DIME COMMUNITY BANCSHARES INC
Form 10-Q
November 06, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from to

Commission file number 0-27782

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Classes of Common Stock | Number of Shares Outstanding at November 5, 2015 |
|---|---|
| $.01 Par Value | 37,300,686 |

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

Forward-looking statements are based upon various assumptions and analyses made by Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual conditions or results to differ materially from those expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
there may be increases in competitive pressure among financial institutions or from non-financial institutions;
the net interest margin is subject to material short-term fluctuation based upon market rates;
changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;

general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry may be less favorable than the Company currently anticipates;
legislation or regulatory changes may adversely affect the Company's business;
technological changes may be more difficult or expensive than the Company anticipates;
success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates;
litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and
The risks referred to in the section entitled "Risk Factors."

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

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Item 1. Unaudited Condensed Consolidated Financial Statements

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS: | | |
| Cash and due from banks | $74,073 | $78,187 |
| Federal funds sold and other short-term investments | - | 250 |
| Total cash and cash equivalents | 74,073 | 78,437 |
| Investment securities held-to-maturity (estimated fair value of $7,478 and $6,315 at September 30, 2015 and December 31, 2014, respectively)(fully unencumbered) | 5,349 | 5,367 |
| Investment securities available-for-sale, at fair value (fully unencumbered) | 3,684 | 3,806 |
| Mortgage-backed securities available-for-sale, at fair value (fully unencumbered) | 446 | 26,409 |
| Trading securities | 8,697 | 8,559 |
| Loans: | | |
| Real estate, net | 4,490,624 | 4,117,411 |
| Consumer loans | 1,468 | 1,829 |
| Less allowance for loan losses | (18,959) | (18,493) |
| Total loans, net | 4,473,133 | 4,100,747 |
| Premises and fixed assets, net | 15,296 | 25,065 |
| Premises held for sale | 8,799 | - |
| Federal Home Loan Bank of New York ("FHLBNY") capital stock | 54,348 | 58,407 |
| Other real estate owned ("OREO") | 148 | 18 |
| Bank Owned Life Insurance ("BOLI") | 84,451 | 82,614 |
| Goodwill | 55,638 | 55,638 |
| Other assets | 48,430 | 52,040 |
| Total Assets | $4,832,492 | $4,497,107 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Due to depositors: | | |
| Interest bearing deposits | $2,800,061 | $2,472,199 |
| Non-interest bearing deposits | 229,436 | 187,593 |
| Total deposits | 3,029,497 | 2,659,792 |
| Escrow and other deposits | 131,132 | 91,921 |
| FHLBNY advances | 1,069,725 | 1,173,725 |
| Trust Preferred securities payable | 70,680 | 70,680 |
| Other liabilities | 47,579 | 41,264 |
| Total Liabilities | 4,348,613 | 4,037,382 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock ($0.01 par, 9,000,000 shares authorized, none issued or outstanding at September 30, 2015 and December 31, 2014) | - | - |
| Common stock ($0.01 par, 125,000,000 shares authorized, 53,145,798 shares and 52,871,443 shares issued at September 30, 2015 and December 31, 2014, respectively, and 37,189,874 shares and 36,855,019 shares outstanding at September 30, 2015 and December 31, 2014, respectively) | 532 | 529 |
| Additional paid-in capital | 259,906 | 254,358 |

| | | |
|---|---|---|
| Retained earnings | 445,326 | 427,126 |
| Accumulated other comprehensive loss, net of deferred taxes | (9,173 ) | (8,547 ) |
| Unallocated common stock of Employee Stock Ownership Plan ("ESOP") | (2,371 ) | (2,545 ) |
| Unearned Restricted Stock Award common stock | (2,709 ) | (3,066 ) |
| Common stock held by Benefit Maintenance Plan ("BMP") | (9,354 ) | (9,164 ) |
| Treasury stock, at cost (15,956,924 shares and 16,016,424 shares at September 30, 2015 and December 31, 2014, respectively) | (198,278 ) | (198,966 ) |
| Total Stockholders' Equity | 483,879 | 459,725 |
| Total Liabilities And Stockholders' Equity | $4,832,492 | $4,497,107 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income: | | | | |
| Loans secured by real estate | $42,109 | $43,477 | $127,370 | $126,311 |
| Other loans | 22 | 26 | 70 | 80 |
| Mortgage backed securities | 1 | 223 | 184 | 707 |
| Investment securities | 254 | 68 | 544 | 274 |
| Federal funds sold and other short-term investments | 510 | 551 | 1,738 | 1,609 |
| Total interest income | 42,896 | 44,345 | 129,906 | 128,981 |
| Interest expense: | | | | |
| Deposits and escrow | 5,890 | 4,976 | 16,780 | 14,590 |
| Borrowed funds | 5,192 | 7,410 | 18,148 | 21,583 |
| Total interest expense | 11,082 | 12,386 | 34,928 | 36,173 |
| Net interest income | 31,814 | 31,959 | 94,978 | 92,808 |
| Provision (credit) for loan losses | 416 | (501 ) | (891 ) | (1,350 ) |
| Net interest income after credit for loan losses | 31,398 | 32,460 | 95,869 | 94,158 |
| Non-interest income: | | | | |
| Service charges and other fees | 1,013 | 1,084 | 2,562 | 2,507 |
| Net mortgage banking income | 41 | 71 | 154 | 1,153 |
| Net (loss) gain on securities | (138 ) | (43 ) | 1,287 | 35 |
| Net gain on the disposal of other assets | - | - | - | 649 |
| Income from BOLI | 620 | 382 | 1,837 | 1,147 |
| Other | 363 | 323 | 1,037 | 951 |
| Total non-interest income | 1,899 | 1,817 | 6,877 | 6,442 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 8,370 | 7,806 | 22,870 | 24,472 |
| Stock benefit plan amortization expense | 885 | 954 | 2,767 | 2,912 |
| Occupancy and equipment | 2,531 | 2,513 | 7,965 | 7,656 |
| Data processing costs | 1,023 | 814 | 2,775 | 2,467 |
| Federal deposit insurance premiums | 575 | 547 | 1,703 | 1,576 |
| Other | 2,740 | 2,090 | 8,274 | 6,762 |
| Total non-interest expense | 16,124 | 14,724 | 46,354 | 45,845 |
| Income before income taxes | 17,173 | 19,553 | 56,392 | 54,755 |
| Income tax expense | 7,092 | 7,788 | 23,004 | 22,496 |
| Net income | $10,081 | $11,765 | $33,388 | $32,259 |
| Earnings per Share: | | | | |
| Basic | $0.28 | $0.33 | $0.92 | $0.90 |
| Diluted | $0.28 | $0.33 | $0.92 | $0.90 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

| | | | | |
|---|---|---|---|---|
| Net Income | $10,081 | $11,765 | $33,388 | $32,259 |
| Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of deferred tax expense of | 6 | 7 | 31 | 29 |

| | | | | |
|---|---|---|---|---|
| $5 during the three months ended both September 30, 2015 and 2014, and $26 and $21 during the nine months ended September 30, 2015 and 2014, respectively | | | | |
| Reduction in (adjustment to) non-credit component of other than temporary impairment ("OTTI"), net of deferred tax expense of $4 during the three months ended both September 30, 2015 and 2014, and $8 and $13 during the nine months ended September 30, 2015 and 2014, respectively | 5 | 4 | (10 ) | 11 |
| Reclassification adjustment for securities sold during the period, net of income tax benefit of $(624) during the nine months ended September 30, 2015 (reclassified from net gain on securities) | - | - | (760 ) | - |
| Net unrealized securities gains (losses) arising during the period, net of deferred tax expense (benefit) of $(79) and $(24) during the three months ended September 30, 2015 and 2014, respectively, and $(64) and $2 during the nine months ended September 30, 2015 and 2014, respectively | (97 ) | (30 ) | (77 ) | 3 |
| Change in pension and other postretirement obligations, net of deferred tax expense of $216 and $117 during the three months ended September 30, 2015 and 2014, respectively, and $158 and $351 during the nine months ended September 30, 2015 and 2014, respectively | 262 | 144 | 190 | 432 |
| Comprehensive Income | $10,257 | $11,890 | $32,762 | $32,734 |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Common Stock (Par Value $0.01): | | |
| Balance at beginning of period | $529 | $528 |
| Shares issued in exercise of options | 3 | 1 |
| Balance at end of period | 532 | 529 |
| Additional Paid-in Capital: | | |
| Balance at beginning of period | 254,358 | 252,253 |
| Stock options exercised | 4,053 | 278 |
| Excess tax benefit related to stock benefit plans | 204 | 71 |
| Amortization of excess fair value over cost – ESOP stock and stock options expense | 815 | 847 |
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | 476 | 654 |
| Balance at end of period | 259,906 | 254,103 |
| Retained Earnings: | | |
| Balance at beginning of period | 427,126 | 402,986 |
| Net income for the period | 33,388 | 32,259 |
| Cash dividends declared and paid | (15,188) | (15,075) |
| Balance at end of period | 445,326 | 420,170 |
| Accumulated Other Comprehensive Loss, Net of Deferred Taxes: | | |
| Balance at beginning of period | (8,547) | (4,759) |
| Other comprehensive (loss) income recognized during the period, net of tax | (626) | 475 |
| Balance at end of period | (9,173) | (4,284) |
| Unallocated Common Stock of ESOP: | | |
| Balance at beginning of period | (2,545) | (2,776) |
| Amortization of earned portion of ESOP stock | 174 | 173 |
| Balance at end of period | (2,371) | (2,603) |
| Unearned Restricted Stock Award Common Stock: | | |
| Balance at beginning of period | (3,066) | (3,193) |
| Amortization of earned portion of restricted stock awards | 1,418 | 1,497 |
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | (1,061) | (1,930) |
| Balance at end of period | (2,709) | (3,626) |
| Common Stock Held by BMP: | | |
| Balance at beginning of period | (9,164) | (9,013) |
| Award distribution | - | 1 |
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | (190) | (152) |
| Balance at end of period | (9,354) | (9,164) |
| Treasury Stock, at cost: | | |
| Balance at beginning of period | (198,966) | (200,520) |
| Treasury shares repurchased (20,000 shares during the nine months ended September 30, 2015) | (300) | - |

