in non-interest income.

Net interest income increased by \$1.1 million or 10.8% to \$11.4 million for the three months ended March 31, 2013 from \$10.3 million for the three months ended March 31, 2012. The increase in net interest income resulted primarily from an increase in the average yield on interest earning assets of forty-three basis points to 4.97% for the three months ended March 31, 2013 from 4.54% for the three months ended March 31, 2012, partially offset by a decrease in the average balance of interest earning assets of \$61.0 million or 5.1% to \$1.132 billion for the three months ended March 31, 2013 from \$1.193 billion for the three months ended March 31, 2012. While yields on the individual components of interest-earning assets generally declined, the overall yield on interest-earning assets increased due to a reallocation of such assets into higher yielding loans. The average balance of interest bearing liabilities decreased by \$71.4 million or 6.9% to \$967.6 million for the three months ended March 31, 2013 from \$1.039 billion for the three months ended March 31, 2012, while the average cost of interest bearing liabilities decreased by fifteen basis points to 1.10% for the three months ended March 31, 2013 from 1.25% for the year three months ended March 31, 2012. As a consequence of the aforementioned, our net interest margin increased by fifty-eight basis points to 4.03% for the three months ended March 31, 2013 from 3.45% for the three months ended March 31, 2012.

Interest income on loans receivable increased by \$1.02 million or 8.5% to \$12.99 million for the three months ended March 31, 2013 from \$11.97 million for the three months ended March 31, 2012. The increase was primarily attributable to an increase in the average balance of loans receivable of \$82.1 million or 9.5% to \$945.7 million for the three months ended March 31, 2013 from \$863.6 million for the three months ended March 31, 2012, partially offset by a slight decrease in the average yield on loans receivable to 5.50% for the three months ended March 31, 2013 from 5.55% for the three months ended March 31, 2012. The decrease in average yield reflects the competitive price environment prevalent in the Bank's primary market area on loan facilities as well as the repricing downward of variable rate loans.

Interest income on securities decreased by \$472,000 or 30.5% to \$1.07 million for the three months ended March 31, 2013 from \$1.55 million for the three months ended March 31, 2012. This decrease was primarily due to a decrease in the average balance of securities held-to-maturity of \$54.1 million or 24.9% to \$163.4 million for the three months ended March 31, 2013 from \$217.5 million for the three months ended March 31, 2012, as well as a decrease in the average yield of securities held-to-maturity to 2.63% for the three months ended March 31, 2013 from 2.84% for the three months ended March 31, 2012. The decrease in the average yield reflects the persistent low interest rate environment for the three months ended March 31, 2013.

Interest income on other interest-earning assets decreased by \$19,000 or 63.3% to \$11,000 for the three months ended March 31, 2013 from \$30,000 for the three months ended March 31, 2012. This decrease was primarily due to a decrease of \$89.1 million or 79.3% in the average balance of other interest-earning assets to \$23.3 million for the three months ended March 31, 2013 from \$112.4 million for the three months ended March 31, 2012. The average yield on other interest-earning assets increased marginally to 0.19% for the three months ended March 31, 2013 from 0.11% for the three months ended March 31, 2012. The static nature of the average yield on other interest-earning assets reflects the current philosophy of the FOMC of keeping short term interest rates at historically low levels for the last several years. The decreased balance of other interest earning assets reflects management's decision to reallocate excess liquidity into higher yielding, regularly repricing loan product during a period of historically low money market interest rates.

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Total interest expense decreased by \$592,000 or 18.2% to \$2.66 million for the three months ended March 31, 2013 from \$3.25 million for the three months ended March 31, 2012. The decrease resulted primarily from a decrease in the balance of average interest-bearing liabilities of \$71.4 million or 6.9% to \$967.6 million for the three months ended March 31, 2013 from \$1.039 billion for the three months ended March 31, 2012, along with a decrease in the average cost of interest-bearing liabilities of fifteen basis points to 1.10% for the three months ended March 31, 2013 from 1.25% for the three months ended March 31, 2012. The decrease in the balance of average interest-bearing liabilities is primarily attributable to the decrease in the average balance of certificate of deposits of \$46.8 million or 10.3% to \$407.7 million for the three months ended March 31, 2013 from \$454.5 million for the three months ended March 31, 2012 along with a decrease in the average balance of wholesale borrowings of \$11.1 million or 8.7% to \$116.6 million for the three months ended March 31, 2013 from \$127.7 million for the three months ended March 31, 2012. The decrease in the average cost reflects the lower short term interest rate environment and our ability to reduce our pricing on a select number of retail deposit products.