| | | |
|---|---|---|
| Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares | 988 | 1,598 |
| Balance at end of period | (198,278) | (198,922) |
| TOTAL STOCKHOLDERS' EQUITY AT THE END OF PERIOD | $483,879 | $456,203 |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | $33,388 | $32,259 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net gain on investment and mortgage backed securities sold | (1,384) | - |
| Net loss (gain) recognized on trading securities | 97 | (35) |
| Net gain on the sale of loans | - | (27) |
| Net gain on the sale of OREO and other assets | - | (649) |
| Net depreciation, amortization and accretion | 2,178 | 1,978 |
| Stock plan compensation (excluding ESOP) | 1,449 | 1,584 |
| ESOP compensation expense | 958 | 934 |
| Credit for loan losses | (891) | (1,350) |
| Credit to reduce the liability for loans sold with recourse | - | (1,040) |
| Increase in cash surrender value of BOLI | (1,837) | (1,147) |
| Deferred income tax provision (credit) | 148 | (116) |
| Excess tax benefit from stock benefit plans | (204) | (71) |
| Changes in assets and liabilities: | | |
| Decrease (Increase) in other assets | 4,178 | (341) |
| Increase in other liabilities | 6,469 | 1,512 |
| Net cash provided by Operating Activities | 44,549 | 33,491 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from maturities of investment securities held-to-maturity | 127 | 76 |
| Proceeds from calls and principal repayments of investment securities available-for-sale | - | 15,000 |
| Proceeds from sales of investment securities available-for-sale | 2,070 | - |
| Proceeds from the sales of trading securities | 1,340 | - |
| Proceeds from sale of mortgage backed securities available for sale | 24,307 | - |
| Purchases of investment securities available-for-sale | (2,038) | (24) |
| Purchases of mortgage backed securities available-for-sale | - | (875) |
| Acquisition of trading securities | (1,572) | (200) |
| Principal collected on mortgage backed securities available-for-sale | 1,589 | 4,645 |
| Proceeds from the sale of loans held for sale previously classified as portfolio loans | 9,905 | 12,970 |
| Purchases of loans | - | (221,924) |
| Loans originated, net of repayments | (381,530) | (145,861) |
| Proceeds from the sale of premises | - | 4,273 |
| Purchases of fixed assets | (1,071) | (1,500) |
| Redemption(Purchase) of FHLBNY capital stock | 4,059 | (7,184) |
| Net cash used in Investing Activities | (342,814) | (340,604) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase in due to depositors | 369,705 | 115,467 |
| Increase in escrow and other deposits | 39,211 | 26,426 |
| Repayments of FHLBNY advances | (1,829,000) | (695,000) |
| Proceeds from FHLBNY advances | 1,725,000 | 888,225 |
| Proceeds from exercise of stock options | 4,056 | 278 |
| Excess tax benefit from stock benefit plans | 204 | 71 |
| Release of stock for benefit plan awards | 213 | 171 |

| | | |
|---|---|---|
| Treasury shares repurchased | (300 ) | - |
| Cash dividends paid to stockholders | (15,188 ) | (15,075 ) |
| Net cash provided by Financing Activities | 293,901 | 320,563 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (4,364 ) | 13,450 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 78,437 | 45,777 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $74,073 | $59,227 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for income taxes | $18,809 | $23,135 |
| Cash paid for interest | 35,269 | 35,689 |
| Loans transferred to OREO | 130 | - |
| Transfer of premises to held for sale | 8,799 | 12,943 |
| Loans transferred to held for sale | 9,534 | - |
| Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity | 58 | 49 |
| Net (increase) decrease in non-credit component of OTTI | (18 ) | 24 |

See notes to unaudited condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in Thousands Except Per Share Amounts)

## 1. NATURE OF OPERATIONS

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Holding Company's direct subsidiaries are the Bank, 842 Manhattan Avenue Corp., and Dime Community Capital Trust 1. The Bank's direct subsidiaries are Boulevard Funding Corp., Dime Insurance Agency Inc., DSBW Preferred Funding Corporation, DSBW Residential Preferred Funding Corp., Dime Reinvestment Corp., 195 Havemeyer Corp. and DSB Holdings NY, LLC.

The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-five full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate and mixed used loans, as well as mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Enterprises ("GSEs"), and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

## 2. SUMMARY OF ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial condition as of September 30, 2015 and December 31, 2014, the results of operations and statements of comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014, and the changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2015 and 2014. The results of operations for the three-month and nine-month periods ended September 30, 2015 are not necessarily indicative of the results of operations for the remainder of the year ending December 31, 2015. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the U. S. Securities and Exchange Commission ("SEC').

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Please see "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" for a discussion of areas in the accompanying unaudited condensed consolidated financial statements utilizing significant estimates.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2014 and notes thereto.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU 2014-08 changed the

criteria for reporting discontinued operations and provided financial statement users additional information related to the assets, liabilities, income, and expenses of discontinued operations. ASU 2014-08 also sought to both clarify confusion related to, and inconsistent financial reporting of, discontinued operations under existing GAAP guidance, and enhance convergence between GAAP and International Financial Reporting Standards. Under ASU 2014-08, only disposals that represent strategic shifts and have a major effect on the organization's operations and financial results are to be presented as discontinued operations. ASU 2014-08 further requires disclosure of the pretax income attributable to the disposal of a significant part of an organization that does not meet the criteria for discontinued operations reporting, providing users information about the ongoing trends in a reporting organization's results from continuing operations. The Company adopted ASU 2014-08 effective January 1, 2015. Adoption of ASU 2014-08 did not have a material impact upon the Company's consolidated financial condition or results of operations.

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4. TREASURY STOCK

There were no treasury stock repurchases during the three months ended September 30, 2015, or the three-month or nine-month periods ended September 30, 2014. The Holding Company repurchased 20,000 shares of its common stock into treasury during the nine months ended September 30, 2015 at a weighted average cost of $15.00 per share.

On April 23, 2015, 11,557 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under the BMP. The closing price of the Holding Company's common stock on that date was $16.37, and the shares were released utilizing the average historical cost method. On April 30, 2015, 68,069 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under the Dime Community Bancshares, Inc. 2013 Equity and Incentive Plan (the "2013 Equity and Incentive Plan"). The closing price of the Holding Company's common stock on that date was $15.92, and the shares were released utilizing the average historical cost method.

On April 30, 2014, 121,333 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under either the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan (the "2004 Stock Incentive Plan") or the 2013 Equity and Incentive Plan, and 9,364 shares of treasury stock were released in order to fulfill benefit obligations under the BMP. The closing price of the Holding Company's common stock on that date was $16.30, and the shares were released utilizing the average historical cost method.

Shares either released from treasury stock for earned equity awards or returned to treasury stock due to forfeited equity awards were otherwise immaterial during the three-month and nine-month periods ended September 30, 2015 and 2014.

5. OTHER COMPREHENSIVE INCOME (LOSS)

The before and after tax amounts allocated to each component of other comprehensive income (loss) are presented in the table below. Reclassification adjustments related to securities available-for-sale are included in the line entitled net (loss) gain on securities in the accompanying condensed consolidated statements of income.

| | Pre-tax Amount | Tax Expense (Benefit) | After tax Amount |
|---|---|---|---|
| Three Months Ended September 30, 2015 | | | |
| Securities held-to maturity and transferred securities: | | | |
| Change in non-credit component of OTTI | $ 9 | $ 4 | $ 5 |
| Change in unrealized loss on securities transferred to held to maturity | 11 | 5 | 6 |
| Total securities held-to-maturity and transferred securities | 20 | 9 | 11 |
| Securities available-for-sale: | | | |
| Change in net unrealized gain during the period | (176 ) | (79 ) | (97 ) |
| Total securities available-for-sale | (176 ) | (79 ) | (97 ) |
| Defined benefit plans: | | | |
| Reclassification adjustment for expense included in salaries and employee benefits expense | 478 | 216 | 262 |
| Change in the net actuarial gain or loss | - | - | - |
| Total defined benefit plans | 478 | 216 | 262 |
| Total other comprehensive income | $ 322 | $ 146 | $ 176 |
| Three Months Ended September 30, 2014 | | | |
| Securities held-to-maturity and transferred securities: | | | |
| Change in non-credit component of OTTI | $ 8 | $ 4 | $ 4 |

| | | | |
|---|---|---|---|
| Change in unrealized loss on securities transferred to held to maturity | 12 | 5 | 7 |
| Total securities held-to-maturity and transferred securities | 20 | 9 | 11 |
| Securities available-for-sale: | | | |
| Change in net unrealized gain during the period | (54 ) | (24 ) | (30 ) |
| Total securities available-for-sale | (54 ) | (24 ) | (30 ) |
| Defined benefit plans: | | | |
| Reclassification adjustment for expense included in salaries and employee benefits expense | 261 | 117 | 144 |
| Total defined benefit plans | 261 | 117 | 144 |
| Total other comprehensive income | $ 227 | $ 102 | $ 125 |

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| | Pre-tax Amount | Tax Expense (Benefit) | After tax Amount |
|---|---|---|---|
| Nine Months Ended September 30, 2015 | | | |
| Securities held-to maturity and transferred securities: | | | |
| Change in non-credit component of OTTI | $(18) | $ (8) | $ (10) |
| Change in unrealized loss on securities transferred to held to maturity | 57 | 26 | 31 |
| Total securities held-to-maturity and transferred securities | 39 | 18 | 21 |
| Securities available-for-sale: | | | |
| Reclassification adjustment for net gains included in net (loss) gain on securities | (1,384) | (624) | (760) |
| Change in net unrealized gain during the period | (141) | (64) | (77) |
| Total securities available-for-sale | (1,525) | (688) | (837) |
| Defined benefit plans: | | | |
| Reclassification adjustment for expense included in salaries and employee benefits expense | 1,412 | 636 | 776 |
| Change in the net actuarial gain or loss | (1,064) | (478) | (586) |
| Total defined benefit plans | 348 | 158 | 190 |
| Total other comprehensive loss | $(1,138) | $ (512) | $ (626) |
| Nine Months Ended September 30, 2014 | | | |
| Securities held-to-maturity and transferred securities: | | | |
| Change in non-credit component of OTTI | $24 | $ 13 | $ 11 |
| Change in unrealized loss on securities transferred to held to maturity | 50 | 21 | 29 |
| Total securities held-to-maturity and transferred securities | 74 | 34 | 40 |
| Securities available-for-sale: | | | |
| Change in net unrealized gain during the period | 5 | 2 | 3 |
| Total securities available-for-sale | 5 | 2 | 3 |
| Defined benefit plans: | | | |
| Reclassification adjustment for expense included in salaries and employee benefits expense | 783 | 351 | 432 |
| Total defined benefit plans | 783 | 351 | 432 |
| Total other comprehensive income | $862 | $ 387 | $ 475 |

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

| | Securities Held-to-Maturity and Transferred Securities | Securities Available-for-Sale | Defined Benefit Plans | Total Accumulated Other Comprehensive Gain (Loss) |
|---|---|---|---|---|
| Balance as of January 1, 2015 | $ (826) | $ 736 | $(8,457) | $ (8,547) |
| Other comprehensive income (loss) before reclassifications | 21 | (77) | (586) | (642) |
| Amounts reclassified from accumulated other comprehensive loss | - | (760) | 776 | 16 |
| Net other comprehensive income (loss) during the period | 21 | (837) | 190 | (626) |
| Balance as of September 30, 2015 | $ (805) | $ (101) | $(8,267) | $ (9,173) |

| | | | | |
|---|---|---|---|---|
| Balance as of January 1, 2014 | $ (878 ) | $ 1,319 | $(5,200) | $ (4,759 ) |
| Other comprehensive income before reclassifications | 41 | 2 | - | 43 |
| Amounts reclassified from accumulated other comprehensive loss | - | - | 432 | 432 |
| Net other comprehensive income during the period | 41 | 2 | 432 | 475 |
| Balance as of September 30, 2014 | $ (837 ) | $ 1,321 | $(4,768) | $ (4,284 ) |

6. EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing income attributable to common stock by the weighted-average common shares outstanding during the reporting period. Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if "in the money" stock options were exercised and converted into common stock. In determining the weighted average shares outstanding for basic and diluted EPS, treasury stock and unallocated ESOP shares are excluded. Vested restricted stock award shares are included in the calculation of the weighted average shares outstanding for basic and diluted EPS. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income per the Consolidated Statements of Income | $10,081 | $11,765 | $33,388 | $32,259 |
| Less: Dividends paid and earnings allocated to participating securities | (31) | (41) | (105) | (128) |
| Income attributable to common stock | $10,050 | $11,724 | $33,283 | $32,131 |
| Weighted average common shares outstanding, including participating securities | 36,552,925 | 36,215,186 | 36,414,645 | 36,164,129 |
| Less: weighted average participating securities | (224,102) | (295,044) | (252,162) | (305,615) |
| Weighted average common shares outstanding | 36,328,823 | 35,920,142 | 36,162,483 | 35,858,514 |
| Basic EPS | $0.28 | $0.33 | $0.92 | $0.90 |
| Income attributable to common stock | $10,050 | $11,724 | $33,283 | $32,131 |
| Weighted average common shares outstanding | 36,328,823 | 35,920,142 | 36,162,483 | 35,858,514 |
| Weighted average common equivalent shares outstanding | 92,631 | 54,197 | 87,887 | 82,231 |
| Weighted average common and equivalent shares outstanding | 36,421,454 | 35,974,339 | 36,250,370 | 35,940,745 |
| Diluted EPS | $0.28 | $0.33 | $0.92 | $0.90 |

Common equivalent shares resulting from the dilutive effect of "in-the-money" outstanding stock options are calculated based upon the excess of the average market value of the Holding Company's common stock over the exercise price of outstanding in-the-money stock options during the period.

There were 80,000 and 270,996 weighted-average stock options outstanding for the three-month periods ended September 30, 2015 and 2014, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period. There were 132,976 and 309,444 weighted-average stock options outstanding for the nine-month periods ended September 30, 2015 and 2014, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period.

## 7. ACCOUNTING FOR STOCK BASED COMPENSATION

During the three-month and nine-month periods ended September 30, 2015 and 2014, the Holding Company and Bank maintained the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees, the 2004 Stock Incentive Plan and the 2013 Equity and Incentive Plan (collectively, the "Stock Plans"), which are discussed more fully in Note 15 to the Company's audited consolidated financial statements for the year ended December 31, 2014, and which are subject to the accounting requirements of ASC 505-50 and ASC 718.

Stock Option Awards

Combined activity related to stock options granted under the Stock Plans during the periods presented was as follows:

| | At or for the Three Months | At or for the Nine Months |
|---|---|---|

| | Ended September 30, | | Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Options outstanding – beginning of period | 646,201 | 979,916 | 979,916 | 1,615,771 |
| Options granted | - | - | - | - |
| Options exercised | - | - | (274,355) | (16,960) |
| Options that expired prior to exercise | - | - | (59,360) | (618,895) |
| Options outstanding – end of period | 646,201 | 979,916 | 646,201 | 979,916 |
| Intrinsic value of options exercised | $- | $- | $384 | $6 |
| Compensation expense recognized | - | 23 | 31 | 86 |
| Remaining unrecognized compensation expense | - | 54 | - | 54 |
| Intrinsic value of outstanding options at period end | 1,609 | 468 | 1,609 | 468 |
| Intrinsic value of vested options at period end | 1,609 | 468 | 1,609 | 468 |
| Weighted average exercise price of vested options – end of period | 14.57 | 14.73 | 14.57 | 14.73 |

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There were no grants of stock options during the three-month and nine-month periods ended September 30, 2015 and 2014.

Restricted Stock Awards

Prior to June 2014, the Company issued restricted stock awards to outside directors and certain officers under the 2004 Equity Plan. Presently, the Company issues restricted stock awards periodically to outside directors and certain officers under the 2013 Equity Plan. Typically, awards to outside directors fully vest on the first anniversary of the grant date, while awards to officers vest in equal annual installments over a four-year period.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Equity Plan or 2013 Equity Plan during the periods indicated:

| | At or for the Three Months Ended September 30, | | At or for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Unvested allocated shares – beginning of period | 224,372 | 295,044 | 289,660 | 318,314 |
| Shares granted | - | - | 68,069 | 121,333 |
| Shares vested | - | - | (132,377) | (141,361) |
| Shares forfeited | (478) | - | (1,458) | (3,242) |
| Unvested allocated shares – end of period | 223,894 | 295,044 | 223,894 | 295,044 |
| Compensation recorded to expense | $434 | $501 | $1,418 | $1,497 |

## 8. LOANS RECEIVABLE AND CREDIT QUALITY

Loans are reported at the principal amount outstanding, net of unearned fees or costs and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Under this method, discount accretion and premium amortization are included in interest income. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying them as to credit risk. This analysis includes all non-homogeneous loans, such as multifamily residential, mixed use residential (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the residential units), mixed use commercial real estate (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the commercial units), commercial real estate and construction and land acquisition loans, as well as one-to four family residential and cooperative and condominium apartment loans with balances in excess of the Fannie Mae ("FNMA") conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") that are deemed to meet the definition of impaired. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of then existing facts, conditions, and values, highly questionable and improbable.

The Bank had no loans classified as doubtful as of September 30, 2015 or December 31, 2014. All real estate loans not classified as Special Mention or Substandard were deemed pass loans at both September 30, 2015 and December 31, 2014.

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The following is a summary of the credit risk profile of real estate loans (including deferred costs) by internally assigned grade as of the dates indicated:

| | Balance at September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| Grade | One- to Four-Family Residential, Including Condominium and Cooperative Apartment | Multifamily Residential and Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate Loans |
| Not Graded(1) | $8,098 | $ - | $ - | $ - | $ - | $8,098 |
| Pass | 58,311 | 3,550,193 | 373,219 | 459,773 | - | 4,441,496 |
| Special Mention | 1,347 | 9,339 | 1,630 | 5,620 | - | 17,936 |
| Substandard | 1,862 | 7,841 | 5,573 | 7,818 | - | 23,094 |
| Doubtful | - | - | - | - | - | - |
| Total | $69,618 | $3,567,373 | $ 380,422 | $ 473,211 | $ - | $4,490,624 |

(1) Amount comprised of fully performing one- to four-family residential and condominium and cooperative unit loans with balances equal to or less than the FNMA Limits.

| | Balance at December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Grade | One- to Four-Family Residential, Including Condominium and Cooperative Apartment | Multifamily Residential and Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate Loans |
| Not Graded(1) | $9,091 | $ - | $ - | $ - | $ - | $9,091 |
| Pass | 60,764 | 3,271,430 | 317,718 | 391,227 | - | 4,041,139 |
| Special Mention | 1,370 | 20,738 | 4,944 | 6,431 | - | 33,483 |
| Substandard | 2,275 | 6,280 | 6,005 | 19,138 | - | 33,698 |
| Doubtful | - | - | - | - | - | - |
| Total | $73,500 | $3,298,448 | $ 328,667 | $ 416,796 | $ - | $4,117,411 |

(1) Amount comprised of fully performing one- to four-family residential and condominium and cooperative unit loans with balances equal to or less than the FNMA Limits.

For consumer loans, the Company evaluates credit quality based on payment activity. Consumer loans that are 90 days or more past due are placed on non-accrual status, while all remaining consumer loans are classified and evaluated as performing.

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

| Grade | Balance at September 30, 2015 | Balance at December 31, 2014 |
|---|---|---|
| Performing | $1,466 | $1,825 |
| Non-accrual | 2 | 4 |
| Total | $1,468 | $1,829 |

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The following is a breakdown of the past due status of the Company's investment in loans (excluding accrued interest and loans held for sale) as of the dates indicated:

At September 30, 2015

| | 30 to 59 Days Past Due | 60 to 89 Days Past Due | Loans 90 Days or More Past Due and Still Accruing Interest | Non-accrual [1] | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|---|
| Real Estate: | | | | | | | |
| One- to four-family residential, including condominium and cooperative apartment | $174 | $4 | $630 | $834 | $1,642 | $67,976 | $69,618 |
| Multifamily residential and residential mixed use | 2,244 | - | 374 | 547 | 3,165 | 3,564,208 | 3,567,373 |
| Commercial mixed use real estate | 130 | - | 406 | - | 536 | 379,886 | 380,422 |
| Commercial real estate | - | - | 1,093 | 207 | 1,300 | 471,911 | 473,211 |
| Total real estate | $2,548 | $4 | $2,503 | $1,588 | $6,643 | $4,483,981 | $4,490,624 |
| Consumer | $2 | $- | $- | $2 | $4 | $1,464 | $1,468 |

[1] Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of September 30, 2015.

At December 31, 2014

| | 30 to 59 Days Past Due | 60 to 89 Days Past Due | Loans 90 Days or More Past Due and Still Accruing Interest | Non-accrual [1] | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|---|
| Real Estate: | | | | | | | |
| One- to four-family residential, includingcondominium and cooperative apartment | $240 | $- | $- | $1,310 | $1,550 | $71,950 | $73,500 |
| Multifamily residential and residential mixed use | 1,187 | - | 2,922 | 167 | 4,276 | 3,294,172 | 3,298,448 |
| Commercial mixed use real estate | - | - | 411 | - | 411 | 328,256 | 328,667 |
| Commercial real estate | - | - | - | 4,717 | 4,717 | 412,079 | 416,796 |
| Total real estate | $1,427 | $- | $3,333 | $6,194 | $10,954 | $4,106,457 | $4,117,411 |
| Consumer | $2 | $- | $- | $4 | $6 | $1,823 | $1,829 |

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

Accruing Loans 90 Days or More Past Due

The Bank continued accruing interest on eight real estate loans with an aggregate outstanding balance of $2,503 at September 30, 2015, and eight real estate loans with an aggregate outstanding balance of $3,333 at December 31, 2014, all of which were 90 days or more past due on their respective contractual maturity dates. These loans continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payments due at maturity.  These loans were well secured and were expected to be refinanced, and, therefore, remained on accrual status and were deemed performing assets at the dates indicated above.

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Troubled Debt Restructurings ("TDRs")

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

| | As of September 30, 2015 | | As of December 31, 2014 | |
|---|---|---|---|---|
| | No. of Loans | Balance | No. of Loans | Balance |
| One- to four-family residential, including condominium and cooperative apartment | 2 | $599 | 2 | $605 |
| Multifamily residential and residential mixed use | 3 | 705 | 4 | 1,105 |
| Commercial mixed use real estate | 1 | 4,365 | 1 | 4,400 |
| Commercial real estate | 2 | 3,651 | 4 | 13,707 |
| Total real estate | 8 | $9,320 | 11 | $19,817 |

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

| | As of September 30, 2015 | | As of December 31, 2014 | |
|---|---|---|---|---|
| | No. of Loans | Balance | No. of Loans | Balance |
| Outstanding principal balance at period end | 8 | $9,320 | 11 | $19,817 |
| TDRs on accrual status at period end | 7 | 9,113 | 9 | 15,100 |
| TDRs on non-accrual status at period end | 1 | 207 | 2 | 4,717 |

Accrual status for TDRs is determined separately for each TDR in accordance with the Bank's policies for determining accrual or non-accrual status. At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be on either accrual or non-accrual status. If a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under the Bank's policy and agency regulations.