The provision for loan losses totaled \$1.2 million and \$600,000 for the three months ended March 31, 2013 and 2012, respectively. The provision for loan losses is established based upon management's review of the Bank's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the dynamic activity and fluctuating balance of loans receivable, and (5) the existing level of reserves for loan losses that are probable and estimable. During the three months ended March 31, 2013, the Bank experienced \$219,000 in net charge-offs (consisting of \$223,000 in charge-offs and \$4,000 in recoveries). During the year ended December 31, 2012, the Bank experienced \$3.05 million in net charge-offs (consisting of \$3.08 million in charge-offs and \$35,000 in recoveries). The Bank had non-performing loans totaling \$18.3 million or 1.94% of gross loans at March 31, 2013 and \$22.9 million or 2.45% of gross loans at December 31, 2012. The allowance for loan losses was \$13.3 million or 1.41% of gross loans at March 31, 2013, \$12.4 million or 1.32% of gross loans at December 31, 2012 and \$10.9 million or 1.30% of gross loans at March 31, 2012. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at March 31, 2013, December 31, 2012 and March 31, 2012.

Total non-interest income decreased by \$498,000 or 38.8% to \$784,000 for the three months ended March 31, 2013 from \$1.28 million for the three months ended March 31, 2012. The decrease in non-interest income resulted primarily from a decrease of \$66,000 or 13.5% in fees and service charges to \$424,000 for the three months ended March 31, 2013 from \$490,000 for the three months ended March 31, 2012, a decrease of \$521,000 or 81.4% in gain on sale of loans originated for sale to \$119,000 for the three months ended March 31, 2013 from \$640,000 for the three months ended March 31, 2012, and a decrease of \$7,000 or 29.2% in other non-interest income to \$17,000 for the three months ended March 31, 2013 from \$24,000 for the three months ended March 31, 2012, partially offset by an increase of \$96,000 or 75.0% in gain on sale of securities held to maturity to \$224,000 for the three months ended March 31, 2013 from \$128,000 for the three months ended March 31, 2012. The securities sold consisted of mortgage-backed securities that had already returned at least 85% of the original principal purchased. The decrease in fees and service charges is primarily due to decreased late fee income of \$116,000 or 68.6% to \$53,000 for the three

months ended March 31, 2013 from \$169,000 for the three months ended March 31, 2012, partially offset by an increase in deposit service charges of \$74,000 or 40.2% to \$258,000 for the three months ended March 31, 2013 from \$184,000 for the three months ended March 31, 2012. The decrease in gain on sale of loans originated for sale occurred primarily as a result of a decrease in sales activity for the three months ended March 31, 2013 compared to March 31, 2012.

Total non-interest expense decreased by \$1.48 million or 17.7% to \$6.9 million for the three months ended March 31, 2013 from \$8.38 million for the three months ended March 31, 2012. Salaries and employee benefits expense decreased by \$467,000 or 11.9% to \$3.47 million for the three months ended March 31, 2013 from \$3.93 million for the three months ended March 31, 2012. The decrease resulted primarily from a decrease in employee benefits of \$323,000 along with decreases in overtime paid of \$43,000 and commissions paid to mortgage originators on loans held for sale of \$56,000 compared to March 31, 2012. Occupancy expense decreased by \$34,000 or 4.0% to \$812,000 for the three months ended March 31, 2013 from \$846,000 for the three months ended March 31, 2012. Equipment expense decreased by \$282,000 or 19.5% to \$1.17 million for the three months ended March 31, 2013 from \$1.45 million for the three months ended March 31, 2012. The decrease resulted primarily from system conversion costs following the acquisition of Allegiance Community Bank of approximately \$250,000 incurred in March 2012. Professional fees increased by \$28,000 or 6.5% to \$459,000 for the three months ended March 31, 2013 from \$431,000 for the three months ended March 31, 2012. Director fees decreased by \$42,000 or 20.0% to \$168,000 for the three months ended March 31, 2013 from \$210,000 for the three months ended March 31, 2012. Regulatory assessments decreased by \$45,000 or 14.5% to \$265,000 for the three months ended March 31, 2013 from \$310,000 for the three months ended March 31, 2012 primarily due to the new assessment methodology instituted under the Dodd-Frank Act which lowered the Bank's insurance premium. Advertising expense decreased by \$15,000 or 12.8% to \$102,000 for the three months ended March 31, 2013 from \$117,000 for the three months ended March 31, 2012. Other real estate owned (income)/expenses decreased by \$329,000 or 134.3% to income of \$84,000 for the three months ended March 31, 2013 from an expense of \$245,000 for the three months ended March 31, 2012. The decrease in expenses was primarily due to an upward valuation adjustment of OREO property of \$110,000 for the three months ended March 31, 2013 compared to no corresponding entry for the three months ended March 31, 2012, along with a gain on sale of OREO properties of (\$21,000) for the three months ended March 31, 2013 from a loss on sale of OREO properties of \$137,000 for the three months ended March 31, 2012 and a decrease in OREO expenses of \$61,000 or 56.5% to \$47,000 for the three months ended March 31, 2013 from \$108,000 for the three months ended March 31, 2012. Other non-interest expense decreased by \$292,000 or 34.7% to \$550,000 for the three months ended March 31, 2013 from \$842,000 for the three months ended March 31, 2012. The decrease was primarily due to the sale of the non-performing loan portfolio in 2012 which alleviated the carrying and legacy costs associated with these non-performing loans. Other non-interest expense is comprised of loan expense, stationary, forms and printing, check printing, correspondent bank fees, telephone and communication, and other fees and expenses.