The Company has not restructured troubled consumer loans, as its consumer loan portfolio has not experienced any problem issues warranting restructuring. Therefore, all TDRs were collateralized by real estate at both September 30, 2015 and December 31, 2014.

There were no loans modified in a manner that met the criteria of a TDR during the three-month and nine-month periods ended September 30, 2015.

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

| | For the Three Months Ended September 30, 2014 | | | For the Nine Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |

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

The Bank's allowance for loan losses at September 30, 2015 did not reflect any allocated reserve associated with TDRs. The Bank's allowance for loan losses at December 31, 2014 reflected $19 of allocated reserve associated with TDRs. Activity related to reserves associated with TDRs was immaterial during the three-month and nine-month periods ended September 30, 2015 and 2014.

As of September 30, 2015 and December 31, 2014, the Bank had no loan commitments to borrowers with outstanding TDRs.

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A TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any.

There were no TDRs which defaulted within twelve months following the modification during the three-month or nine-month periods ended September 30, 2015 and 2014 (thus no significant impact to the allowance for loan losses during those periods).

Impaired Loans

A loan is considered impaired when, based on then current information and events, it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays or shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank considers TDRs and non-accrual multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans in excess of the FNMA Limits, to be impaired. Non-accrual one-to four-family loans equal to or less than the FNMA Limits, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment unless considered a TDR.

Impairment is typically measured using the difference between the outstanding loan principal balance and either: 1) the likely realizable value of a note sale; 2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or 3) the present value of estimated future cash flows (using the loan's pre-modification rate for some of the performing TDRs). If a TDR is substantially performing in accordance with its restructured terms, management will look to either the potential net liquidation proceeds of the underlying collateral or the present value of the expected cash flows from the debt service in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, generally the likely realizable net proceeds from either a note sale or the liquidation of the collateral is considered when measuring impairment. Measured impairment is either charged off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses.

Please refer to Note 9 for tabular information related to impaired loans.

Loans Re-acquired from FNMA

Until February 20, 2014, the Bank serviced a pool of multifamily loans sold to FNMA, and retained an obligation (off-balance sheet contingent liability) to absorb a portion of any losses (as defined in the seller/servicer agreement) incurred by FNMA in connection with the loans sold (the "First Loss Position"). This pool of loans was re-acquired on February 20, 2014, and the First Loss Position was extinguished. Since re-acquisition, the credit quality of these loans has been evaluated in accordance with the policies and procedures discussed in this note.

The Company paid an aggregate premium of $13,163 on the real estate loans re-acquired from FNMA during the nine months ended September 30, 2014. The premium is being amortized as an adjustment to interest income throughout the remaining estimated life of the loans. At September 30, 2015 and December 31, 2014, the remaining unamortized premium totaled $3,944 and $7,950, respectively.

9. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses may consist of specific and general components. The Bank's periodic evaluation of its allowance for loan losses (specific or general) is comprised of four primary components: (1) impaired loans; (2) non-impaired substandard loans; (3) non-impaired special mention loans; and (4) pass graded loans. Within these components, the Company has identified the following portfolio segments for purposes of assessing its allowance for loan losses (specific or general): (1) real estate loans; and (2) consumer loans. Within these segments, the Bank analyzes the allowance for loan losses based upon the underlying collateral type (classes). Due to their small homogeneous balances, consumer loans were not individually evaluated for impairment as of both September 30, 2015 and December 31, 2014.

Impaired Loan Component

All multifamily residential, mixed use, commercial real estate and construction loans that are deemed to meet the definition of impaired are individually evaluated for impairment. In addition, all condominium or cooperative apartment

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and one- to four-family residential real estate loans in excess of the FNMA Limits are individually evaluated for impairment. Impairment is typically measured using the difference between the outstanding loan principal balance and either: (1) the likely realizable value of a note sale; (2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or (3) the present value of estimated future cash flows (using the loan's pre-modification rate in the case of some performing TDRs). For impaired loans on non-accrual status, either of the initial two measurements is utilized.

All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any. If a TDR is substantially performing in accordance with its restructured terms, management will look to either the present value of the expected cash flows from the debt service or the potential net liquidation proceeds of the underlying collateral in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, the likely realizable net proceeds from either a note sale or the liquidation of the collateral are generally considered when measuring impairment. While measured impairment is generally charged off immediately, impairment attributed to a reduction in the present value of expected cash flows of a performing TDR is generally reflected as an allocated reserve within the allowance for loan losses. At September 30, 2015 and December 31, 2014, there were no allocated reserves related to TDRs within the allowance for loan losses.

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

Non-Impaired Substandard Loan Component

At both September 30, 2015 and December 31, 2014, the reserve allocated within the allowance for loan losses associated with non-impaired loans internally classified as Substandard reflected expected loss percentages on the Bank's pool of such loans that were derived based upon an analysis of historical losses over a measurement timeframe. The loss percentage resulting from this analysis was then applied to the aggregate pool of non-impaired Substandard loans at September 30, 2015 and December 31, 2014. Based upon this methodology, increases or decreases in the amount of either non-impaired Substandard loans or charge-offs associated with such loans, or a change in the measurement timeframe utilized to derive the expected loss percentage, would impact the level of reserves determined on non-impaired Substandard loans. As a result, the allowance for loan losses associated with non-impaired Substandard loans is subject to volatility.

The portion of the allowance for loan losses attributable to non-impaired Substandard loans was $284 at September 30, 2015 and $371 at December 31, 2014. The decline resulted from both a reduction of $4,002 in the balance of such loans from December 31, 2014 to September 30, 2015, as well as a lower average loss expectation derived as of September 30, 2015 compared to December 31, 2014.

All non-impaired Substandard loans were deemed sufficiently well secured and performing to have remained on accrual status both prior and subsequent to their downgrade to the Substandard internal loan grade.

Non-Impaired Special Mention Loan Component

At both September 30, 2015 and December 31, 2014, the reserve allocated within the allowance for loan losses associated with non-impaired loans internally classified as Special Mention reflected an expected loss percentage on the Bank's pool of such loans that was derived based upon an analysis of historical losses over a measurement timeframe. The loss percentage resulting from this analysis was then applied to the aggregate pool of non-impaired Special Mention loans at September 30, 2015 and December 31, 2014. Based upon this methodology, increases or decreases in the amount of either non-impaired Special Mention loans or charge-offs associated with such loans, or a change in the measurement timeframe utilized to derive expected the loss percentage, would impact the level of

reserves determined on non-impaired Special Mention loans.  As a result, the allowance for loan losses associated with non-impaired Special Mention loans is subject to volatility.

The portion of the allowance for loan losses attributable to non-impaired Special Mention loans declined from $228 at December 31, 2014 to $98 at September 30, 2015, due to both a reduction of $15,547 in the balance of such loans and a lower expected loss percentage applied to such loans at September 30, 2015 compared to December 31, 2014 under the methodology employed.

Pass Graded Loan Component

The Bank initially looks to the underlying collateral type when determining the allowance for loan losses associated with pass graded real estate loans.  The following underlying collateral types are analyzed separately: 1) one- to four family residential and condominium or cooperative apartments securing loans in excess of the FNMA Limits; 2) multifamily

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residential and residential mixed use; 3) commercial mixed use real estate, 4) commercial real estate; and 5) construction and land acquisition. Within the analysis of each underlying collateral type, the following elements are additionally considered and provided weighting in determining the allowance for loan losses for pass graded real estate loans:

(i) Charge-off experience (including peer charge-off experience)
(ii) Economic conditions
(iii) Underwriting standards or experience
(iv) Loan concentrations
(v) Regulatory climate
(vi) Nature and volume of the portfolio
(vii) Changes in the quality and scope of the loan review function

The following is a brief synopsis of the manner in which each element is considered:

(i) Charge-off experience - Loans within the pass graded loan portfolio are segmented by significant common characteristics, against which historical loss rates are applied. The Bank also reviews and considers the charge-off experience of peer banks in its lending marketplace in order to determine the existence of potential losses that could take a longer period to flow through its allowance for loan losses.

(ii) Economic conditions - At both September 30, 2015 and December 31, 2014, the Bank assigned a loss allocation to its entire pass graded real estate loan portfolio based, in part, upon a review of economic conditions affecting the local real estate market. Specifically, the Bank considered both the level of, and recent trends in: 1) the local and national unemployment rate, 2) residential and commercial vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank's loan portfolio.

(iii) Underwriting standards or experience - Underwriting standards are reviewed to ensure that changes in the Bank's lending policies and practices are adequately evaluated for risk and reflected in its analysis of potential credit losses. Loss expectations associated with changes in the Bank's lending policies and practices, if any, are then incorporated into the methodology.

(iv) Loan concentrations - The Bank regularly reviews its loan concentrations (borrower, collateral type and location) in order to ensure that heightened risk has not evolved that has not been captured through other factors. The risk component of loan concentrations is regularly evaluated for reserve adequacy.

(v) Regulatory climate – Consideration is given to public statements made by the banking regulatory agencies that have a potential impact on the Bank's loan portfolio and allowance for loan losses.

(vi) Nature and volume of the portfolio – The Bank considers any significant changes in the overall nature and volume of its loan portfolio.

(vii) Changes in the quality and scope of the loan review function – The Bank considers the potential impact upon its allowance for loan losses of any adverse change in the quality and scope of the loan review function.

Consumer Loans

Due to their small individual balances, the Bank does not evaluate individual consumer loans for impairment. Loss percentages are applied to aggregate consumer loans based upon both their delinquency status and loan type. These loss percentages are derived from a combination of the Company's historical loss experience and/or nationally published loss data on such loans. Consumer loans in excess of 120 days delinquent are typically fully charged off

against the allowance for loan losses.

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The following table presents data regarding the allowance for loan losses and loans evaluated for impairment by class of loan within the real estate loan segment as well as for the aggregate consumer loan segment:

At or for the Three Months Ended September 30, 2015

| | Real Estate Loans | | | | | | Consumer Loans |
|---|---|---|---|---|---|---|---|
| | One- to Four Family Residential, Including Condominium and Cooperative Apartment | Multifamily Residential and Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate | |
| Beginning balance | $126 | $14,374 | $1,682 | $2,349 | $- | $18,531 | $22 |
| Provision (credit) for loan losses | 19 | 288 | 92 | 18 | - | 417 | (1) |
| Charge-offs | (6) | (1) | - | (4) | - | (11) | - |
| Recoveries | 1 | - | - | - | - | 1 | - |
| Ending balance | $140 | $14,661 | $1,774 | $2,363 | $- | $18,938 | $21 |
| Ending balance – loans individually evaluated for impairment | $599 | $1,252 | $4,365 | $3,651 | $- | $9,867 | $- |
| Ending balance – loans collectively evaluated for impairment | 69,019 | 3,566,121 | 376,057 | 469,560 | - | 4,480,757 | 1,468 |
| Allowance balance associated with loans individually evaluated for impairment | - | - | - | - | - | - | - |
| Allowance balance associated with loans collectively evaluated for impairment | 140 | 14,661 | 1,774 | 2,363 | - | 18,938 | 21 |
| Total Ending balance | $140 | $14,661 | $1,774 | $2,363 | $- | $18,938 | $21 |

At December 31, 2014

| | Real Estate Loans | | | | | | Consumer Loans |
|---|---|---|---|---|---|---|---|
| | One- to Four Family Residential, | Multifamily Residential and Residential | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate | |

| | Including Condominium and Cooperative Apartment | Mixed Use | | | | | |
|---|---|---|---|---|---|---|---|
| Ending balance – loans individually evaluated for impairment | $605 | $1,272 | $4,400 | $13,707 | $- | $19,984 | $- |
| Ending balance – loans collectively evaluated for impairment | 72,895 | 3,297,176 | 324,267 | 403,089 | - | 4,097,427 | 1,829 |
| Allowance balance associated with loans individually evaluated for impairment | - | - | - | 19 | - | 19 | - |
| Allowance balance associated with loans collectively evaluated for impairment | 150 | 13,852 | 1,644 | 2,804 | - | 18,450 | 24 |

At or for the Three Months Ended September 30, 2014

| | Real Estate Loans | | | | | | Consumer Loans |
|---|---|---|---|---|---|---|---|
| | One- to Four Family Residential, Including Condominium and Cooperative Apartment | Multifamily Residential and Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate | |
| Beginning balance | $304 | $14,319 | $1,609 | $3,377 | $- | $19,609 | $24 |
| Provision (credit) for loan losses | (88) | (115) | 198 | (498) | - | (503) | 2 |
| Charge-offs | (14) | (19) | - | (22) | - | (55) | - |
| Recoveries | 1 | - | 19 | 1 | - | 21 | - |
| Ending balance | $203 | $14,185 | $1,826 | $2,858 | $- | $19,072 | $26 |

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At or for the Nine Months Ended September 30, 2015

| | Real Estate Loans | | | | | | Consumer Loans |
|---|---|---|---|---|---|---|---|
| | One- to Four Family Residential, Including Condominium and Cooperative Apartment | Multifamily Residential and Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate | |
| Beginning balance | $150 | $13,852 | $1,644 | $2,823 | $- | $18,469 | $24 |
| Provision (credit) for loan losses | 99 | 848 | 143 | (1,980) | - | (890) | (1) |
| Charge-offs | (113) | (42) | (37) | (5) | - | (197) | (2) |
| Recoveries | 4 | 3 | 24 | 1,525 | - | 1,556 | - |
| Ending balance | $140 | $14,661 | $1,774 | $2,363 | $- | $18,938 | $21 |

At or for the Nine Months Ended September 30, 2014

| | Real Estate Loans | | | | | | Consumer Loans |
|---|---|---|---|---|---|---|---|
| | One- to Four Family Residential, Including Condominium and Cooperative Apartment | Multifamily Residential and Residential Mixed Use | Commercial Mixed Use Real Estate | Commercial Real Estate | Construction | Total Real Estate | |
| Beginning balance | $236 | $13,840 | $3,003 | $3,047 | $3 | $20,129 | $24 |
| Provision (credit) for loan losses | (118) | 239 | (1,508) | 34 | (3) | (1,356) | 6 |
| Charge-offs | (37) | (69) | (30) | (232) | - | (368) | (4) |
| Recoveries | 122 | 175 | 361 | 9 | - | 667 | - |
| Ending balance | $203 | $14,185 | $1,826 | $2,858 | $- | $19,072 | $26 |

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

| | At September 30, 2015 | | |
|---|---|---|---|
| | Unpaid Principal Balance at Period End | Recorded Investment at Period End(1) | Reserve Balance Allocated within the Allowance for Loan Losses at Period End |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment | | | |

| | | | |
|---|---|---|---|
| With no allocated reserve | $638 | $599 | $- |
| With an allocated reserve | - | - | - |
| Multifamily Residential and Residential Mixed Use | | | |
| With no allocated reserve | 1,252 | 1,252 | - |
| With an allocated reserve | - | - | - |
| Commercial Mixed Use Real Estate | | | |
| With no allocated reserve | 4,365 | 4,365 | - |
| With an allocated reserve | - | - | - |
| Commercial Real Estate | | | |
| With no allocated reserve | 3,658 | 3,651 | - |
| With an allocated reserve | - | - | - |
| Construction | | | |
| With no allocated reserve | - | - | - |
| With an allocated reserve | - | - | - |
| Total | | | |
| With no allocated reserve | $9,913 | $9,867 | $- |
| With an allocated reserve | $- | $- | $- |

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

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| | At December 31, 2014 | | |
|---|---|---|---|
| | Unpaid Principal Balance at Period End | Recorded Investment at Period End(1) | Reserve Balance Allocated within the Allowance for Loan Losses at Period End |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment | | | |
| With no allocated reserve | $646 | $605 | $- |
| With an allocated reserve | - | - | - |
| Multifamily Residential and Residential Mixed Use | | | |
| With no allocated reserve | 1,272 | 1,272 | - |
| With an allocated reserve | - | - | - |
| Commercial Mixed Use Real Estate | | | |
| With no allocated reserve | 4,425 | 4,400 | - |
| With an allocated reserve | - | - | - |
| Commercial Real Estate | | | |
| With no allocated reserve | 10,306 | 8,207 | - |
| With an allocated reserve | 5,500 | 5,500 | 19 |
| Construction | | | |
| With no allocated reserve | - | - | - |
| With an allocated reserve | - | - | - |
| Total | | | |
| With no allocated reserve | $16,649 | $14,484 | $- |
| With an allocated reserve | $5,500 | $5,500 | $19 |

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

| | Three Months Ended September 30, 2015 | | Three Months Ended September 30, 2014 | | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| One- to Four Family Residential, Including Condominium and Cooperative Apartment | | | | | | | | |
| With no allocated reserve | $601 | $11 | $769 | $12 | $602 | $34 | $783 | $47 |
| With an allocated reserve | - | - | - | - | - | - | 52 | - |
| Multifamily Residential and | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Residential Mixed Use | | | | | | | | |
| With no allocated reserve | 1,074 | 10 | 2,483 | 16 | 1,123 | 56 | 2,366 | 72 |
| With an allocated reserve | - | - | - | - | - | - | - | - |
| Commercial Mixed Use Real Estate | | | | | | | | |
| With no allocated reserve | 4,383 | 44 | 2,200 | 44 | 4,388 | 132 | 2,200 | 193 |
| With an allocated reserve | - | - | 2,200 | - | - | - | 2,200 | - |
| Commercial Real Estate | | | | | | | | |
| With no allocated reserve | 5,169 | 35 | 6,863 | 79 | 5,929 | 106 | 7,286 | 120 |
| With an allocated reserve | - | - | 10,259 | 73 | 1,375 | 97 | 10,272 | 423 |
| Construction | | | | | | | | |
| With no allocated reserve | - | - | - | - | - | - | - | - |
| With an allocated reserve | - | - | - | - | - | - | - | - |
| Total | | | | | | | | |
| With no allocated reserve | $11,227 | $100 | $12,315 | $151 | $12,042 | $328 | $12,635 | $432 |
| With an allocated reserve | $- | $- | $12,459 | $73 | $1,375 | $97 | $12,524 | $423 |

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Reserve Liability for First Loss Position

The reserve liability maintained in connection with the First Loss Position was recorded as a component of other liabilities, and was estimated using a methodology similar to the allowance for loan losses, with periodic increases or decreases recognized through provisions, charge-offs or recoveries. On February 20, 2014, the Bank repurchased the remaining loans within the pool previously sold to FNMA, and extinguished both the First Loss Position and the remaining $1,040 related reserve liability.

10. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following is a summary of major categories of securities owned by the Company (excluding trading securities) at September 30, 2015:

| | Purchase Amortized/ Historical Cost | Recorded Amortized/ Historical Cost (1) | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| Investment securities held-to-maturity: | | | | | |
| Pooled bank trust preferred securities ("TRUPS") | $15,553 | $5,349 | $2,382 | $(253) | $7,478 |
| Available-for-sale securities: | | | | | |
| Investment securities | | | | | |
| Registered Mutual Funds | 3,894 | 3,894 | 5 | (215) | 3,684 |
| MBS | | | | | |
| Pass-through MBS issued by GSEs | 431 | 431 | 15 | - | 446 |

(1) Amount represents the purchase amortized / historical cost less any OTTI charges (credit or non-credit related) previously recognized. For the TRUPS, amount is also net of the $874 unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

The following is a summary of major categories of securities owned by the Company (excluding trading securities) at December 31, 2014:

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

(1) Amount represents the purchase amortized / historical cost less any OTTI charges (credit or non-credit related) previously recognized. For the TRUPS, amount is also net of the $932 unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities

were transferred from available-for-sale to held-to-maturity).

The held-to-maturity TRUPS had a weighted average term to maturity of 19.2 years at September 30, 2015. At September 30, 2015, the pass-through MBS issued by GSEs possessed a weighted average contractual maturity of 12.4 years. All of the pass-through MBS issued by GSEs possess an annual interest rate adjustment.

There were no sales of investment securities during the three-month periods ended September 30, 2015 and 2014, and during the nine months ended September 30, 2014, as the entire gain/loss on securities shown in the unaudited statements of income for these periods resulted from market valuation changes on trading securities. Proceeds from the sales of investment securities available-for-sale totaled $2,070 during the nine months ended September 30, 2015. Gross gains of $4 and gross losses of $8 were recognized on these sales. There were no sales of MBS available-for-sale during the three-month periods ended September 30, 2015 and 2014, and during the nine months ended September 30, 2014. Proceeds from the sales of MBS available-for-sale totaled $24,307 during the nine months ended September 30, 2015. Gross gains of $1,395 and gross losses of $7 were recognized on these sales.

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Tax provisions related to the gains on sales of investment securities and MBS available-for-sale recognized during the three-month and nine-month periods ended September 30, 2015 and 2014 are disclosed in the condensed consolidated statements of comprehensive income.

As of each reporting period through September 30, 2015, the Company has applied the protocol established by ASC 320-10-65 in order to determine whether OTTI existed for its TRUPS and/or to measure, for TRUPS that have been determined to be other than temporarily impaired, the credit related and non-credit related components of OTTI. As of September 30, 2015, five TRUPS were determined to meet the criteria for OTTI based upon this analysis. At September 30, 2015, these five securities had credit ratings ranging from "C" to "Caa3."