Income taxes increased by \$678,000 or 67.2% to \$1.69 million for the three months ended March 31, 2013 from \$1.01 million for the three months ended March 31, 2012, reflecting increased taxable income during the three month time period ended March 31, 2013. The consolidated effective tax rate for the three months ended March 31, 2013 was 41.2% compared to 38.9% for the three months ended March 31, 2012.

Index**Item 3. Quantitative and Qualitative Disclosures About Market Risk****Management of Market Risk**

**General.** The majority of our assets and liabilities are monetary in nature. Consequently, one of our most significant forms of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Committee, which consists of senior management and outside directors operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

The following table presents the Company's net portfolio value ("NPV"). These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of March 31, 2013. Assumptions have been made by the Company relating to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Investment securities were scheduled at either the maturity date or the next scheduled call date based upon management's judgment of whether the particular security would be called in the current interest rate environment and under assumed interest rate scenarios. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions made in the preparation of the NPV table include prepayment rates on loans and mortgage-backed securities, core deposits without stated maturity dates were scheduled with an assumed term of 48 months, and money market and non-interest bearing accounts were scheduled with an assumed term of 24 months. The NPV at "PAR" represents the difference between the Company's estimated value of assets and estimated value of liabilities assuming no change in interest rates. The NPV for a decrease of 200 to 300 basis points has been excluded since it would not be meaningful, in the interest rate environment as of March 31, 2013. The following sets forth the Company's NPV as of that date.

Change in Calculation	Net Portfolio Value	\$ Change from PAR	% Change from PAR	NPV as a % of Assets	NPV Ratio	Change
+300bp	\$ 102,785	\$ (35,277)	) -25.55%	9.30%	-218	bps

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+200bp	123,604	(14,458	)	-10.47	10.82	-66	bps
+100bp	135,428	(2,634	)	-1.91	11.53	05	bps
PAR	138,062	—		—	11.48	—	bps
-100bp	143,460	5,398		3.91	11.72	24	bps

bp – basis points

The table above indicates that as of March 31, 2013, in the event of a 100 basis point increase in interest rates, we would experience a 1.91% decrease in NPV.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in NPV require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the NPV table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income, and will differ from actual results.

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**ITEM 4.**

**Controls and Procedures**

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of business. Other than as set forth below, as of March 31, 2013, we were not involved in any material legal proceedings, the outcome of which, if determined in a manner adverse to the Company, would have a material adverse affect on our financial condition or results of operations.

The Company is a named defendant in the lawsuit Kontos v. Robbins, et al., filed in the Superior Court of New Jersey on May 15, 2012. The lawsuit alleges that Spencer Robbins, the former Chairman of the Board of Allegiance Community Bank and currently a director of the Company, and others misled Mr. Kontos with respect to his investment in a real estate project and induced Mr. Kontos to borrow money from Allegiance Community Bank, also a named defendant. The lawsuit seeks an unspecified dollar amount of damages, as well as equitable and other relief. Insurance coverage is currently in effect. The Company has filed its Answer to the lawsuit. The Company, after preliminary review, believes the lawsuit is without merit and frivolous. The Company intends to vigorously defend its interests in this litigation.

The Company is the successor to Pamrapo Bancorp, Inc., a named defendant in the lawsuit Brian Campbell v. Pamrapo Bancorp, Inc., et al., filed in the Superior Court of New Jersey in December 2010. The lawsuit alleges that Mr. Campbell sustained personal injuries in an automobile accident while on a work-related trip and should be compensated for his injuries. Insurance coverage is currently in effect. The Company believes that the lawsuit is without merit and it intends to vigorously defend its interests.

The Company, as the successor to Pamrapo Bancorp, Inc., and in its own corporate capacity, is a named defendant in a shareholder derivative lawsuit, Kube, et al., v. Pamrapo Bancorp, Inc., et al., filed in the Superior Court of New Jersey, Hudson County, Chancery Division, General Equity. On May 9, 2012, the Company obtained partial summary judgment, dismissing three of the five Counts of the Complaint. On May 9, 2012, plaintiff's counsel was awarded interim legal fees of approximately \$350,000. The Company's obligation to pay that amount has been stayed. The Company's motion for leave to file an interlocutory appeal of that award was denied by the Appellate Division of the Superior Court of New Jersey. The Company is vigorously defending its interests in the litigation.

The Company is a named defendant in the lawsuit Armstrong v. BCB Bancorp, Inc., and Brian M. Campbell, which was filed in the Superior Court of New Jersey, Atlantic County, Law Division, on September 27, 2011. The Company is a named defendant as the successor to Pamrapo Bancorp, Inc. The lawsuit accuses Brian Campbell, the former Managing Director of Pamrapo Services Corporation, a wholly-owned subsidiary of Pamrapo Bancorp, Inc., of various violations of federal and state securities laws, fraud, breach of fiduciary duty and negligence. Prime Capital, Inc., and other entities have been named as additional, potentially-responsible parties by the Company and/or the

plaintiff. The case has been transferred to FINRA arbitration. The arbitration is in its early stages. The plaintiff is seeking unspecified damages. Insurance coverage is currently in effect for the Company. The Company intends to vigorously defend its interests in this litigation.

## ITEM 1.A. RISK FACTORS

Other than as set forth below, there have been no changes to the risk factors set forth under Item 1.A Risk Factors as set forth in the Company's Form 10-K for the year ended December 31, 2012.

**The asset quality of our loan portfolio may deteriorate if the economy falters, resulting in a portion of our loans failing to perform in accordance with their terms. Under such circumstances our profitability will be adversely affected.**

At March 31, 2013, the Company had \$47.3 million in classified loans of which \$8.8 million were classified as doubtful, \$13.7 million were classified as substandard and \$18.4 million were classified as special mention. In addition, at that date we had \$18.3 million in non-accruing loans. While we have adhered to stringent underwriting standards in the origination of loans, a large percentage of our loan portfolio was obtained in connection with our acquisition of Pamrapo Bancorp, Inc. and Allegiance Community Bank. In addition, there can be no assurance that loans that we originated will not experience asset quality deterioration as a result of a downturn in the local economy. Should our local economy weaken, our asset quality may deteriorate resulting in losses to the Company.

**The effects of Hurricane Sandy impacted our operations and disrupted our branch network and potentially affected loan facilities in those areas affected by the storm. Under such circumstances our profitability will be adversely affected.**

On October 29<sup>th</sup> and 30<sup>th</sup>, 2012, Hurricane Sandy struck the Northeast section of the country. The Bank's market area has been significantly impacted by the storm which resulted in widespread flooding, wind damage and power outages. The storm temporarily disrupted our branch network and our ability to service our customers, however within one week, all of our offices were fully functional. The Bank has conducted a quantitative analysis identifying 122 loans with outstanding principal loan balances totaling approximately \$38.0 million, of which \$22.0 million of these loans identified have either completed the restoration or have paid the loan in full. The remaining \$16.0 million are at various stages of completion and are closely monitored by the bank. Based on this analysis, the bank has made an additional provision for loan losses totaling \$500,000 to mitigate any potential losses. Executive Management will continue to monitor the ongoing status on a monthly basis to determine if the established provision needs adjustment.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Securities sold within the past three years without registering the securities under the Securities Act of 1933**

On May 9, 2012, the Company announced a sixth stock repurchase plan to repurchase 5% or 462,800 shares of the Company's common stock. On June 28, 2012, the Company announced a seventh stock repurchase plan to repurchase 5% or 440,000 shares of the Company's common stock. The Company's stock purchases for the three months ended March 31, 2013 are as follows:

Period	Shares Purchased	Average Price	Total Number of Shares Purchased	Maximum Number of Shares That May Yet be Purchased
January 1-January 31, 2013	12,840	\$ 9.69	12,840	187,757
February 1- February 28, 2013	12,385	\$ 9.82	25,225	175,372
March 1- March 31, 2013	—	\$ —	—	—
Total	25,225	9.76	25,225	175,372

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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**ITEM 4. MINE SAFTEY DISCLOSURES**

Not applicable

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit 11.0	Computation of Earnings per Share.
Exhibit 31.1 and 31.2	Officers' Certification filed pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Officers' Certification filed pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation LinkBase
Exhibit 101.DEF	XBRL Taxonomy Extension Definition LinkBase
Exhibit 101.LAB	XBRL Taxonomy Extension Label LinkBase
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation LinkBase