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

| | At or for the Three Months Ended September 30, 2015 | | | At or for the Three Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Credit Related OTTI Recognized in Earnings | Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss | Total OTTI | Credit Related OTTI Recognized in Earnings | Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss | Total OTTI |
| Cumulative pre-tax balance at the beginning of the period | $8,769 | $596 | $9,365 | $8,945 | $585 | $9,530 |
| Amortization of previously recognized OTTI | (26) | (9) | (35) | - | (8) | (8) |
| Cumulative pre-tax balance at end of the period | $8,743 | $587 | $9,330 | $8,945 | $577 | $9,522 |

| | At or for the Nine Months Ended September 30, 2015 | | | At or for the Nine Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Credit Related OTTI Recognized in Earnings | Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss | Total OTTI | Credit Related OTTI Recognized in Earnings | Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss | Total OTTI |
| Cumulative pre-tax balance at the beginning of the period | $8,945 | $569 | $9,514 | $8,945 | $601 | $9,546 |
| Accretion (Amortization) of previously recognized OTTI | (202) | 18 | (184) | - | (24) | (24) |
| Cumulative pre-tax balance at end of the period | $8,743 | $587 | $9,330 | $8,945 | $577 | $9,522 |

The following table summarizes the gross unrealized losses and fair value of investment securities as of September 30, 2015, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position:

| | Less than 12 Months Consecutive Unrealized Losses | | 12 Months or More Consecutive Unrealized Losses | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrecognized/ Unrealized Losses | Fair Value | Gross Unrecognized/ Unrealized Losses | Fair Value | Gross Unrecognized/ Unrealized Losses |
| Held-to-Maturity Securities: | | | | | | |
| TRUPS | $- | $- | $2,442 | $253 | $2,442 | $253 |
| Available-for-Sale Securities: | | | | | | |
| Registered Mutual Funds | 3,476 | 215 | - | - | 3,476 | 215 |

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

At September 30, 2015, impairment of two TRUPS was deemed temporary, as management believed that the full recorded balance of the investments would be realized. In making this determination, management considered the following:

Based upon an internal review of the collateral backing the TRUPS portfolio, which accounted for current and prospective deferrals, the securities could reasonably be expected to continue making all contractual payments
The Company does not intend to sell these securities prior to full recovery of their impairment

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There were no cash or working capital requirements nor contractual or regulatory obligations that would compel the Company to sell these securities prior to their forecasted recovery or maturity
The securities have a pool of underlying issuers comprised primarily of banks
None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
The securities feature either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
The securities are adequately collateralized

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

| | Less than 12 Months Consecutive Unrealized Losses | | 12 Months or More Consecutive Unrealized Losses | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrecognized/ Unrealized Losses | Fair Value | Gross Unrecognized/ Unrealized Losses | Fair Value | Gross Unrecognized/ Unrealized Losses |
| Held-to-Maturity Securities: | | | | | | |
| TRUPS | $- | $- | $2,562 | $171 | $2,562 | $171 |
| Available-for-Sale Securities: | | | | | | |
| Registered Mutual Funds | 3,736 | 124 | - | - | 3,736 | 124 |

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy established under ASC 820-10 is summarized as follows:

Level 1 Inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Significant other observable inputs such as any of the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 Inputs – Significant unobservable inputs for the asset or liability. Significant unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Significant unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following tables present the assets that are reported on the consolidated statements of financial condition at fair value as of the date indicated segmented by level within the fair value hierarchy. Financial assets are classified in

their entirety based on the lowest level of input that is significant to the fair value measurement.

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Assets Measured at Fair Value on a Recurring Basis at September 30, 2015

| Description | Total | Fair Value Measurements Using<br>Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
|---|---|---|---|---|
| Trading securities (Registered Mutual Funds): | | | | |
| Domestic Equity Mutual Funds | $995 | $995 | $ - | $ - |
| International Equity Mutual Funds | 273 | 273 | - | - |
| Fixed Income Mutual Funds | 7,429 | 7,429 | - | - |
| Investment securities available-for-sale: | | | | |
| Registered Mutual Funds: | | | | |
| Domestic Equity Mutual Funds | 1,183 | 1,183 | - | - |
| International Equity Mutual Funds | 372 | 372 | - | - |
| Fixed Income Mutual Funds | 2,129 | 2,129 | - | - |
| Pass-through MBS issued by GSEs | 446 | - | 446 | - |

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

| Description | Total | Fair Value Measurements Using<br>Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
|---|---|---|---|---|
| Trading securities (Registered Mutual Funds): | | | | |
| Domestic Equity Mutual Funds | $1,399 | $1,399 | $- | $ - |
| International Equity Mutual Funds | 159 | 159 | - | - |
| Fixed Income Mutual Funds | 7,001 | 7,001 | - | - |
| Investment securities available-for-sale: | | | | |
| Agency notes | 70 | - | 70 | - |
| Registered Mutual Funds: | | | | |
| Domestic Equity Mutual Funds | 2,160 | 2,160 | - | - |
| International Equity Mutual Funds | 415 | 415 | - | - |
| Fixed Income Mutual Funds | 1,161 | 1,161 | - | - |
| Pass-through MBS issued by GSEs | 25,607 | - | 25,607 | - |
| Private issuer pass through MBS | 455 | - | 455 | - |
| Private issuer CMOs | 347 | - | 347 | - |

The Company's available-for-sale investment securities and MBS are reported at fair value, which were determined utilizing prices obtained from independent parties. The valuations obtained are based upon market data, and often utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (obtained only from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable.  Prioritization of inputs may vary on any given day based on market conditions.

The pass-through MBS issued by GSEs all possessed the highest possible credit rating published by at least one established credit rating agency as of September 30, 2015 and December 31, 2014. Obtaining market values as of September 30, 2015 and December 31, 2014 for these securities utilizing significant observable inputs was not difficult due to their considerable demand. The agency notes, private issuer pass through MBS and private issuer CMOs owned by the Company at December 31, 2014 were sold during the nine months ended September 30, 2015. For each security classification, the value received from the sale approximated the most recently obtained pricing utilizing the methodology indicated above.

There were no assets measured at fair value on a non-recurring basis as of September 30, 2015. The following table summarizes assets measured at fair value on a non-recurring basis as of December 31, 2014:

Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2014

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Description | Total | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Impaired loans: | | | | |
| Commercial Mixed Use Real Estate | $4,400 | $- | $- | $4,400 |

Loans Held for Sale - Loans held for sale are valued at the contractual sales price negotiated and agreed to by the Bank and a third party purchaser (deemed a Level 2 input).

Impaired Loans - Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired under ASC 310-10-35 when, based upon existing information and events, it is probable that the Bank will be

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unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at September 30, 2015 and December 31, 2014 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the collateral. Fair value is estimated through either a negotiated note sale price (Level 3 input), or, more commonly, a recent real estate appraisal (Level 3 input). The appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

An appraisal is generally ordered for all impaired multifamily residential, mixed use and commercial real estate loans for which the most recent appraisal is more than one year old. The Bank never adjusts independent appraisal data upward. Occasionally, management will adjust independent appraisal data downward based upon its own lending expertise and/or experience with the subject property, utilizing such factors as potential note sale values, or a more refined estimate of costs to repair and time to lease the property. Adjustments for potential disposal costs are also considered when determining the final appraised value.

As of September 30, 2015, there were no impaired loans measured at fair value. As of December 31, 2014, impaired loans measured for impairment using the estimated fair value of the collateral had an aggregate principal balance of $4,400, and no valuation allowance within the allowance for loan losses. Impaired loans measured at fair value using the estimated fair value of the collateral had no impact upon the provision for loan losses during the three-month or nine-month periods ended either September 30, 2015 or 2014.

The following table presents quantitative information about Level 3 fair value measurements for impaired loans measured at fair value on a non-recurring basis at December 31, 2014:

| Fair Value Derived | Valuation Technique Utilized | Significant Unobservable Input(s) | Minimum Value | | Maximum Value | | Weighted Average Value | |
|---|---|---|---|---|---|---|---|---|
| $ 4,400 | Income approach only | Capitalization rate | N/A | (1) | N/A | (1) | 7.5 | % |

(1) Only one loan in this population.

The carrying amounts and estimated fair values of financial instruments other than those measured at fair value on either a recurring or non-recurring basis at September 30, 2015 and December 31, 2014 were as follows:

| | | Fair Value at September 30, 2015 Using | | | |
|---|---|---|---|---|---|
| At September 30, 2015 | Carrying Amount | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
| Assets: | | | | | |
| Cash and due from banks | $74,073 | $74,073 | $- | $- | $74,073 |
| Federal funds sold and other short-term investments | - | - | - | - | - |
| Investment securities held to maturity (TRUPS) | 5,349 | - | 7,478 | - | 7,478 |
| Loans, net (excluding impaired loans carried at fair value) | 4,473,133 | - | - | 4,521,373 | 4,521,373 |
| Accrued interest receivable | 12,547 | - | 28 | 12,519 | 12,547 |
| FHLBNY capital stock | 54,348 | N/A | N/A | N/A | N/A |
| Liabilities: | | | | | |
| Savings, money market and checking accounts | 2,141,790 | 2,141,790 | - | - | 2,141,790 |

| | | | | | |
|---|---|---|---|---|---|
| Certificates of Deposit ("CDs") | 887,707 | - | 895,391 | - | 895,391 |
| Escrow and other deposits | 131,132 | 131,132 | - | - | 131,132 |
| FHLBNY Advances | 1,069,725 | - | 1,079,707 | - | 1,079,707 |
| Trust Preferred securities payable | 70,680 | - | 70,680 | - | 70,680 |
| Accrued interest payable | 2,389 | - | 2,389 | - | 2,389 |

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| | | Fair Value at December 31, 2014 Using | | | |
|---|---|---|---|---|---|
| At December 31, 2014 | Carrying Amount | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total |
| Assets: | | | | | |
| Cash and due from banks | $78,187 | $78,187 | $- | $- | $78,187 |
| Federal funds sold and other short-term investments | 250 | 250 | - | - | 250 |
| Investment securities held to maturity (TRUPS) | 5,367 | - | - | 6,315 | 6,315 |
| Loans, net (excluding impaired loans carried at fair value) | 4,096,347 | - | - | 4,188,137 | 4,188,137 |
| Accrued interest receivable | 12,664 | 2 | 104 | 12,558 | 12,664 |
| FHLBNY capital stock | 58,407 | N/A | N/A | N/A | N/A |
| Liabilities: | | | | | |
| Savings, money market and checking accounts | 1,733,474 | 1,733,474 | - | - | 1,733,474 |
| CDs | 926,318 | - | 934,324 | - | 934,324 |
| Escrow and other deposits | 91,921 | 91,921 | - | - | 91,921 |
| FHLBNY Advances | 1,173,725 | - | 1,186,069 | - | 1,186,069 |
| Trust Preferred securities payable | 70,680 | - | 70,680 | - | 70,680 |
| Accrued interest payable | 2,729 | - | 2,729 | - | 2,729 |

Cash and Due From Banks – The fair value is assumed to be equal to their carrying value as these amounts are due upon demand (deemed a Level 1 valuation).

Federal Funds Sold and Other Short Term Investments – As a result of their short duration to maturity, the fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due (deemed a Level 1 valuation).

TRUPS Held to Maturity – At both September 30, 2015 and December 31, 2014, the Company owned seven TRUPS classified as held-to-maturity.

At December 31, 2014, their estimated fair value was obtained utilizing the following weighted valuation sources: 1) broker quotations (10% valuation weighting), which were deemed to meet the criteria of "distressed sale" pricing under the guidance of ASC 820-10-65-4 (deemed to be a Level 3 valuation for which the Company is not provided detailed information regarding the significant unobservable inputs utilized by the third parties); 2) an internally created cash flow valuation model (45% valuation weighting) that considered the creditworthiness of each individual issuer underlying the collateral pools, and utilized default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation") (deemed to be a Level 3 valuation); and 3) the average of a minimum of two of three available independent cash flow valuation models (45% valuation weighting) (deemed to be a Level 3 valuation for which the Company is not provided detailed information regarding the significant unobservable inputs utilized by the third parties).

The major assumptions utilized as of December 31, 2014 in the Internal Cash Flow Valuation (each of which represents a significant unobservable input as defined by ASC 820-10) were disclosed in Note 17 to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 16, 2015.

As discussed above, in addition to the Internal Cash Flow Valuation and broker quotations, at December 31, 2014 the Company utilized two additional independent cash flow valuation models in order to estimate the fair value of TRUPS. The two independent cash flow valuation models utilized a methodology similar to the Internal Cash Flow Valuation, differing only in the underlying assumptions utilized to derive estimated cash flows, individual bank defaults and discount rate.

As a result of improved marketplace stability and enhanced trading activity, broker quotations became the sole valuation source utilized to estimate the fair value of TRUPS as of September 30, 2015. The broker quotations at September 30, 2015 were deemed to be a Level 2 valuation.

Loans, Net (Excluding Impaired Loans Carried at Fair Value) – For adjustable rate loans repricing monthly or quarterly, and with no significant change in credit risk, fair values are based on carrying values. The fair value of all remaining loans receivable is determined by discounting anticipated future cash flows of the loans, net of anticipated prepayments, using a discount rate reflecting current market rates for loans with similar terms to borrowers of similar credit quality. The valuation method used for loans does not necessarily represent an exit price valuation methodology as defined under ASC 820. However, since the valuation methodology is deemed to be comparable to a Level 3 input, the fair value of loans receivable other than impaired loans measured at fair value is shown under the Level 3 valuation column.

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Accrued Interest Receivable – The estimated fair value of accrued interest receivable approximates its carrying amount, and is deemed to be valued at an input level comparable to its underlying financial asset.

FHLBNY Capital Stock – It is not practicable to determine the fair value of FHLBNY capital stock due to restrictions placed on transferability.

Deposits – The fair value of savings, money market, and checking accounts is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), which has been deemed a Level 1 valuation. The fair value of CDs is based upon the present value of contractual cash flows using current interest rates for instruments of the same remaining maturity (deemed a Level 2 valuation).

Escrow and Other Deposits – The fair value of escrow and other deposits is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), which has been deemed a Level 1 valuation.

FHLBNY Advances – The fair value of FHLBNY advances is measured by the discounted anticipated cash flows through contractual maturity or next interest repricing date, or an earlier call date if, as of the valuation date, the borrowing is expected to be called (deemed a Level 2 valuation). The carrying amount of accrued interest payable on FHLBNY advances is its fair value and is deemed a Level 2 valuation.

Trust Preferred Securities Payable – The fair value of trust preferred securities payable is estimated using discounted cash flow analyses based on then current borrowing rates for similar types of borrowing arrangements (deemed a Level 2 valuation), and is provided to the Company quarterly independently by a market maker in the underlying security.

Accrued Interest Payable – The estimated fair value of accrued interest payable approximates its carrying amount, and is deemed to be valued at an input level comparable to its underlying financial liability.

## 12. RETIREMENT AND POSTRETIREMENT PLANS

The Holding Company or the Bank maintains the Retirement Plan of The Dime Savings Bank of Williamsburgh (the "Employee Retirement Plan"), the Retirement Plan for Board Members of Dime Community Bancshares, Inc. (the "Outside Director Retirement Plan"), the BMP, and the Postretirement Welfare Plan of The Dime Savings Bank of Williamsburgh (the "Postretirement Plan"). Net expenses associated with these plans were comprised of the following components:

| | Three Months Ended September 30, 2015 | | Three Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | BMP, Employee and Outside Director Retirement Plans | Postretirement Plan | BMP, Employee and Outside Director Retirement Plans | Postretirement Plan |
| Service cost | $- | $ - | $- | $ 10 |
| Interest cost | 344 | 18 | 338 | 58 |
| Expected return on assets | (414) | - | (444) | - |
| Amortization of unrealized loss | 480 | (2) | 261 | - |

| | | | | |
|---|---|---|---|---|
| Net periodic cost | $410 | $ 16 | $155 | $ 68 |

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| | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | BMP, Employee and Outside Director Retirement Plans | Postretirement Plan | BMP, Employee and Outside Director Retirement Plans | Postretirement Plan |
| Service cost | $- | $ 9 | $- | $ 30 |
| Interest cost | 749 | 556 | 1,014 | 174 |
| Expected return on assets | (1,242) | - | (1,332) | - |
| Curtailment gain(1) | - | (3,394) | - | - |
| Amortization of unrealized loss | 1,257 | (27) | 783 | - |
| Net periodic cost (gain) | $764 | $ (2,856) | $465 | $ 204 |

(1) The Postretirement Plan was amended effective March 31, 2015, whereby future retirees will not be eligible to participate in the plan. This plan amendment resulted in a curtailment gain.

The Company disclosed in its consolidated financial statements for the year ended December 31, 2014 that it expected to make contributions to, or benefit payments on behalf of, benefit plans during 2015 as follows: Employee Retirement Plan - $14, BMP - $604, Outside Director Retirement Plan - $188, and Postretirement Plan - $145. The Company made contributions of $7 to the Employee Retirement Plan during the three months ended September 30, 2015, and $12 during the nine months ended September 30, 2015, and expects to make the remainder of the estimated contributions during 2015. The Company made benefit payments of $41 on behalf of the Outside Director Retirement Plan during the three months ended September 30, 2015, and $130 during the nine months ended September 30, 2015, and expects to make the remainder of the estimated net contributions or benefit payments during 2015. The Company made benefit payments totaling $25 on behalf of the Postretirement Plan during the three months ended September 30, 2015, and $56 during the nine months ended September 30, 2015, and expects to make the remainder of the estimated $145 of contributions or benefit payments during 2015. Since all benefit payments expected to be made to the Postretirement Plan for the year ending December 31, 2015 related to previously earned benefits, the curtailment of future Postretirement Plan benefits enacted during the nine months ended September 30, 2015 had no impact upon the expected benefit payments to be made in 2015. The Company did not make any defined benefit contributions to, or benefit payments on behalf of, the BMP during the three-month or nine-month periods ended September 30, 2015, and does not currently expect to make benefit payments on behalf of the BMP during 2015, since anticipated retirements that formed the basis for these expected benefit payments in 2015 are presently not expected to occur.

13. INCOME TAXES

During the three months ended September 30, 2015 and 2014, the Company's consolidated effective tax rates were 41.3% and 39.8%, respectively. During the nine months ended September 30, 2015 and 2014, the Company's consolidated effective tax rates were 40.8% and 41.1%, respectively. A combination of additional tax strategies and recent tax law changes lowered the effective tax rate during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. There were no significant unusual income tax items recognized during the three-month or nine-month periods ended either September 30, 2015 or 2014.

14. MORTGAGE BANKING INCOME

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Gain on the sale of loans | $ - | $ - | $ - | $ 27 |
| Credit to the liability for First Loss Position | - | - | - | 1,040 |
| Mortgage banking fees recognized | 41 | 71 | 154 | 86 |
| Net mortgage banking income | $ 41 | $ 71 | $ 154 | $ 1,153 |

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## 15. PREMISES HELD FOR SALE

During the nine months ended September 30, 2015, the Bank re-classified certain real estate utilized as the corporate headquarters and primary back office operations center of the Company and the Bank to premises held for sale. The aggregate recorded balance of the premises held for sale was $8,799 at September 30, 2015, the outstanding balance upon transfer.

A Purchase and Sale Agreement has been executed for the properties, for an aggregate price of $80,000. The sale is expected to close in February 2016.

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

### General

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-five full service retail banking offices located in the NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate and mixed use loans, MBS, obligations of the U.S. government and GSEs, and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

### Executive Summary

The Holding Company's primary business is the ownership of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, mortgage banking related income, and income associated with BOLI. Non-interest expense primarily consists of employee compensation and benefits, federal deposit insurance premiums, data processing costs, occupancy and equipment, marketing and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

The Bank's primary strategy is generally to seek to increase its product and service utilization for each individual depositor, and increase its household and deposit market shares in the communities that it serves. In recent years, particular emphasis has been placed upon growing individual and small business commercial checking account balances. In addition, the Bank's primary strategy includes the origination of, and investment in, mortgage loans, with an emphasis on NYC multifamily residential and mixed-use real estate loans. The Company believes that multifamily residential and mixed-use loans in and around NYC provide several advantages as investment assets. Initially, they offer a higher yield than investment securities of comparable maturities or terms to repricing. In addition, origination and processing costs for the Bank's multifamily residential and mixed use loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. Further, the Bank's market area has generally provided a stable flow of new and refinanced multifamily residential and mixed-use loan originations. In order to address the credit risk associated with multifamily residential and mixed use lending, the Bank has developed underwriting standards that it believes are reliable in order to maintain consistent credit quality for its loans. The Bank also actively strives to obtain checking account balances affiliated with the operation of the collateral underlying its mortgage loans, as well as personal deposit accounts from its borrowers.

The Bank also strives to provide a stable source of liquidity and earnings through the occassional purchase of investment grade securities, seeks to maintain the asset quality of its loans and other investments, and uses portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital.

Recent Regulatory Developments

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

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

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

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

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

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

The Basel III Capital Rules will increase the required capital levels of the Bank and will subject the Holding Company to consolidated capital rules. The Bank and Company made the one-time, permanent election to continue to exclude the effects of accumulated other comprehensive income or loss items included in stockholders' equity for the purposes

of determining the regulatory capital ratios. The following table summarizes the capital ratios calculated under the Basel III Capital Rules framework as of September 30, 2015.

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| | Bank | Consolidated Company | Basel III Minimum Requirement | Basel III Minimum Requirement Plus 2.5% Buffer(1) | Well Capitalized Requirement Under FDIC Prompt Corrective Action Framework(2) |
|---|---|---|---|---|---|
| Common equity Tier 1 capital to risk weighted assets | 11.91% | 12.11% | 4.5% | 7.0% | 6.5% |
| Tier 1 Capital to risk weighted assets | 11.91 | 14.00 | 6.0 | 8.5 | 8.0 |
| Total Capital to risk weighted assets | 12.43 | 14.53 | 8.0 | 10.5 | 10.0 |
| Tier 1 Capital to average assets (Leverage ratio) | 9.36 | 10.91 | 4.0 | n/a | 5.0 |

(1) The 2.5% buffer percentage represents the fully phased-in requirement as of January 1, 2019.
(2) Only the Bank is subject to these requirements.

Implementation of the Basel III Capital Rules effective January 1, 2015 did not have a material impact upon the operations of the Bank or Holding Company. Management believes that, as of September 30, 2015, the Bank and the Holding Company would meet all capital categories requirements under the Basel III Capital Rules on a fully phased in basis as if such requirement had been in effect on that date.

Selected Financial Highlights and Other Data
(Dollars in Thousands Except Per Share Amounts)

| | At or For the Three Months Ended September 30, | | At or For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Performance and Other Selected Ratios: | | | | |
| Return on Average Assets | 0.86% | 1.09% | 0.97% | 1.01% |
| Return on Average Stockholders' Equity | 8.38 | 10.37 | 9.44 | 9.62 |
| Stockholders' Equity to Total Assets | 10.01 | 10.41 | 10.01 | 10.41 |
| Loans to Deposits at End of Period | 148.28 | 154.60 | 148.28 | 154.60 |
| Loans to Earning Assets at End of Period | 95.57 | 95.90 | 95.57 | 95. 90 |
| Net Interest Spread | 2.69 | 2.92 | 2.72 | 2.84 |

| | | | | | |
|---|---|---|---|---|---|
| 290,000,000 | | | | | |
| Operating leases | 8,553,000 | 1,040,000 | 3,161,000 | 2,934,000 | 1,418,000 |
| Total contractual cash obligations | $336,770,000 | $ 1,040,000 | $29,378,000 | $14,934,000 | $291,418,000 |

(1) See notes 9 - 12 of our Note to Consolidated Financial Statements. Figures do not include scheduled interest payments. Assuming each debt obligation is held until maturity, we estimate that we will make the following interest payments: Six months ending 12/31/2011 - $13,477,000; 1-3 years - $79,488,000 ; 4-5 years - $52,213,000 ; After 5 years - $80,316,000. The interest payments on variable rate debt have been calculated at the interest rate in effect at June 30, 2011.

Significant indebtedness

Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due, the principal of, interest on or other amounts due in respect of our indebtedness and other obligations. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase.

In 2007, Kennedy-Wilson issued junior subordinated debentures in the amount of $40.0 million. The debentures were issued to a trust established by Kennedy-Wilson, which contemporaneously issued $40.0 million of trust preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06%, and variable thereafter at LIBOR

plus 3.70%. Interest is payable quarterly with the principal due in 2037. Prior to April 30, 2012, Kennedy-Wilson may redeem the debentures, upon a Special Event, as defined in the debentures, at a redemption price equal to 107.5% of the outstanding principal amount. After April 30, 2012, Kennedy-Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

In July 2010, Kennedy-Wilson entered into a new unsecured revolving credit facility with US Bank and East West Bank, which effectively increased its existing revolving credit facility from $30.0 million to $75.0 million, extended the maturity date to August 2013, and established an interest rate floor of 4% . The facility is available for acquisitions and working capital. The facility bears interest at rates ranging from LIBOR plus 2.50% to LIBOR plus 3.00%, with a floor of 4%. As of June 30, 2011, there were no amounts outstanding under the unsecured revolving credit facility.

In April 2011, Kennedy-Wilson, Inc., a wholly-owned subsidiary of Kennedy-Wilson, issued $200.0 million in aggregate principal amount of its 8.750% senior notes due 2019, for approximately $198.6 million, net of discount. An additional $50.0 million in aggregate principal amount of its 8.750% senior notes due 2019, was issued for approximately $50.8 million, net of premium. Collectively the issuances are referred to as "the Notes". The terms of the Notes are governed by an indenture, dated as of April 5, 2011, by and among the issuer, Kennedy-Wilson, as parent guarantor, and certain subsidiaries of the issuer, as subsidiary guarantors. The Notes bear interest at 8.750% per annum. Interest is payable on April 1 and October 1 of each year, beginning on October 1, 2011, until the maturity date of April 1, 2019. The issuer's obligations under the Notes are fully and unconditionally guaranteed by Kennedy-Wilson and the subsidiary guarantors. At any time prior to April 1, 2015, the issuer may redeem the Notes, in whole or in part, at a price equal to 100% of the principal amount, plus an applicable "make-whole" premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after April 1, 2015, the issuer may redeem the Notes, in whole or in part, at the redemption prices specified in the indenture. Until April 1, 2014, the issuer may choose to redeem the Notes in an amount not to exceed in aggregate 35% of the original principal amount of the Notes together with any additional Notes issued under the indenture with money the issuer or Kennedy-Wilson raise in certain equity offerings. The amount of the 8.75% Notes included in the consolidated balance sheets, net of unamortized discount and premium, was $249.4 million at June 30, 2011.

The junior subordinated debentures, the unsecured credit facility with U.S. Bank and East West Bank, and the indenture governing the 8.750% senior notes contain numerous restrictive covenants that, among other things, limit Kennedy-Wilson's ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The unsecured credit facility and junior subordinated debentures also require Kennedy-Wilson to maintain a minimum tangible net worth and a specified amount of cash and cash equivalents.

The junior subordinated debentures require Kennedy-Wilson to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing our junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four quarter rolling basis, and (ii) a ratio of total debt to net worth (as defined in the indenture governing the junior subordinated debentures) of not greater than 3.00 to 1.00 at anytime. As of the most recent quarter end, Kennedy-Wilson's fixed charge coverage ratio was 5.17 to 1.00 and its ratio of total debt to net worth was 0.94 to 1.00.

The unsecured credit facility also requires Kennedy-Wilson to maintain (i) a minimum rent adjusted fixed charge coverage ratio (as defined in the unsecured credit facility) of not less than 1.75 to 1.00, measured on a four quarter rolling average basis and (ii) a maximum balance sheet leverage (as defined in the unsecured credit facility) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter. As of the most recent quarter end, Kennedy-Wilson's adjusted fixed charge coverage ratio was 3.03 to 1.00 and its maximum balance sheet leverage was 0.89 to 1.00.

The indenture governing the 8.750% senior Notes limits Kennedy-Wilson's ability to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, Kennedy-Wilson's maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness.

Off-Balance Sheet Arrangements

We have provided guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees was approximately $24 million and $28 million at June 30, 2011 and December 31, 2010 , respectively. The guarantees expire by the year end of 2011 and our performance under the guarantees would be required to the extent there is a shortfall in liquidation between the principal amount of the loan and the net sales proceeds of the property. If we were to become obligated to perform

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on these guarantees, it could have an adverse affect on our financial condition.
As of June 30, 2011, we have a unfulfilled capital commitments totaling $17.4 million to our joint ventures. As we identify investment opportunities in the future, we may be called upon to contribute additional capital to joint ventures in satisfaction of our capital commitment obligation.
Please refer to our Annual Report on Form 10-K for the year ended December 31, 2010 for discussion of our non-recourse carve out guarantees arrangements as there have been no material changes to that disclosure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
The primary market risk exposure of our Company relates to changes in interest rates in connection with our short-term borrowings, some of which bear interest at variable rates based on lender's base rate, prime rate, or LIBOR plus an applicable borrowing margin. These borrowings do not give rise to a significant interest rate risk because they have short maturities. However, the amount of income or loss we recognize for unconsolidated joint ventures may be impacted by changes in interest rates. Historically, the impact from the changes in rates have not been significant. Additionally, we have minor exposure to foreign currency exchange rates primarily related to our unconsolidated minority investment in a multifamily portfolio in Japan. As of June 30, 2011, we consider exposure to foreign currency exchange risk to be immaterial to our Company.
Interest Rate Risk
We have established an interest rate management policy, which attempts to minimize our overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, we have elected to maintain a combination of variable and fixed rate debt.
The tables below represent contractual balances of our financial instruments at the expected maturity dates as well as the fair value as of June 30, 2011. The expected maturity categories take into consideration actual amortization of principal and do not take into consideration reinvestment of cash. The weighted average interest rate for the various assets and liabilities presented are actual as of June 30, 2011. We closely monitor the fluctuation in interest rates, and if rates were to increase significantly, we believe that we would be able to either hedge the change in the interest rate or to refinance the loans with fixed interest rate debt. All instruments included in this analysis are non-trading.

| | Principal maturing in: | | | | | | | Fair Value June 30, |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total | 2011 |
| Interest rate sensitive assets | | | | | | | | |
| Cash equivalents | $191,218 | — | — | — | — | — | $191,218 | $191,218 |
| Average interest rate | 0.26 % | — | — | — | — | — | 0.26 % | |
| Variable rate receivables | — | $9,328 | — | — | — | — | 9,328 | 10,616 |
| Average interest rate | — | 4.78 % | — | — | — | — | 4.78 % | |
| Fixed rate receivables | 10,542 | — | — | — | — | — | 10,542 | 10,542 |
| Average interest rate | 16.27 % | — | — | — | — | — | 16.27 % | |
| Total | $201,760 | $9,328 | — | — | — | — | $211,088 | $212,376 |
| Weighted average interest rate | 0.81 % | 4.78 % | — | — | — | — | 1.26 % | |
| Interest rate sensitive liabilities | | | | | | | | |
| Variable rate borrowings | — | $16,669 | $9,548 | — | — | — | $26,217 | $26,067 |
| Average interest rate | — | 1.51 % | 4.25 % | — | — | — | 2.51 % | |
| Fixed rate borrowings | — | — | — | — | — | $302,000 | * 302,000 | 352,952 |
| Average interest rate | — | — | — | — | — | 8.71 % | 8.71 % | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total | — | $16,669 | $9,548 | — | — | $302,000 | $328,217 | $379,019 |
| Weighted average interest rate | — | 1.51 % | 4.25 % | — | — | 8.71 % | 8.22 % | |

* - Does not include the unamortized accretion related to the net discount of $0.6 million associated with the issuance of the senior notes payable.

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## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the record period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

### Changes In Internal Controls Over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# PART II
# OTHER INFORMATION

## Item 1. Legal Proceedings

We may be involved in various legal proceedings arising in the ordinary course of business, none of which are material to our business and our financial statements taken as a whole. From time to time, our real estate management division is named in "slip and fall" type litigation relating to buildings we manage. Our standard management agreement contains an indemnity provision whereby the building owner indemnifies and agrees to defend its real estate management division against such claims. In such cases, we are defended by the building owner's liability insurer.

## Item 1A. Risk Factors

The discussion of our business and operations in this Quarterly Report on form 10-Q should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC, which describe various risks and uncertainties to which we are or may become subject. Other than that noted below, there were no material changes from the risk factors disclosed in Item 1A of our report on Form 10-K for the fiscal year ended December 31, 2010.

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

| Period | Total Number of Shares (or Units) Purchased or Sold | | Average Price Paid per Share (or Unit) ($) | Total Number of Shares (or Units) Purchased as Part of Publically Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|---|
| April 1 — April 30 | 400 | (1) | $ 10.97 | — | — |
| June 1 — June 30 | 4,800,000 | (2) | $ 10.70 | — | — |

(1) Repurchased 400 shares of common stock in a private transaction from a shareholder at a purchase price equal to the prior day's closing price for our common stock.
(2) Issued 4,800,000 shares of common stock in a private transaction at $10.70

Item 3. Defaults Upon Senior Securities
None.

Item 4. (Removed and Reserved)
Not applicable.

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Item 5. Other Information
None.

Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer. |
| 31.2 | Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer. |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer. |

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SIGNATURE

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

KENNEDY-WILSON HOLDINGS, INC.

Dated: August 8, 2011

By: /S/ FREEMAN LYLE
Freeman Lyle
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer
and Accounting Officer)